TBC BANK
Group PLC

Make Life **Easier**

ANNUAL REPORT **2019**

2019

TBC BANK Group PLC

TBC BANK[1] is the largest banking group in Georgia – serving around 90% of the country's adult population. TBC Bank is listed on the premium segment of London Stock Exchange and is a FTSE 250 constituent.

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For more information visit our website
www.tbcbankgroup.com

1 TBC Bank Group PLC (the company), the UK-incorporated parent company of JSC TBC Bank (the Bank) and its subsidiaries (together TBC Bank or the Group)
2 The figures in the strategic report and governance sections are unaudited, except where explicitly indicated as audited

WHO WE ARE ?

We are the leading universal financial group in Georgia, holding 39.5% and 39.0% market shares[1] in total loans and total deposits respectively. We hold a dominant position in all our major business lines comprised of retail, corporate and micro, small and medium enterprises (MSME). Our fully-fledged financial services include traditional banking offerings as well as the industry's cutting-edge solutions. We are pioneers in the region[2] in launching the first fully digital bank, Space and the first customer focused digital ecosystems, creating a whole new world of opportunities for our customers.

COMPLETE SUIT OF TRADITIONAL FINANCIAL SERVICES

TBC BANK **TBC** INSURANCE **TBC** LEASING **TBC** CAPITAL

For more information please refer to 20-32, 36-41 pages

FULLY DIGITAL BANK

SPACE

For more information please refer to 34-35 pages

CUSTOMER FOCUSED DIGITAL ECOSYSTEMS

For more information please refer to 43-51 pages

OUR MISSION > Make Life Easier

OUR VISION

We are TBC, a technology driven company, that exists for its users, knows them and cares for them.

We have the best team, which is innovative and is not afraid of mistakes.

TBC is an important part of people's daily lives and serves them digitally.

TBC CULTURE IS BASED ON OUR TEAM, WHICH IS

- Winner by nature;
- Happy;
- Curious;
- Goal-oriented;
- Open for new opportunities;
- Honest;
- And always delivers on its promises.

1 Based on data published by National Bank of Georgia as of 31 December 2019
2 Region in this context comprises: Armenia, Azerbaijan and Georgia

STRONG FINANCIAL PERFORMANCE

₾ 545.1 mln
+ 19.8% YoY
UNDERLYING NET PROFIT [1(APM)]

₾ 540.3 mln
+ 23.5% YoY
REPORTED NET PROFIT

22.6%
- 0.2pp YoY
UNDERLYING RETURN ON AVERAGE EQUITY [1(APM)]

22.4%
+ 0.4pp YoY
REPORTED RETURN ON AVERAGE EQUITY

₾ 12,662.0mln
+ 22.1% YoY
TOTAL LOANS

₾ 10,049.3 mln
+ 7.5% YoY
TOTAL DEPOSITS

BEST-IN-CLASS DIGITAL CAPABILITIES

- World's best in mobile banking 2019[2]
- 93% retail offloading ratio

SUPERIOR CUSTOMER EXPERIENCE

- Best service company in Georgia[3]

HIGH EMPLOYEE SATISFACTION LEVELS

- 1.76 Employee happiness index[4]

STRONG BRAND

- 100% Aided brand awareness among Georgian population[5]
- 41% Top of mind in banking sector[5]

1 More information about underlying figures (APMs) is given in Annex 1 on pages 122-123
2 Named by Global Finance Magazine
3 Based on survey conducted by independent research company IPM among the retail segment in December 2019
4 The index is measured on a scale from -3 to +3 (with +3 meaning very happy) based on internal survey, created in collaboration with the world's leading consulting firm, conducted among employees who are part of the agile structure in December 2019
5 Based on survey conducted by the independent research company, TNS in October 2019

CHAIRMAN'S STATEMENT

Dear shareholders,

This is my first letter to you in the capacity of the Chairman of TBC Bank Group PLC. I was appointed as Chairman of TBC Bank Group PLC on 25 July 2019 following the resignation of Mamuka Khazaradze and Badri Japaridze as Chairman and Deputy Chairman.

Mamuka Khazaradze founded the bank back in 1992 and together with his friend and business partner Badri Japaridze led TBC Bank to the position of the leading financial institution in the region. On behalf of the entire TBC team I would like to thank Mamuka and Badri for their vision, leadership and tremendous contribution to the success of this company and Georgia as a whole.

KEY ACHIEVEMENTS AND STRATEGY

The Group once more delivered strong financial performance in 2019, however the Board decided not to recommend dividend at the upcoming AGM due to uncertainties related to COVID-19 outbreak.

The Group made significant progress towards our mission of making the lives of our customers easier in today's digital world by continuing to transform into a technology-driven company and expanding our value proposition beyond traditional banking. Naturally, it is disappointing to see that our good financial performance and strategic achievements have not been reflected in our share price due to external factors. However, the Board is confident that the Group is on the right track and will continue to focus on its strategic priorities, which are expected to generate long-term sustainable value for all stakeholders.

As part of our digital transformation, we took a big stride in 2019 in the development of our customer-centric digital ecosystems, which will allow us to create deeper and broader relationships with our customers by offering them innovative services in various areas of their lives and to generate new revenue streams for the Group. This year, we launched the first Georgian housing (Livo) and e-commerce (Vendoo) ecosystems and also acquired a leading e-commerce player in the Georgian market, My Group, which operates in three online marketplace verticals: automotive & automotive spare parts, consumer-to-consumer goods, and housing. This acquisition has dramatically increased our digital presence and has given us access to a large customer base of around 1.7 million unique monthly visitors. In the coming year, we plan to significantly enhance our ecosystems and generate synergies between them as well as the wider Group.

As digital transformation cannot occur without strong support and commitment from our employees, we launched a company-wide, agile transformation project that will help us create a more dynamic and flexible corporate culture, leading to faster time-to-market, more creativity and higher employee satisfaction. Over the course of 2019, this agile structure was successfully implemented in several departments and has already demonstrated very promising results. We plan to continue to roll it out across other departments in the next year.

I am also delighted with our progress in relation to international expansion. As a result of the diligent work of our team working on the Uzbekistan project, we received a banking licence in April 2020, which allows us to launch our banking operations in the country in the near future. As announced earlier, our strategy is to build a next generation bank for retail and MSME customers with a strong focus on digital offerings in partnership with EBRD, IFC and a local Uzbek-Oman investment company. In parallel, we are actively developing our payments business in Uzbekistan, through our recently acquired subsidiary, Payme, which is the leading payments company in the country, already serving around 2 million customers by March 2020.

The CEO letter describes our strategic initiatives in more detail.

OPERATING ENVIRONMENT

2019 has been a challenging year from the macro perspective. After the negative spillover from Turkey in 2018, the Russian flight ban came in as an external shock leading to a slowdown in tourism inflows, exchange rate depreciation and elevated inflation pressures.

Nevertheless, thanks to the diversification of tourism inflows and the sector's abundant untapped potential, the tourism industry recovered fast on the back of strong growth from the EU, Georgia's neighbours, including a recovery from Turkey, as well as growth from Central Asia, Israel and Middle Eastern countries. It is important to highlight, that starting from September 2019, the EU share of tourism inflows has surpassed the one from Russia, akin to remittances from the beginning of 2018.

Moreover, the central bank has managed to address the undervalued GEL by turning more hawkish on the GEL on the one hand, and more dovish on the US$ and the EUR on the other, ensuring the continuation of credit flow to the economy. Besides, GDP growth was also supported by a solid performance in net exports as well as an expansionary, though still prudent, fiscal stance.

Following some retreat in the first half of 2019, FDI inflows recovered strongly in the second half of 2019 and came in at 7.1% of GDP, almost unchanged from the previous year. FDIs at around these levels are considered high from the international perspective.

Overall, GDP increased by 5.1% in 2019, which demonstrates the economy's solid growth potential and resilience. Similarly, Uzbekistan, which has even higher growth potential, stands out in the broader region as being relatively unaffected by the latest slowing cycle.

While COVID-19 is certainly a challenge for the global as well as Georgia's tourism dependent economy, assuming the shock is predominantly temporary, rather than permanent, the economy and most of the sectors should be back to the normal growth trajectory in a reasonable time-frame. Meanwhile, it will be a challenging period, however, the Group's advanced risk management practices including stress testing and risk mitigation should pay-off.

GOVERNANCE

The Board is committed to ensuring excellent governance and the highest ethical standards within the Group. Therefore, we review the Board's composition with regularity and are committed to maintaining a diverse and wide-ranging set of skills and experience within the Board. During the year, we announced a number of board changes, as outlined below.

As mentioned above, on 25 July 2019 Mamuka Khazaradze and Badri Japaridze stepped down from their respective positions of Chairman and Deputy Chairman of the Board. They both arrived at this decision after careful consideration in order to ensure that the allegations made against them by the Georgian office of Public Prosecution do not affect the Group, and to be able to concentrate on refuting those allegations.

In August 2019, Arne Berggren joined the Board as an Independent non-executive Director, and in September 2019, Eric Rajendra was re-appointed as an Independent non-executive Director following the recovery in his health.

In August 2019, the Group reintroduced a "Mirror Boards" governance structure whereby all non-executive members of the Board and the supervisory board of the Bank are the same; the Chairman of TBC Bank Goup PLC ("TBC PLC") also serves as the Chairman of the Bank and Senior Independent Director ("SID") of TBC PLC also serve as the SID of the Bank. Board committees of TBC PLC and the Bank are also "mirrored" and have the same members and chairmen. In September 2019, we also reviewed membership of our board committees to make them more balanced and efficient.

As the result of these changes, the Group has complied with all relevant provisions set out in the UK Corporate Governance Code. We are very pleased that our ISS corporate governance score[1] reflected these improvements and increased from "5" in July 2019 to "2" in October 2019. There have been no changes since then.

Further details can be found in Corporate Governance and Nomination Committee Report on pages 143-146.

TRANSPARENCY AND DISCLOSURE

This year, we have significantly enhanced our disclosure in relation to social and environmental matters to enable our stakeholders to better assess our non-financial performance. As the largest financial institution in the country, we take seriously our responsibility towards our community and environment and are committed to conducting business with integrity and accountability towards all our stakeholders, as well as ensuring that our customers and suppliers also fulfill their environmental and social responsibilities. For more insight please refer to pages 72-83.

I am also delighted that JSC TBC Bank received the Best Annual Report and Transparency Award 2019 from the National Reforms Support Foundation for Accounting, Reporting and Auditing under the auspices of a joint European Union–World Bank project on financial inclusion and accountability. This award underlines our high standards of reporting of financial and non-financial information and sets an example for other Georgian companies.

OUTLOOK

Looking forward, I feel confident that TBC Bank has the right people, resources and capabilities to tackle challenges presented by the COVID-19 pandemic and establish itself as a leading technology-driven company not only in Georgia but in the wider region and to create the best opportunities for future success.

In conclusion, on behalf of the Board, I would like to express my sincere gratitude to the management team and all employees for their dedication and hard work in delivering such impressive results last year and answering the recent challenges presented to us by COVID-19.

Nikoloz Enukidze
Chairman
28 April 2020

1 The ISS scores indicate decile ranking relative to index or region. A decile score of 1 indicates low governance risk, while a 10 indicates higher governance risk

Dear shareholders,

I am delighted to report that we have had another successful year in 2019. Our disciplined approach and relentless efforts have translated into strong financial and operating results.

FINANCIAL PERFORMANCE

Our reported net profit amounted to GEL 540.3 million, up by 23.5% year-on-year, and our earnings per share stood at GEL 9.8, which is 21.0% higher than in 2018. Over the same period, our underlying net profit reached GEL 545.1 million, up by 19.8% compared to 2018, reflecting the growth in net fee and commission income and interest income. The growth in net profit was also strongly supported by a decrease in credit loss allowance, which was driven by improved performance across all segments as well as by a change in the product mix. We continue to maintain a close focus on cost efficiency and strictly control operating expenses across the Group, including our new strategic investments. Consequently, our reported cost-to-income ratio stood at 39.9%, or at 39.5% on an underlying basis. Over the same period, the Bank's standalone cost-to-income ratio remained broadly stable year-on-year at 35.9%.[1] As a result, our reported return on equity stood at 22.4% and our reported return on assets stood at 3.2%, while our underlying return on equity was 22.6% and our underlying return on assets stood at 3.3%.

In terms of balance sheet growth, we maintain a leadership position in loan and deposit market shares, holding 39.5% and 39.0% respectively as of 31.12.2019. Our capital position and liquidity levels continue to be strong. As of 31 December 2019, our regulatory CET 1, tier 1 and total capital adequacy ratios per Basel III guidelines stood at 12.0%, 14.6% and 19.1% respectively, while minimum requirements amounted to 10.4%, 12.5% and 17.5% respectively. Our regulatory liquidity coverage ratio stood at 110% compared to the minimum requirement of 100%, while the regulatory net stable funding ratio (NSFR) per Basel III guidelines stood at 127%, above the minimum requirement of 100%.

STRATEGIC PROGRESS

This year was a transformational year for us, as we have successfully established our presence in the Georgian digital marketplace by launching the first customer-centric digital ecosystems in the country, which already comprise payments, housing, e-commerce and auto.

- Payments: our payments ecosystem includes both traditional payment channels such as e-commerce, POS and self-service terminals as well as innovative payment methods comprising Apple Pay, ATM QR withdrawal and TBC bracelets. In addition, it includes a leading Georgian payments platform, TKT.ge, which allows people to buy tickets for various events and transportation, as well as a leading payments platform in Uzbekistan, Payme, which facilitates utility payments, P2P transfers, loan repayments, mPOS for QR-based payments and ecommerce purchases. Our strategy for 2020 is to further diversify our payment options and grow the number and volume of payments transactions.
- E-commerce: our e-commerce business is comprised of two digital platforms: Vendoo and Mymarket. Vendoo is an online marketplace, while Mymarket is a classified listing platform each having a respective, estimated 24% and 80% of total digital traffic in comparable e-commerce in Georgia. The number of unique visitors amounted to 337,000 and 900,000 respectively in December 2019. Our strategy for the coming year is to further increase the product offerings and enhance our customer experience in order to increase the gross merchandize value.
- Housing: our housing ecosystems, Livo and Myhome, together have an estimated 55% of total digital traffic in housing in Georgia and served around 630,000 unique visitors in December 2019. Livo is a data driven company mainly focused on generating effective leads to customers based on accurate analysis of user data, while Myhome is a classified platform, which primarily generates revenue from advertisements. In 2020, we will continue to harness the existing strengths of these platforms to develop innovative solutions for our customers.
- Auto: Myauto and Myparts are the leading players in the automotive and spare parts markets in Georgia, with the total digital traffic of 80% in each segment. In December 2019, both platforms attracted around 1,500,000 unique visitors. Our strategy for 2020 is to add new services as well as to launch new market-disrupting sub-platforms by leveraging the existing consumer base and digital traffic.

More information about our ecosystems is given on pages 43-51.

Another significant development was obtaining a banking licence in Uzbekistan in April 2020. Our strategy is to develop a greenfield, next-generation banking ecosystem for retail and MSME customers in Uzbekistan. The primary focus will be on digital and partnership-driven channels. Given the current operating environment and impact from Covid-19, we have further optimised our business model with the enhanced emphasis on asset-light and cost-efficient operations.

Last year, we launched several important preparatory work-streams, including implementation of the core banking system in co-operation with a local IT company. We also set up a pilot branch in Tashkent for proof of concept and built a core team for the bank. Thus, we are well advanced in the process and expect to start banking operations in June 2020.

In terms of our product offerings, we plan to start with cash loans, salary backed loans and car loan as well as savings and current accounts, cards, mobile application and transactional capabilities including (but not limited to) P2P transactions, money transfers and utility payments. These products will be offered through our digital platform, Space; however, we also plan to open branches for advising and consulting purposes.

The bank will be run by an experienced management board headed by Chief Executive Officer Sandro Rtveladze, who previously held the role of Group Head of Retail Banking at Bayport Financial Services and prior to that was Deputy CEO at Liberty Bank in Georgia.

We has already invested US$ 12.6 million into the charter capital of the Bank and expects to invest an additional US$ 9.4 million by the end of 2020. Additional capital increase is planned for later this year. Potential new shareholders, including the European Bank for Reconstruction and Development, the International Finance Corporation and the Uzbek-Oman Investment Company, have expressed their interest to participate subject to their internal approvals. TBC PLC will remain the majority shareholder with 51% interest.

I am also pleased with the results of our recently acquired subsidiary, Payme, which is the leading payments company in Uzbekistan, serving around 2 million customers by the end of March 2020. The company is growing rapidly, and in 2019, its revenue went up by 84% and amounted to GEL 8.6 million, while its EBITDA reached GEL 4.5 million, up by 77% year-on-year. Payme will continue to operate separately from the bank but the two entities will co-operate closely. In addition, the bank will also run the point-of-sale consumer finance operations.

CHANGES IN THE MANAGEMENT BOARD

In 2019, we had certain changes to the composition of the Management Board. David Chkonia, our Chief Risk Officer, left the Bank at the end of his contractual term in order to pursue other career opportunities. Consequently, Nino Masurashvili, deputy CEO, who was previously in charge of retail banking development, has been appointed as the new Chief Risk Officer and Tornike Gogichaishvili, Deputy CEO and Chief Operations Officer (COO) of the Bank has been appointed to lead the retail banking business. The functions that were previously carried out by the COO have been re-allocated to be the responsibility of the CFO and the Deputy CEO, SME & Micro Banking.

I would like to thank David Chkonia for his significant contribution to enhancing our risk management system and to wish him success in his future career. Also, I would like to wish Nino Masurashvili and Tornike Gogichaishvili success in their new roles.

MACROECONOMIC OVERVIEW

Structural reforms and diversified sources of inflows once again paid off in 2019. Alongside its high growth potential, resilience has become another hallmark of the Georgian economy in recent years, as reflected in continuous upgrades to the country's sovereign credit ratings. In 2019, exports of goods, tourism and remittances inflows in US$ terms increased by 12.4%, 1.4% and 9.7% year-on-year respectively, while import of goods declined slightly by 0.8% year-on-year. Despite the Russian flight ban imposed in June and subsequent weak growth of tourism inflows, the current account deficit improved and stood at 5.1% of GDP in 2019 compared to 6.8% in 2018 on the back of stronger balance of trade in goods as well as improved remittance inflows. CA deficit was fully balanced with FDI inflows which on a net basis stood at 5.6% of GDP, up by 0.3 pp YoY. The growth was supported by the fiscal stimulus, taking into account the size of the deficit adjusted for advance payments and large capital spending with a high multiplier. This provided balancing for the weakness in the tourism industry.

Despite a challenging year, banking system credit growth was solid and increased by 16.1% year-on-year on a constant currency basis. This growth was mainly driven by the business segment, while the retail segment slowed down due to the responsible lending regulation effective from January 2019. This regulation, however, is seen as a rating positive and, together with country's proven track record of sound macro and micro risk management, strengthens the financial system's resilience.

Our initial projection for 2020 growth was around 5.0%. The economy was expected to expand at this rate without large scale infrastructure projects entering more active phase and assuming that the flight ban with Russia is not lifted. Due to the COVID-19 crises, we expect the economy to contract in 2020, though the growth should turn positive in 2021. While the shock is severe and the uncertainties are high, the support from the international financial institutions is an important mitigation. Also, there were no signs of overheating in the economy or housing market before the distress. Therefore, the impact of the shock on the economy and financial sector should be rather manageable.

1 For the ratio calculation all relevant group recurring costs are allocated to the bank

OUR RESPONSE TO COVID-19

We have implemented a number of important actions to protect our customers and staff members and to minimize disruption to the Group's operations during the COVID-19 outbreak. In developing our response, we have looked at best practices from major global companies as well as organizations like the World Health Organization. We are also coordinating closely with the Government of Georgia, the NBG and the other banks in the country.

Our first priority is the health, safety and well-being of our staff and our customers. We have introduced a number of additional security and infection prevention measures in our branch network. We have also introduced remote working practices for most of our head office and back office units. Today, 95% of our head office and back office staff (including those in our call center) are working from home and our market-leading digital banking platform allows our customers to continue with almost all of their banking transactions from the safety of their own homes.

In order to support our customers during the coming difficult months, we have introduced a three-month grace period on principal and interest payments for all our individual and MSME customers as well as those corporate customers whose business is the most exposed in the current situation.

The NBG has implemented counter-cyclical measures to support the financial stability of the banking system and to ensure the provision of financial support to sectors of the economy affected by the current turmoil. The measures include a significant reduction in capital adequacy requirements and standby liquidity support incentives. In addition, the NBG coordinated the creation of respective loan loss provisions across the system. Further details are given in the risk management section of the report.

In terms of our financial position, our liquidity and capital positions remains strong. After the impact of the currency devaluation and additional provisions related to the potential impact of COVID 19, which resulted in about 3.1% of our loan book per local regulatory standard, our CET1, Tier 1 and Total CAR stood at 9.1%, 12.0% and 16.7% respectively as of 31 March 2020, above the corresponding eased minimum regulatory requirements of 6.9%, 8.8% and 13.3%. At the same time, our net stable funding (NSFR) and liquidity coverage ratios (LCR) stood at 124.7% and 107.6% respectively.

On the other hand, we are focusing on optimising our cost structure, re-arranging many processes and prioritising expenses. We are targeting the Bank's cost to income ratio for the full year ending 31 December 2020 to be broadly the same as it was in 2019.

OUTLOOK

In 2019, we recorded strong financial results and made significant progress against our strategic priorities, including the development of customer focused ecosystems and international expansion in Uzbekistan. This lays a solid foundation for the further development of these initiatives in the coming years. I would like to thank the whole TBC team for their outstanding effort and commitment and congratulate them on our accomplishments in 2019. I am also thankful to the team for being able to quickly adapt to the current situation caused by COVID-19 and continue their work with minimal disruption.

Our leading digital capabilities, outstanding customer experience and advanced data analytical capabilities, coupled with our strong team spirit, make me confident that we are well positioned to achieve sustainable growth and to deliver superior results to our shareholders in the medium-term and withstand the short-term negative impacts caused by COVID-19.

Therefore, I would like to reiterate our medium-term targets: ROE of above 20%, cost to income ratio below 35%, dividend pay-out ratio of 25-35% and loan book growth of around 10-15%.

The strategic report, as detailed on pages 2 to 123, was approved by the Board and signed on behalf of the Board by:

Vakhtang Butskhrikidze
CEO
28 April 2020

IMPLICATIONS OF COVID-19

The outbreak of the COVID-19 virus has created serious challenges to economies and businesses throughout the world and Georgia is no exception. However, so far our country has managed to fight COVID-19 more effectively than other countries, thanks to the timely, strict measures taken by the government, which have resulted in a relatively low number of cases.

From an economic perspective, the COVID-19 pandemic has resulted in decreased economic growth in Georgia, increased unemployment, depreciation of the GEL, decreased commodity and real estate prices, and impaired creditworthiness of the private sector. As the contribution of tourism to the Georgian economy was significant, the impact should be sizable. Per IMF projections, as of 14th April, the Georgian economy is expected to contract by 4.0% in 2020, while in 2021 growth is expected to recover to 3.0%. According to the TBC Research projection for the Georgian economy, while the GDP drop in 2020 might be slightly stronger than 4.0%, the recovery in 2021 is expected to be well above 3.0%. While the shock is severe and uncertainties are high, support from the international financial institutions is an important mitigation factor. Also, there were no signs of overheating in the economy or housing market before the pandemic. Therefore, the impact of the shock on the economy and the financial sector should be manageable.

According to the government's announcement as of 15 March, around US$ 1.7 billion, or 10% of GDP in 2019, will be mobilized to support the government's financing needs and partially support the central bank's international reserves. In addition, around US$ 1.5 billion will be used to support the private sector.

The NBG is also implementing countercyclical measures to support the financial stability of the banking system and to ensure the provision of financial support to sectors of the economy affected by the current turmoil.

In relation to capital adequacy requirements, this means:

- Postponing the phasing in of the additional capital requirements planned in March 2020, with a 0.44pp effect on TBC's CET 1;
- Allowing banks to use the conservation buffer (currently at 2.5pp on CET1) and 2/3 of the CICR buffer resulted in the release of 1.0-2.0% of capital across our CET1, Tier 1 and Total CAR;
- Leaving open the possibility of releasing all pillar 2 buffers (remaining 1/3 CICR, HHI and Net Grape buffers) in the range of 1.0-4.0% of capital across our CET1, Tier 1 and Total CAR.

In relation to liquidity requirements, the NBG has introduced a swap program for US$ 200 million, with an annual spread of 9%. If necessary, it will also utilize additional measures:

- Decreasing LCR limits;
- Decreasing FX mandatory reserve requirements;
- Updating criteria for security or repo pledging to support GEL liquidity.

In terms of our actions, we have taken a number of measures that allowed the bank to alter its day-to-day operations in order to adapt to the current, unprecedented operating environment, while maintaining the health, safety and well-being of our staff and customers as the number one priority:

- We introduced additional security and infection prevention measures in our branches, including glass barriers and antiseptic solutions for employees and customers;
- We promptly changed our operational model so that 95% of head and back office employees, over 2,200 people, including call center staff, are already working from home;
- We provided additional incentives to our customers to use our market-leading digital banking platform. Since our offloading ratio is as high as 93%, this proved very useful during this difficult time;
- We also work closely with the NBG, government and other businesses;
- We decided to provide a three-month grace period on principal and interest payments for individual and MSME customers and those corporate customers who are affected by the current situation;
- In addition, as part of the stress testing exercise, we have analysed multiple scenarios to ensure that the Group has sufficient liquidity and capital to meet updated regulatory capital and liquidity requirements; and
- To optimize costs, top management has decided to forgo their entire annual bonuses for 2020 and LTIP grants for the 2020 cycle;
- The provision charges to be set aside for the first quarter 2020 is expected to be in the range of 1.7%- 2.0% of the average loan book mainly attributable to Covid-19;
- Finally, the Board decided not to recommend dividends at the upcoming AGM.

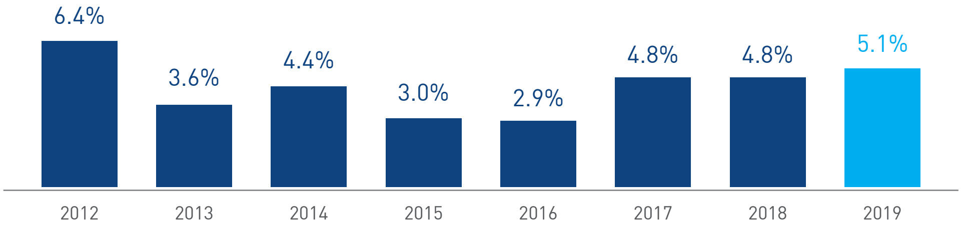
In 2020, our priorities will be prudent management of our capital and liquidity positions, leveraging our robust risk management system to closely monitor and proactively manage asset quality. In parallel, we will be focusing on cost optimization with a target to keep the Bank's cost to income flat for 2020 compared to 2019 despite of pressure in revenue, currency depreciation, and increased number of transactions.

At the same time, the crisis has provided a strong validation of our digital strategy and has also revealed a number of opportunities that we will be perusing to further enhance our operational model.

ECONOMIC GROWTH AND THE EXTERNAL SECTOR

GDP growth came in at 5.1% YoY in 2019. The growth was broad-based across different sectors of the economy with trade and repairs (+8.8% YoY), real estate (+6.1% YoY), information and communication (+15.2% YoY) and transport and logistics (+7.4% YoY) contributing most to the economic growth.

REAL GDP GROWTH

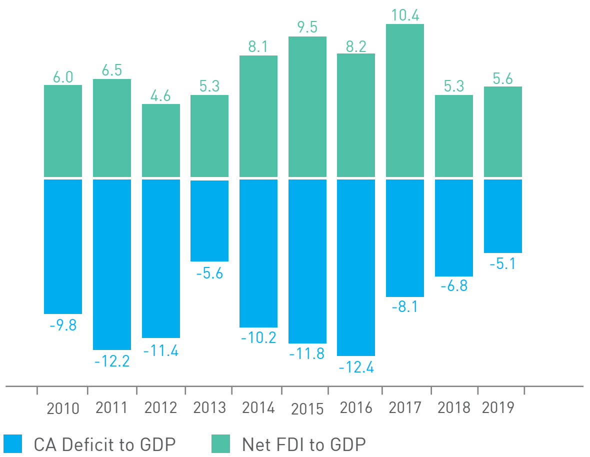


Source: GeoStat

Despite the negative impact stemming from Russia's flight ban, the growth of inflows proved resilient in 2019. Following the restriction of flights from Russia in July, tourism inflows retreated; however, growth quickly got back on track as solid growth in the number of visitors from the EU, neighbouring countries, the Middle East including Israel, and Central Asian countries compensated for the decline in the number of visitors from Russia. For the full year 2019, tourism inflows growth remained positive and amounted to 1.4% YoY in US$ terms. Over the same period, exports of goods showed solid 12.4% YoY growth, while remittances increased by 9.7% YoY, again, mostly on the back of remittances from the EU.

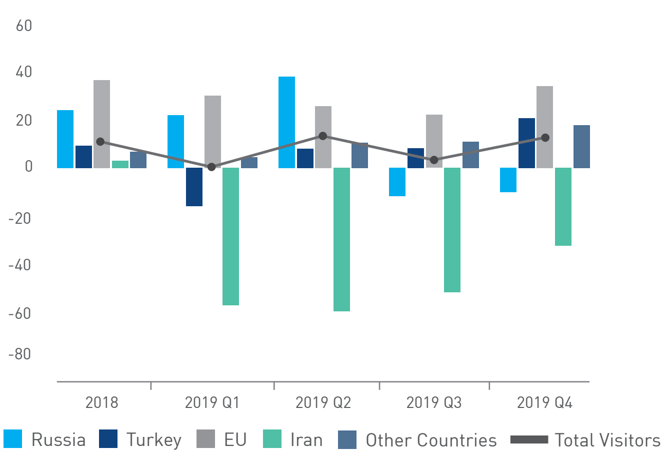
Overall, the dynamics of the external balance remained healthy. Following lower growth in tourism inflows, the balance of trade in services declined slightly from 12.7% of GDP in 2018 to 12.2% of GDP in 2019 which was counteracted by the lower deficit in trade in goods (down by 2.3% of GDP). As a result, the CA balance to GDP ratio improved to its historic low of 5.1% in 2019, compared to 6.8% in 2018. The CA deficit continued to be fully financed with FDI inflows, coming in at 5.6% on a net basis, up by 0.3 pp compared to 2018. Although somewhat below the average amount in the past couple of years, FDI inflows at current levels are still quite high compared to peer countries in the neighbourhood as well as in Central and Eastern Europe.

CA DEFICIT AND NET FDI (% OF GDP)



Source: NBG, GeoStat

YOY GROWTH OF VISITORS BY COUNTRIES/REGIONS (%)



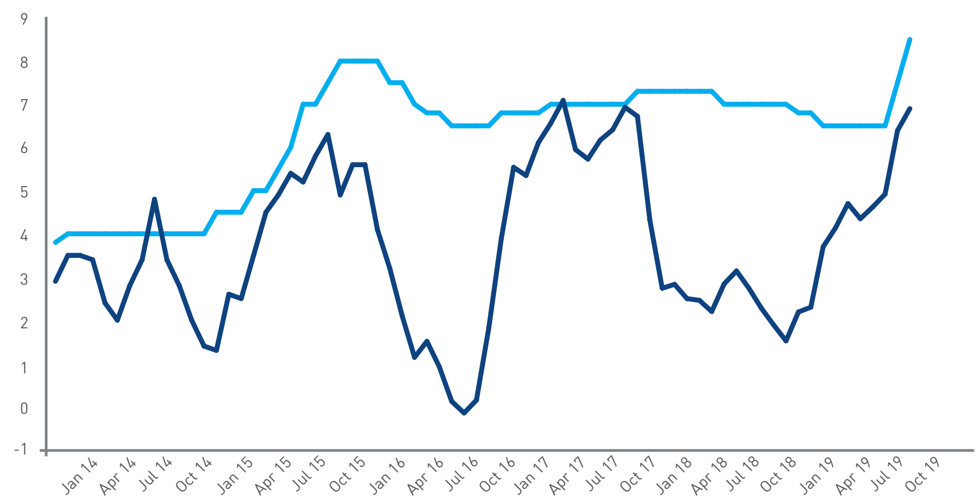
Source: GNTA

EXCHANGE RATE, MONETARY POLICY AND CREDIT

The depreciation in the GEL exchange rate since June 2019 has been the major factor behind the rise in inflation to 7.0% as of the end of 2019. In response to higher inflation pressures, the NBG tightened the monetary policy rate from 6.5% by the beginning of September to 9.0% as of the end of 2019. The tighter monetary policy stance in GEL, coupled with a stronger external sector, contributed to the appreciation in the GEL. At the end of 2019, US$/GEL stood at 2.87, strengthening from the high of 2.98 at the end of September.

Despite tighter monetary policy in GEL, lending growth remained solid, mostly on the back of accelerated FX credit by the end of 2019, supported by the lower reserve requirements and ample bank liquidity in FX. At the end of 2019, the bank loan portfolio went up by 16.1% YoY, excluding the exchange rate effect, mostly on the back of business lending (+23.3% YoY excluding FX effect), supporting economic growth. At the same time, retail growth was relatively slow (+6.0% YoY excluding FX effect), owing to tighter prudential regulations. Despite some acceleration of FX lending, the de-dollarization of the financial sector remains a priority for the central bank; however, in the future, relatively more attention is expected to be devoted to liabilities.

CPI INFLATION AND MONETARY POLICY RATE (%, YOY)



Source: GeoStat, NBG

FISCAL SPENDING

Fiscal spending significantly supported growth in 2019, with the budget deficit coming in at an estimated 2.4%[1] of GDP in 2019. The actual impact of the fiscal sector on growth was even higher: taking into consideration the advance payments made at the end of 2018 and high multiplier of capital spending.

Public debt levels remained stable, with the composition of debt switching gradually towards domestic financing. At the end of 2019, estimated public debt to GDP stood at 41.1% as opposed to 40.4% a year ago, mostly on the back of higher domestic debt (up from 8.8% of GDP in 2018 to 9.7% of GDP), while the level of external debt went down slightly by 0.1% of GDP to 31.5%, despite the GEL depreciation throughout the year.

GOING FORWARD

Above 5.0% economic growth for the full year 2019 once more underlines the resilience and high growth potential of the Georgian economy. This growth is particularly encouraging given the challenges that the economy faced in 2019, the most important being Russia's flight ban. Per IMF projections, as of 14th April[2], Georgian economy is expected to contract by 4.0% in 2020, while in 2021 the growth is expected to recover to 3.0%. According to the same source, the economy of Azerbaijan is expected to decline by 2.2% in 2020 with 0.7% recovery a year after. As for the Uzbekistan, the growth is expected to be positive for both 2020 and 2021 with 1.8% and 7.0% respectively.

According to the TBC Research projection for Georgian economy, while the GDP drop in 2020 might be slightly stronger than 4.0%, the recovery in 2021 is expected to be well above 3.0%.

More information on the Georgian economy and financial sector can be found at www.tbcresearch.ge.

1 Modified deficit based on IMF methodology
2 IMF World Economic Outlook, April 2020

OUR BUSINESS MODEL

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

Our distinctive competitive advantages ...

- Best-in-class digital capabilities
- Advanced data analytical capabilities
- Superior customer experience
- Strong brand and reputation
- First Neobank in Georgia - Space
- First digital ecosystems in the country
- Strong corporate culture
- Experienced management team and high quality of corporate governance
- Effective risk management

... translate into strong financial and operating results ...

- Robust profitability
- High efficiency
- Sustainable business growth
- Sound asset quality
- Strong liquidity level
- Prudent capital position
- High digitalization levels
- High customer satisfaction levels
- Increasing number of active users
- Highly motivated and engaged team

... enabling us to deliver for all our stakeholders

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

1 Based on survey conducted by independent research companies IPM and ACT
2 Based on survey conducted by the independent research company, TNS in October 2019
3 The Banker, EMEA finance, Euromoney, Global Finance
4 The ISS scores indicate decile ranking relative to index or region. A decile score of 1 indicates low governance risk, while a 10 indicates higher governance risk

OUR DISTINCTIVE COMPETITIVE ADVANTAGES

BEST-IN-CLASS DIGITAL CAPABILITIES

- Our digital solutions, offering an unrivaled customer experience, represent the core of our distribution platform accounting for 93% of all transactions in 2019;
- We have industry-leading internet and mobile bank applications, having won the world's "Best in Mobile Banking Award 2019" together with multiple regional and country digital awards from Global Finance Magazine.

ADVANCED DATA ANALYTICAL CAPABILITIES

- 4 data analytical projects implemented and scaled up, 5 underway;
- GEL 8.9 million extra profit generated in 2019;
- Institutionalizing capability building by setting up a data analytics academy called Avalanche.

SUPERIOR CUSTOMER EXPERIENCE

- "The customer comes first" approach – we place our clients at the center of all our activities and services;
- Striving for continuous improvement through innovation, investment in digital channels and infrastructure with cutting edge technologies;
- Maintaining the highest satisfaction scores[1] in Georgia's banking sector for many years in a row.

STRONG BRAND AND REPUTATION

TBC is a well-established brand in Georgia, known for its credibility, excellence, innovation and community service.

- Our aided brand awareness stands as high as 100%[2] among the Georgian population;
- The highest top of mind rating in the banking sector of 41%[2];
- Recipient of 38 awards for "Best Bank in Georgia" since 2002 from the world's leading financial magazines[3]

FIRST NEOBANK IN GEORGIA, SPACE

- Launched in May 2018, Space is a cutting-edge mobile application for managing daily finances, which challenges and re-defines the traditional banking experience by offering a unique customer experience through simple procedures and products, intuitive design and instant delivery.

FIRST DIGITAL ECOSYSTEMS IN THE COUNTRY

- This year, we started to develop the first customer focused digital ecosystems in the country, offering a complete suite of interconnected services as one integrated experience;
- We have already launched payments, housing, e-commerce ecosystems and are actively developing auto ecosystems.

STRONG CORPORATE CULTURE

- Corporate culture centered on collaboration and commitment;
- Continuous investment in our employees, focusing on their professional development, satisfaction and wellbeing.

EXPERIENCED MANAGEMENT TEAM AND HIGH QUALITY OF CORPORATE GOVERNANCE

- We have a highly qualified and diverse board of directors with a strong commitment to the highest standards of corporate governance and business transparency;
- Excellent ISS corporate governance score[4], which stood at 2.0 as of 31.12.2019;
- Listing on the premium segment of London Stock Exchange, in full compliance with the UK Corporate Governance Code.

EFFECTIVE RISK MANAGEMENT

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

OUR STRATEGY

In line with our mission to **make the lives of our customers easier**, last year we introduced a new strategic initiative to expand our value proposition beyond financial services and develop customer-centric digital ecosystems. This will enable our clients to access a variety of related products and services, including banking services, on one of our platforms instead of having to switch to a third-party provider. By increasing the touchpoints with our customers, we will be able to accumulate knowledge about customer preferences and behavior, which will provide significant opportunities for relevant cross-selling. At the same time, it will help us to enhance our customer experience by developing highly personalized solutions. In the medium-to-long term, these ecosystems will also generate substantial fee and commission income as well as other operating income for TBC Group.

In parallel, we are actively developing our core financial products and services for our corporate, MSME and retail customers as well as striving to further strengthen our superior customer experience and leading digital capabilities.

We also continue to roll out an agile transformation project across the organization and invest in our employees by focusing on their learning and development.

In addition, we are expanding our presence beyond Georgia and aspire to create the next generation banking abroad by harnessing our extensive banking experience and advanced digital capabilities.

OUR STRATEGIC PRIORITIES | PROGRESS IN 2019

1. BUILDING CUSTOMER FOCUSED DIGITAL ECOSYSTEMS

As we strive to create maximum value for our customers, we have decided to better integrate with them by focusing on the major areas of their lives and creating additional services in those areas aimed at building strong, long-lasting relationships. This year, we have made significant progress in this regard and launched the first payments, housing, e-commerce and actively developing auto ecosystems in Georgia.

Payments

- Number of transactions up by 36.9% YoY
- Volume of payments up by 34.1% YoY

Housing

Livo

- GEL 2.5 mln revenue[1]
- 274,000 unique visitors
- 24,000 listings

Myhome

- GEL 1.4 mln revenue
- 360,000 unique visitors
- 140,000 listings

E-commerce

Vendoo

- GEL 2.4 mln revenue
- 337,000 unique visitors
- 27,000 different items (SKU)

Mymarket

- GEL 1.2 mln revenue
- 900,000 unique visitors
- 45,000 sellers

Auto and auto parts

Myauto & Myparts

- GEL 2.5 mln revenue
- 1,550 000 unique visitors
- 400,000 listings

More information can be viewed at pages 43-51

OUR STRATEGIC PRIORITIES	PROGRESS IN 2019

2. LEVERAGING OUR CORE FINANCIAL PRODUCTS AND SERVICES

Being the largest bank in the country, we aim to retain our market leadership position and grow together with the market in all our core segments and products by constantly fine-tuning our financial offerings (for more information please refer to the divisional overview on pages 20-51). Interest income remains our key revenue generation stream and we will be focusing on maintaining sound levels of net interest margin (NIM) through proper customer segmentation and pricing. In parallel, we will be increasing our commission-based services such as insurance, cards business, trade finance and brokerage and investment banking.

Strong growth

- Loan book up by 22.1% YoY
- 39.5% market share in loans up by 0.7 pp

Robust profitability

- 22.6% underlying ROE decreased by 0.2pp YoY (reported ROE stood at 22.4% up by 0.4 pp YoY)
- 3.3% underlying ROA remained stable YoY (reported ROA stood at 3.2% stable YoY)

3. FURTHER STRENGTHENING OUR DIGITAL CAPABILITIES

In line with our aspiration to turn ourselves into a technological company, we are continuously fine-tuning our advanced digital capabilities and developing ever more innovative solutions for our customers by utilizing big data analytics and artificial intelligence. This year, we launched a number of innovations including voice payment in mobile banking, Apple Pay and QR payments.

In parallel, we are actively developing our Neobank Space, which was launched last year in Georgia, offering a completely unique banking experience for digitally savvy customers and challenging the Georgian banking sector. With Space, we are creating an important knowledge bank that will help us easily introduce Space in other markets and support our international expansion plans.

Offloading ratio

- 92.7% up by 2.1 pp YoY

Mobile banking penetration ratio

- 40.0% up by 3.0 pp YoY

Space

- 508,000 downloads
- 181,000 registered customers

4. FURTHER IMPROVE SUPERIOR CUSTOMER EXPERIENCE

Our aspiration is to be the best service provider in Georgia across all major industries. To achieve this, we dedicate significant time and effort to explore our customers' needs and preferences and constantly transform our products and services in order to deliver an outstanding customer experience across all our channels. In doing so, we leverage our advanced digital capabilities, which creates a huge opportunity for taking our customer experience to the next level by allowing us not only to meet, but also to anticipate, our customers' wishes.

Named the best service provider in Georgia[2]

1 TBC's contribution from real estate evaluation is GEL 2.2 mln
2 Based on survey conducted by independent research company IPM among the retail segment in December 2019

OUR STRATEGIC PRIORITIES | PROGRESS IN 2019

5. TRANSFORMING INTO AGILE COMPANY

We realise the importance of a flexible organisational structure in today's fast changing market environment, where companies need to be able to quickly adapt and respond to evolving business needs. For this purpose, we have decided to start an enterprise-wide agile transformation process, which will help us to increase cross-company collaboration, achieve operational excellence and reduce time-to-market. It will also support the creation of an exceptional working environment, in which employees feel more empowered and motivated. During 2019, we successfully implemented agile transformation in the retail, MSME and IT departments and plan to roll it out across other departments during 2020.

Time to market for majority of systems[1]

- Up by 2.3 times

Employee happiness[1]

- Up by 16.0%

FTE productivity

- Up by 10.0%

Organizational agility score[1]

- Up by 4.3%

6. INVESTING IN HUMAN CAPITAL

As we believe that people are our key competitive advantage, we are increasing our focus on learning and development. This year, in addition to expanding TBC academy's capacity, which offers general courses in different fields, we have set up several new educational programs to support our new business initiatives:

- Business school – tailored learning program for corporate, finance and risk professionals which is comprised of 8 models and lasts for 2 months;
- Agile academy – general training in agile and scrum methodology;
- Data analytics – a general data management course, as well as advanced training in data science and engineering;
- IT academy – attracts and trains the most talented young developers in Front-end and Back-end bootcamp courses. It also organises meetups and hackathons to promote information technology.

We plan to further develop these programs and add more online courses next year.

Business School

- 80 people trained

Agile Academy

- 545 people trained

Data Analytics

- 500 people trained

IT Academy

- 117 new people trained and 25 recruited

7. INTERNATIONAL EXPANSION

Our strategy in international markets is to follow a cautious, asset-light, limited capital investment approach with a strong focus on digital channels. Furthermore, we aim to invest further capital, subject to achieving milestones, in stages to ensure that we are comfortable with the results and the operating environment before committing additional investment. If and where relevant, we will engage with our partner IFI institutions.

Our progress in Uzbekistan
In April 2020, our subsidiary, TBC Bank in Uzbekistan has obtained a banking licence and is planning to launch banking operations in the country in June 2020. Our strategy is to develop a greenfield, next-generation banking ecosystem for retail and MSME customers in Uzbekistan. The primary focus will be on digital and partnership-driven channels. Given the current operating environment and impact from Covid-19, we have further optimised our business model with the enhanced emphasis on asset-light and cost-efficient operations.

While awaiting the license, during 2019, we launched several important preparatory work-streams including implementation of the core banking system in co-operation with a local IT company. We also set up a pilot branch in Tashkent for proof of concept and built a core team for the bank. Thus, we are well advanced in the process and are ready to start banking operations in June 2020.

Our business model envisages serving customers through our digital platform, Space. However, we also plan to open up smart, self-service branches in order to provide advising and consulting to our customers. The range of products offered by the Bank at launch will include: current and savings accounts, cash loans, salary backed loans and car loans as well as cards, mobile application and transactional capabilities including (but not limited to) P2P transactions, money transfers and utility payments. Our aspiration is to break-even starting from 2022 and achieve ROE in the range of TBC Group's target in the medium-term, while loan book mid-term target is to reach up to US$ 700 million.

The bank will be run by an experienced management board headed by Chief Executive Officer Sandro Rtveladze, who previously held the role of Group Head of Retail Banking at Bayport Financial Services and prior to that was Deputy CEO at Liberty Bank in Georgia.

We has already invested US$ 12.6 million into the charter capital of the Bank and expects to invest an additional US$ 9.4 million by the end of 2020. Additional capital increase is planned for later this year. Potential new shareholders, including the European Bank for Reconstruction and Development, the International Finance Corporation and the Uzbek-Oman Investment Company, have expressed their interest to participate subject to their internal approvals. TBC PLC will remain the majority shareholder with 51% interest.

In parallel, we have been actively developing our payments business in the country, through our recently acquired subsidiary, Payme. Payme is a fast growing, profitable payment service provider in Uzbekistan that supplies high-quality payment solutions. It facilitates utility payments, P2P transfers, loan repayments, mPOS for QR-based payments and e-commerce purchases. It also provides a marketplace platform for loans from certain Uzbek banks. The company recorded strong results during 2019: its revenue increased by 84.0% and reached GEL 8.6 million, while the number of registered customers and the number of transactions grew by 56.4% and 24.5%, respectively and stood at 1,772,000 and 40.1 million accordingly in December 2019. Payme will continue to operate separately from the bank but the two entities will co-operate closely. In addition, the bank will also run the point-of-sale consumer finance operations.

Our progress in Azerbaijan
During the year, our partner bank, Yelo Bank[2] (previously known under the brand name Nikoil Bank) enhanced its operations, including core banking and data warehouse as well as improved risk management in terms of operational risk, credit risk and compliance. Also, a new management team was recruited. In addition, in December 2019 it launched a rebranding process and introduced a new name, logo and slogan. The new name of Yelo Bank is a stylized spelling of the English word Yellow, symbolizing a bright, vibrant, new approach to banking services. The transition to a new name and the introduction of a new corporate identity will occur gradually and expected to be completed in April 2020. This will be followed by the introduction of a new banking service model in the branches and their transition to a completely new design.

1 Based on the internal survey
2 TBC Bank and Nikoil Bank agreed on shareholders' agreement in late December 2018 and signed it in early January 2019. According to which our shareholding in the joint entity will be 8.3%. The transaction is subject to regulatory approval

KEY PERFORMANCE INDICATORS

We closely monitor 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 2019, our underlying net profit reached GEL 545.1 million (reported net profit amounted to GEL 540.3 million), up by 19.8% YoY, while our underlying return on equity was 22.6% and our underlying return on assets stood at 3.3% (the reported return on equity stood at 22.4% and our reported return on assets stood at 3.2%).

In 2019, our operating income amounted GEL 1,128.2, up by 3.7% year-on-year, which was supported by increase in net fee and commission income and net interest income. The growth in net interest income was related to re-classification of net gains on currency swaps in the amount of GEL 28.6 million from other operating income, which offset by the decline in net interest income related to the introduction of the responsible lending regulation from 1 January 2019, limiting the Bank's ability to lend money to higher-yield retail customers and change in product mix. Consequently, the net interest margin decreased by 1.3 pp year-on-year and stood at 5.6% in 2019 and 5.3% in the fourth quarter of 2019. The growth in net profit was also strongly supported by a decrease in credit loss allowance, which was driven by improved performance across all segments. As a result, our cost of risk stood at 0.7% in 2019 compared to 1.6% in 2018. In 2019, our operating expenses increased by 9.7% year-on-year or 8.3% on an underlying basis, resulting in an underlying cost-to-income ratio of 39.5% (the reported cost-to-income ratio stood at 39.9%), up by 1.7 pp year-on-year. The increase in the cost-to-income ratio was mainly related to investments in our new ecosystems. Over the same period, the bank's standalone cost-to-income ratio remained strong and stood at 35.9%[1].

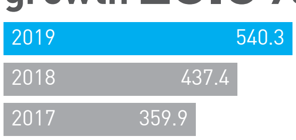
In terms of balance sheet growth, our loan book expanded by 22.1% year-on-year, or by 17.9% on constant currency basis, mainly supported by growth in the corporate and MSME segments. As a result, as of 31 December 2019, our loan book market share stood at 39.5% up by 0.7 pp year-on-year. Our capital positions remain solid. As of 31 December 2019, our regulatory tier 1 and total capital adequacy ratios per Basel III guidelines stood at 14.6% and 19.1% respectively, while minimum requirements amounted to 12.5% and 17.5% respectively.

We continue to generate strong results in digitalization. Our retail transactions offloading ratio continues to grow mainly driven by mobile banking transactions. We also remain leaders among the major retail industries in Georgia in terms of providing the best customer experience. Equally important for us is caring about our colleagues and this year we introduced an employee happiness index, which will be closely monitored going forward.

FINANCIAL KPIS

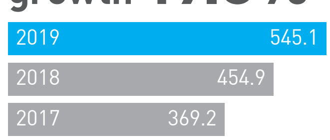
REPORTED NET PROFIT (IN MLN GEL)

growth **23.5%**



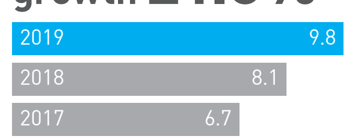
UNDERLYING NET PROFIT (IN MLN GEL)[2] (APM)

growth **19.8%**



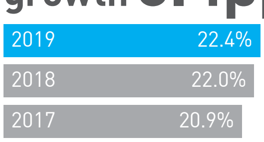
BASIC EARNING PER SHARE (IN GEL)

growth **21.0%**



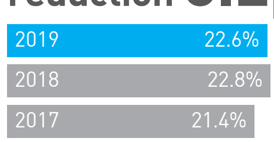
REPORTED RETURN ON AVERAGE EQUITY

growth **0.4pp**



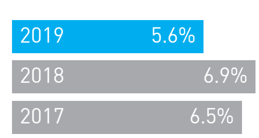
UNDERLYING RETURN ON AVERAGE EQUITY[2] (APM)

reduction **0.2pp**



NET INTEREST MARGIN

reduction **1.3pp**



REPORTED COST TO INCOME

growth **2.1pp**

2019	39.9%
2018	37.8%
2017	41.7%

STANDALONE COST TO INCOME[1]

growth **0.3pp**

2019	35.9%
2018	35.6%
2017	39.7%

COST OF RISK

reduction **0.9pp**

2019	0.7%
2018	1.6%
2017	1.2%

LOAN BOOK MARKET SHARE[3]

growth **0.7pp**

2019	39.5%
2018	38.8%
2017	38.2%

TIER 1 CAR (BASEL III)

growth **1.8pp**

2019	14.6%
2018	12.8%
2017	13.4%

TOTAL CAR (BASEL III)

growth **1.2pp**

2019	19.1%
2018	17.9%
2017	17.5%

NON-FINANCIAL KPIS

EMPLOYEE SATISFACTION[4]

growth **15.8%**

2019	1.76
2018	1.52
2017	N/A

CUSTOMER EXPERIENCE

The best service provider in Georgia (gap with peer bank)[5]

growth **0.4pp**

2019	2.7
2018	2.3
2017	N/A

MOBILE BANKING PENETRATION RATIO

growth **3.0pp**

2019	40.0%
2018	37.0%
2017	24.2%

RETAIL TRANSACTIONS OFFLOADING RATIO

growth **2.1pp**

2019	92.7%
2018	90.6%
2017	88.3%

1 For the ratio calculation all relevant group recurring costs are allocated to the bank
2 More information about underlying figures (APMs) is given in Annex 1 on pages 122-123
3 Based on data published by National Bank of Georgia
4 The index is measured on a scale from -3 to +3 (with +3 meaning very happy) based on internal survey, created in collaboration with the world's leading consulting firm, conducted among employees who are part of the agile structure
5 Based on survey conducted by independent research company IPM among retail segment

RETAIL BANKING

2019 HIGHLIGHTS

40.0%
Retail loan market share[1]

37.9%
Retail deposits market share[1]

39.9%
Retail loan share in total portfolio

56.5%
Retail deposit share in total portfolio

c.2.5 mln
Number of customers

93%
Offloading ratio

OVERVIEW

TBC Bank is a leader in the retail banking segment in Georgia, serving 2.5 million clients, which is 90% of adult population of the country. We offer our clients a full range of financial products and services tailored to their needs through our advanced omni-channel, with a strong focus on digital channels. We pride ourselves on having the highest customer satisfaction scores[2] in the Georgian banking industry, and we hold the leading position among all major retail companies.

In 2019, our retail loan book increased by 7.5% YoY to GEL 5,053 million, mainly driven by an increase in mortgages, which grew by 17.0%. Over the same period, retail deposits increased by 11.2% to GEL 5,674 million. More information about the financial performance of the retail segment is provided in the financial review section on pages 108 to 123.

158
Branches

3,671
Self service terminals

22,414
POS terminals

c.1,350
ATMs[3]

c.560,000
Internet or mobile banking users

40%
Mobile banking penetration ratio

The first voice biometrics recognition system in call center

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

RETAIL SUB-SEGMENTS

Our retail banking is divided into mass retail and private banking business lines. This allows us to better customize our offerings and provide our products and services in the most convenient way.

Our private banking is comprised of affluent clients-TBC Status and High Net Worth Individuals, providing them with best-in-class financial and wealth management solutions coupled with sophisticated lifestyle offerings. In recognition of our distinguished efforts, we have received the country's Best Private Bank 2019 award from The Banker and Professional Wealth Management (PWM) magazine and have won Global Finance's Best Private Bank Award in Georgia 2020. These prestigious awards acknowledge our leading position in delivering exceptional private banking services and the highest standards of client satisfaction.

1 Based on data published by the National Bank of Georgia as of 31 December 2019; in this context retail refers to individual customers
2 Based on survey conducted by independent research company IPM among retail segment in December 2019
3 TBC Bank ATMs including partner banks

	Mass Retail	Private Banking
Number of clients	c.2.5 mln	c.85,000
Loan book share	37%	63%
Deposit share	32%	68%

TBC Status

TBC Status serves around 82,540 affluent customers, while our Status deposits and loans stood at GEL 2,086 million and GEL 2,975 million as of 31 December 2019, up by 31.4% and, 37.3% respectively.

We offer dedicated multichannel services for our affluent customers with a special focus on digital channels, which include internet and mobile banking with enhanced functionality as well as a separate call center with extended capabilities. This allows our customers to conduct most of their transactions remotely. As a result, the mobile and internet banking penetration level stood as high as 87.0% as of 31 December 2019 versus 45.0% in mass retail. Should customers need a personal consultation with their banker, they are attended to in a comfortable service space designed especially for them. We have around 70 TBC Status areas in 24 branches.

We are constantly fine-tuning our private banking offerings to stay ahead of the curve and put together innovative solutions for our clients. In 2019, we unified credit and operational functions so that our private customers could be served by a single universal banker, who will be able to assist him/her with all queries. We also launched the first digital personal banking services in the region, allowing our customers to self-manage their daily banking operations and get financial advice online. This service proved to be very successful and the number of digital clients has grown substantially. Overall, the number of Status Clients doubled YoY and reached 82,540 by the end of 2019.

Furthermore, we have significantly enriched our lifestyle services, the most popular among which proved to be the regular special meetings with leading international and local speakers from different fields such as literature, psychology management, marketing, emotional intelligence and art. We also have a dedicated platform for this initiative (www.statusevents.ge), where our status clients can register for the meetings and watch short videos from previous meetings.

High-Net-Worth Individuals

This segment is comprised of around 2,500 resident and non-resident HNW individuals, who have close ties with Georgia. We also have a representative office in Israel, TBC Invest, which acts as an intermediary with clients from Israel, offering information regarding TBC Bank's products.

We serve our high-net-worth clients in VIP service areas, which combine luxury, comfort and privacy. Our highly qualified personal bankers act as consultants and wealth planners, who provide a wide range of customized services including traditional banking and lifestyle solutions. We actively engage with our clients to better understand their goals and aspirations and assist them in taking full benefit of our sophisticated offerings. We also provide brokerage and wealth management services through our wholly-owned subsidiary, TBC Capital. In 2019, our HNW individuals acquired around US$ 44 million bonds via TBC Capital.

OUR STRATEGIC DIRECTIONS IN 2019

We aspire to become a truly customer-centric company and provide personalized and seamless customer experience across our omni-channel platform by leveraging our advanced digital capabilities and big data analytics

Becoming a customer centric company

This year, we have completely reshuffled our structure in the retail business by building teams around customers versus products. As a result, our focus shifted from selling products and services towards understanding customer needs and striving to fulfil their needs by developing various projects and ecosystems (more details about customer focused digital ecosystems are provided on pages 43-51). This will significantly enhance our value proposition beyond banking and enable our customers to receive additional products and services.

During 2019, we launched several retail projects, the most significant of which is the dedicated online platform "Dgesve", which means "Today" (www.dgesve.ge). This user-friendly platform aims to help people fulfil their wishes instantly and offers not only loans, but also a full package of complementary services that they might need for different purposes. For example, if a customer needs a car loan, he or she will also get a special discount for car insurance and various automobile related gifts and offerings from partner companies. This platform offers nine different types of loans, including travel, auto, education etc. The initial results were rather promising, since launch in November, 1,128 loans were disbursed with outstanding amount of GEL 2.7 million as of 31 December 2019.

The young generation continues to be one of the strategic directions for the retail business. Our aspiration is to become the #1 choice and most loved mark brand for this segment, by focusing on educational and lifestyle offerings.

- In 2019, we launched a youth platform for school children (www.TBCkids.ge), giving an opportunity to parents to order debit cards for their children remotely. The card is free of any banking charges, including annual service fees and ATM withdrawals from TBC Bank ATMs. Parents can set maximum daily limits for their children's spending and withdrawals, while children can collect and spend loyalty points. In addition, this platform offers various discounts and activities to the cardholders tailored to their interests. This year, TBC also acted as a sponsor for educational events including Kings Olympics, Book Fair and Tbilisi Kids Fest.
- We also have many interesting offerings to university students, including educational and entertainment programmes. In cooperation with Georgia's leading universities, we held a series of lectures on different subjects based on students' interests. We also offer YourCard, a special card with distinctive benefits tailored to students' interests. Card holders are able to benefit from discounts in more than 50 partner companies. In 2020, we plan to launch a platform for students that will provide an ecosystem for young professionals, uniting educational, employment and many other offerings.

As a result, the number of youth customers[1] increased by 10.0% YoY and reached 144,260 by the end of 2019.

Since 2017, we have operated a wide-scale loyalty programme, Ertguli, which helps us to strengthen relationships with our clients and increase their engagement with us. We conduct regular campaigns and partner with over 270 organizations to develop the best offers for our customers. As a result, the number of Ertguli card holders reached 1.5 million by the end of 2019, while the number of POS transactions reached 85 million in 2019 compared to 60 million in 2018 and 40 million in 2017.

Transformation into a data driven organization

We aspire to maintain our leading position in the country and become a customer-centric organization through enhancing our advanced analytical capabilities. This will help us to build a non-replicable competitive advantage in Georgia and the wider region as well as reveal hidden opportunities.

Last year, with the support of the world's leading consultant, we developed a 3-year analytical roadmap, which is comprised of 23 data analytical projects across the bank. The target is to generate an extra GEL 100 million annual net profit by 2023.

By the end of 2019, we have launched and scaled the following data analytical projects, which gained an extra GEL 8.9 million in profit:

1 Customers between 6-23 years

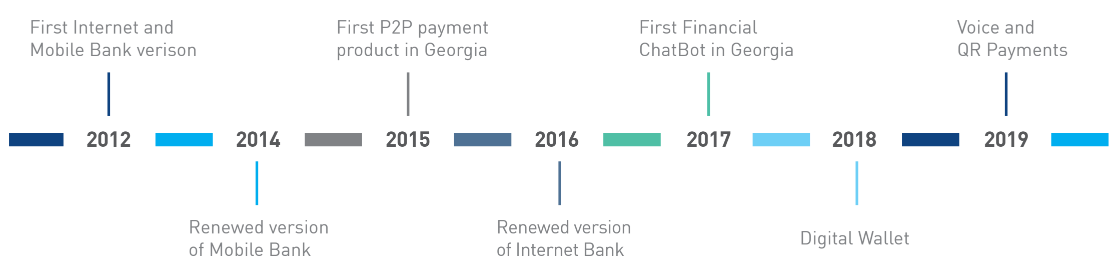
- **Consumer loan pricing optimisation** – This project was initiated in 2018 and the target clients were payroll customers. Based on the detailed analysis of their spending behavior and other characteristics, we determined price sensitivity for each customer and developed tailored offerings for each individual client.
- **Affluent value proposition** – In April 2019, we introduced the first digital personal banking service in Georgia, which allows customers full digital onboarding and self-management of digital banking operations as well as receiving TBC Status benefits. This project proved to be very successful, and by the end of 2019, the number of Status clients more than doubled, significantly outperforming our main competitor.
- **Subscriptions for business owners** – In June 2019, we launched B-COM, an innovative service model for the business community, which is a subscription based banking solution, offering customers a set of products and services as well as various trainings for a fixed monthly or annual fee. Since the launch, we have already attracted over 9,000 subscribers.
- **Deposit pricing in retail** – This project was launched in October 2019 with the aim of effectively managing our retail deposits via tailored offerings to clients. When opening a term deposit, every single customer receives an alternative offer which is the best possible proposition for him/her under the given conditions. In December 2019, 50% of all newly opened or renewed term deposits were placed with alternative terms.

In addition, we have established an analytics academy, called Avalanche School of Analytics, in order to attract, train and retain the best talent in data science and data engineering, as well as to raise general awareness about the importance of data analytics across the bank. In 2019, we trained more than 500 people in data analytics principles.

Advanced digital capabilities
We started our digital journey back in 2012 by investing in cutting-edge technology and introducing best-in-class digital solutions for our customers, including our award winning internet and mobile banking applications. We are also leading the market in terms of innovations, having pioneered the introduction of the following in Georgia: P2P payments, a Georgian-speaking chatbot available via Facebook messenger, personal finance manager in internet and mobile banking, and a voice biometric recognition system in our call center. As a result, 93% of all transactions are conducted digitally, with mobile banking being the most preferred channel of communication for our customers.

We are extremely proud that, TBC Bank was named the Best in Mobile Banking 2019 globally by Global Finance Magazine and stands next to the world's leading banks such as DBS, Citi and Sberbank. The award is a tribute to our advanced digital capabilities and continual development of cutting-edge technologies. In addition, we have won multiple regional and country awards from Global Finance Magazine in various digital categories, such as: The Best Consumer Digital Bank in Georgia 2019, The Best in Consumer Mobile Banking and The Best Consumer Mobile Banking App in Central & Eastern Europe 2019.

We do not rest on our laurels and continue to fine-tune our best-in-class internet and mobile banking applications, based on our customers' feedback. This year, we added several useful features including voice assistant, which enables our clients to conduct simple banking transactions. We have also integrated QR payments into our mobile application, which enables our customers to use various payment options through a single application. In addition, we have enriched our internet and mobile banking offering with third party data and added information regarding our clients' state pension fund contributions. Furthermore, we are using our data analytical capabilities to develop personalized offerings which are offered via our mobile & internet banking applications.



DGESVE.GE

PLATFORM DGESVE

It is an innovative online platform, which allows retail customers to fulfil their wishes by getting consumer loans instantly.

CORPORATE INVESTMENT BANKING

2019 HIGHLIGHTS

38.9%
Corporate loan market share[1]

36.8%
Corporate loan share in total gross portfolio

40.6%
Corporate deposits market share[1]

31.7%
Corporate deposit share in total portfolio

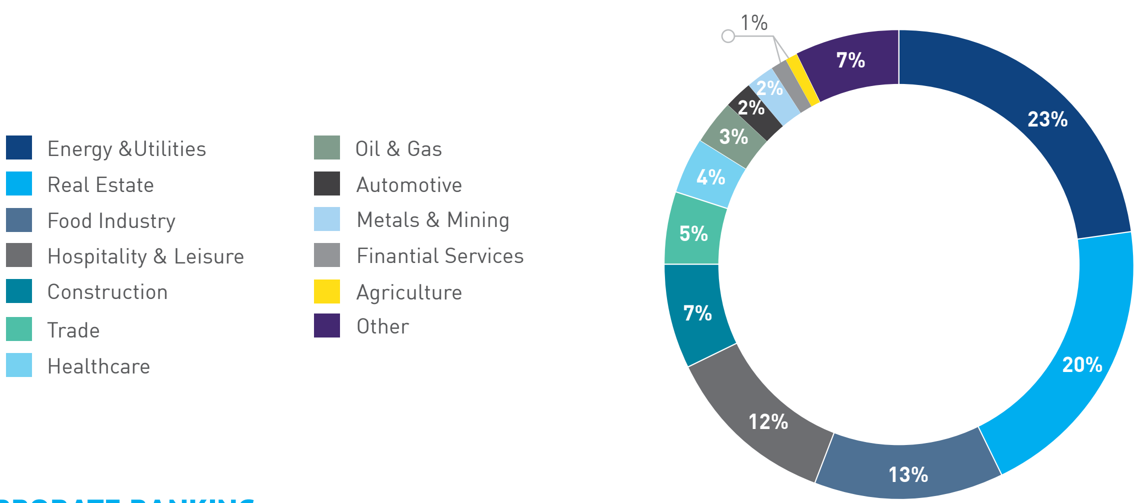
50.2%
Corporate guarantee and letter of credits market share[1]

3,232
Number of customers

OVERVIEW

TBC Bank is the leading corporate and investment bank in Georgia, holding the number one position by all key metrics. We operate an advisory focused business model and strive to become the trusted partner for our clients in all their business undertakings. Our clients are served by highly experienced corporate bankers, with strong expertise in all major economic sectors, who help them to optimize their financial structure. We also have strong trade finance capabilities supporting international trade relationships for Georgian companies. As the demand for sophisticated investment banking solutions is increasing among large corporations, we are actively developing our corporate advisory, brokerage and research services through our wholly owned subsidiary TBC Capital.

DIVERSIFIED PORTFOLIO WITH STRONG PRESENCE IN EVERY SECTOR OF GEORGIAN ECONOMY



CORPORATE BANKING

We have a well-diversified loan portfolio, serving 3,232 corporate clients across all major sectors of the economy. 2019 was a strong year in terms of client acquisition and portfolio growth, especially in the mid-corporate sub-segment. As of 31 December 2019, our total corporate loan book amounted to GEL 4,660 million, up by 46.7% YoY driven by acquisitions of both large and mid-corporate clients as well as re-segmentation of certain clients from the MSME segment in first quarter 2019. Consequently, the share of our mid-corporate segment increased to 41.0% of the total corporate portfolio as of 31 December

1 Based on data published by the National Bank of Georgia as of 31 December 2019; in this context corporate refers to legal entities

2019 compared to 27.0% a year ago. More information about the financial performance of the corporate segment is provided in the financial review section on pages 108 -123.

We maintain the leading position in Georgia in terms of trade finance operations by providing diversified product offerings as well as advisory services. We also have well-established partnerships with major counterparty banks and international financial institutions. Our guarantees and letter of credit portfolio amounted to GEL 1,702 million, up by 39.0% YoY. In recognition of our outstanding efforts, we have won several prestigious international awards: "Trade Finance Award for Excellent Partnership 2019" from Commerzbank, "Best Trade Finance Provider in Georgia 2020" from Global Finance as well as "The Market Leader in Georgia 2020" and "The Best Service Provider in Georgia 2020" from Euromoney.

Furthermore, our corporate banking drives strong cross-selling of various operational products including payments[1] , payroll accounts and FX transactions. In 2019, the number of corporate clients' payroll accounts reached 161,953, remained broadly stable on YoY basis, while the payroll fund grew by 23.0% YoY, amounting to GEL 302.7 million. Corporate banking also had solid results in terms of number of payments transactions, totaling 94.5 million, up by 52.4% YoY, and volume of transactions amounting to GEL 4,058 million, up by 54.6% YoY. The volume of FX transactions in 2019 amounted to GEL 12,095 million, up by 38.7% YoY, while the number of FX transactions grew by 51.4%, amounting 130,397.

As a long-standing partner and advisor, we strive to create additional value for our customers by sharing the world's best practices with them. For this purpose, this year, we provided a unique opportunity for our large corporate clients to attend a full 2 day customized "TBC Bank Strategic Leadership Executive Education Programme" at INSEAD, one of the leading business schools in the world. The programme was specially designed for our partners and covered the following topics: cultural agility, deep partnering, assessing the long-term profit potential of market opportunities, competing in markets with platform and ecosystems dynamics.

INVESTMENT BANKING

This year, TBC Capital acted as the sole lead arranger for bonds of Tegeta Motors[2] and Nikora Trade[3] in the amount of GEL 30 million and GEL 28 million, respectively as well as for one private placement in the amount of US$ 2.2 million. In addition, TBC Capital, together with a number of leading international investment banks, acted as joint lead arranger for the Eurobonds of Silknet[4] and TBC Bank in the amount of US$ 200 million and US$ 425 million respectively, which were dual-listed on the Georgian Stock Exchange and the Irish Stock Exchange. Silknet's Eurobond was the first issuance from the private sector non-financial institution in Georgia, while TBC Bank achieved the lowest ever interest yield on its senior bonds and the lowest coupon on the additional Tier 1 bonds in Georgia. As a result, the bonds issued publicly and listed[5] by TBC Capital during this year amounted to GEL 1,805 million, holding 76.0%[6] of total bonds issued and listed on Georgian Stock Exchange in 2019.

TBC Bank continues to provide the most convenient brokerage solutions to its clients by offering sophisticated services. This year, we achieved a significant milestone by starting cooperation with Clearstream, which is one of the largest Central Securities Depositories in the world, and we successfully settled the first Georgian corporate bond of Lisi Lake Development[7] through this platform. This will allow Georgian companies to get access to a large international investor base and attract capital more effectively. Furthermore, we continue our partnership with Interactive Brokers, the largest online broker in the USA, which enables us to offer advanced online trading capabilities to our clients through direct access to more than 120 markets, 30 countries and 22 currencies.

TBC Capital is actively developing its sectoral research arm. During 2019, we produced a number of comprehensive reports including Tbilisi and Batumi Residential Markets, Tourism, Fixed Income Securities, Fast Moving Consumer Goods (FMCG) and Energy. The reports are available at www.tbcresearch.ge. This year, TBC Capital also organized six public events, presenting TBC Capital sectoral insights to major stakeholders. Our reports were well received by both the private sector and the state, sparking numerous discussions in the media and being referred to by industry professionals. Going forward, our target is to fully cover the Georgian economy through in-depth sector research and regular updates.

TEGETA MOTORS	GEL 30 mln 3-year Bond Public Placement NBG + 4.25% Placement Agent
Nikora supermarket	GEL 28 mln 3-year Bond Public Placement TIBR3M + 4.00% Placement Agent
SILKNET	US$ 200 mln 5-year Eurobond Public Placement 11% Co-Lead Manager

1 Payments include e-commerse and POS terminal transactions
2 Tegeta Motors is a leading automotive products and service provider company in Georgia
3 Nikora Trade is a leading food producer company in Georgia
4 Silknet is a leading telecommunication company in Georgia
5 Excluding IFI bonds
6 Excluding IFI bonds and dual listed bonds and Bank of Georgia AT1 bond, which is not listed on Georgia Stock Exchange
7 Lisi Lake Development is a leading developer company in Georgia

SECTORAL RESEARCH

TBC Capital regularly organizes public discussions on various sectors including Tbilisi and Batumi Residential Markets, Tourism, Fixed Income Securities, Fast Moving Consumer Goods (FMCG) and Energy.

MSME

2019 HIGHLIGHTS

62%[1]
of newly registered legal entities chose TBC Bank

11.8%
MSME share in total deposit portfolio

c.147,418
customers

93%[2]
offloading ratio of MSME

23.3%
MSME share in total loan book

75%[3]
NPS

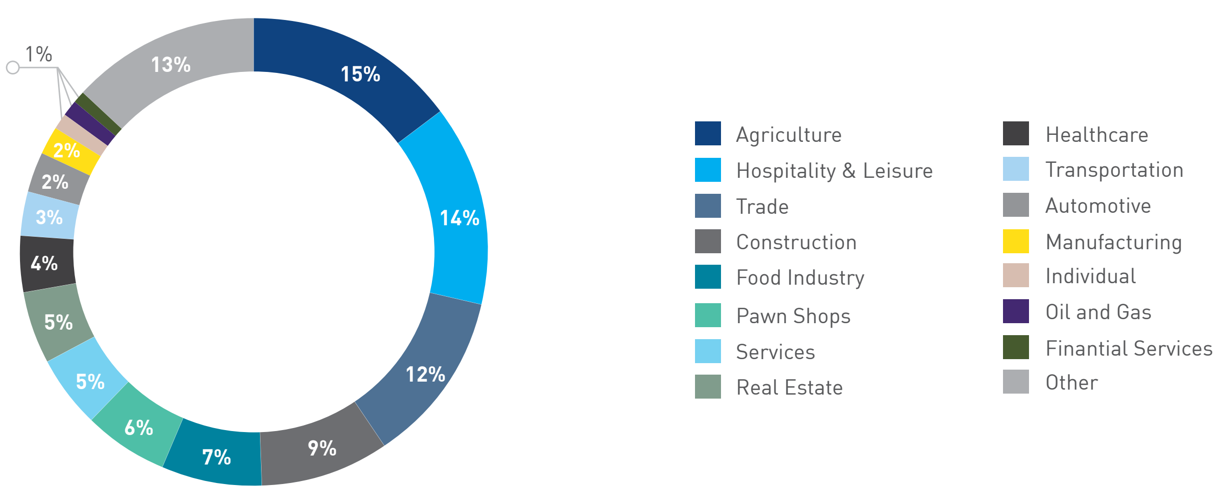
OVERVIEW

TBC Bank is the number one partner bank for micro, small and medium enterprises (MSMEs) in the country, with 62%[1] of all newly registered legal entities in Georgia choosing TBC Bank. We differentiate ourselves through an exceptional customer experience, best-in-class financial products and services, an extensive business support programme and strong digital capabilities.

This year, we introduced an agile structure in MSME, that is better tailored to business needs and attuned to market demands. Segment-focused squads (agile teams) have been created that enable us to create added value for our clients and become ever more customer-centric when developing our products and services. The process-oriented squads help us to streamline the processes, while digital squads, which are allocated directly to businesses are designed to improve digital channels and to ensure that all our products are digitally accessible.

In 2019, our MSME loan book increased by 18.1% YoY to GEL 2,948 million, mainly driven by an increase in the hospitality and leisure, agriculture, construction and trade sectors. Over the same period, MSME deposits increased by 16.8% to GEL 1,188 million. More information about the financial performance of the MSME segment is provided in the financial review section on pages 108 to 123.

DIVERSIFIED MSME PORTFOLIO WITH STRONG PRESENCE IN AGRICULTURE, HOSPITALITY&LEISURE AND TRADE SECTORS



OUR STRATEGIC DIRECTIONS IN 2019

We aspire to deliver the best customer experience to MSME clients through our best-in-class distribution channels, innovative and affordable offerings, efficient and lean operational processes and wide-ranging non-financial services.

Best-in-class distribution channels
In an era of constant technological development, it is crucial for us to provide market leading digital offerings and engage digitally with our customers. We are proud to have the best-in-class internet and mobile banking applications, with around 84% of our active MSME customers using internet banking and 37% using only the mobile bank application as of 31 December 2019. As internet banking is the most popular channel of communication with our customers, we are constantly fine-tuning it based on our customer feedback. This year, we have added several new features and redesigned certain screens to make it more intuitive and easy to use.

Next year, we also plan to develop a dedicated in-house mobile banking application for businesses, which will be tailored for businesses needs and allow our customers to manage their businesses easily on the go. The in-house development will enable us to be more agile and prompt in responding to our customer needs and will make the interaction with the app engaging.

In addition, we have a dedicated call center for MSMEs available 24/7, which is a strong channel both for sales and customer enquiries. Around 53% of all sales are conducted though our call center.

We are the only bank in the region[4] offering fully digital on-boarding, which enables legal entities to become our customers by registering online at www.businessregistration.ge. The registration process only takes a few minutes, after which the company becomes TBC's customer with access to all basic products. In 2019, 22% of newly registered customers were on-boarded digitally.

Innovative and affordable offerings
In line with our mission of making the lives of our customers easier, we constantly fine-tune our offerings in order to create maximum value for our customers. In addition to the full range of lending and operational products that we offer to our MSME clients, we also provide innovative solutions as well as tailor-made offerings for start-ups and micro and small businesses.

Since 2017, we have run "Startaperi", an innovative programme that aims to support early-stage businesses by providing them with accessible financial resources as well as extensive non-financial services. Currently, we offer four types of loans for start-ups: a general loan and special loans for restaurants, hotels and agro businesses. The Startaperi programme has gained tremendous popularity and attracted around 34,800 companies since its launch. As of 31 December 2019, the total outstanding portfolio of such loans stood at GEL 120 million, while the number of loans amounted to 550.

In order to foster business growth in rural areas and help to create new job opportunities, we are actively supporting local businesses by providing affordable finance. In partnership with government programmes: "Produce in Georgia" and "Agriculture Project", which aim to support agriculture, manufacturing and hospitality industries, we have been providing the necessary financing to local businesses. Within these programmes, borrowers can apply for a subsidy from the government to lower their interest expense. During 2019 we disbursed 46 loans amounting to GEL 29 million. Overall, as of 31 December 2019, 34% of our total MSME loan book was used to finance rural areas, the largest sectors being agriculture, hospitality & leisure and trade with respective shares of 39%, 10% and 9%. As a result, we have helped more than 29,000 borrowers in rural areas to develop their businesses.

In May 2019, we launched B-COM, an innovative, subscription based banking service that offers MSME customers a set of products and services as well as various trainings for a fixed monthly or annual fee. Since its launch, we have already attracted over 9,000 subscribers, with around 34% choosing annual subscription. The new service packages are well tailored to fit the various needs of businesses and enable cost optimization on frequent transactions.

In 2019, we launched TPay application, a universal payment system that combines point of sale and online payments with QR technology and also allows innovative online checkout. This is a faster, cheaper and more secure payment method, which enables cashless transactions in micro merchants, mainly in rural areas, where currently only cash is accepted. Merchants can use a printed QR stand, a sticker, or choose the TPay application to accept QR payments, while retail customers can conduct QR payment via our mobile banking application, as well as the TPay application for non-TBC customers. Currently there are about 2,267 online and offline merchants already using TPay system.

1 Data is for FY 2019, source: www.napr.gov.ge, the national Agency of Public Registry
2 Excluding cash transactions
3 Based on survey conducted by independent research company IPM among MSME segment in October 2019
4 The region in this context comprises Azerbaijan, Armenia and Georgia

In October 2019, we introduced an innovative new cash terminal , a combination of a cash register and a POS terminal, to minimize our MSME customers' monthly costs. This terminal enables merchants to offer their customers the same services in a more convenient and affordable way. Since its launch, more than 483 merchants have either replaced their old terminals with a new one, or started using our cash terminals as their first choice.

Next year, we plan to enhance our online lending platform, which will significantly simplify and speed up the loan application process for business customers and is expected to decrease the bank's decision making process to minimum.

Operational process optimisation
In 2019, we optimized our structure in the MSME business by eliminating unnecessary processes and enhancing certain functions in order to speed up customer registration, overall service time as well as product development time-to-market.

The most remarkable initiative this year was the complete transformation of our registration platform for MSME clients. The new platform is integrated with the National Agency of Public Registry (NAPR) and the Public Service Development Agency, which allows the majority of information to be filled automatically, thus enabling our employees to register new customers with all basic products within 10-15 minutes, with no involvement needed from the back office in more than 70% of cases. In the past, it took more than 40 minutes to register a new customer and 24 hours for a new account to be activated, with back office involvement needed in almost all cases.

Another important project was the simplification of the loan approval process, which shortened the time between application submission and loan approval from 2 days to 30 minutes:

- Starting from March, mini business and mini agro loans up to GEL 20,000 could be issued using tablets. Loan officers visit the clients at their locations, approve loans based on scoring model and register clients on the spot. As of December 2019, more than 85% of this type of loans were disbursed using tablets.
- In addition, starting from November 2019, we launched the automotive loan approval system for business loans up to GEL 100,000 based on scoring model. At the end of the year, 40% of all such loans were approved automatically.

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

In partnership with the Asian Development Bank (ADB) and the European Fund for Southeast Europe (EFSE), we conduct trainings, run conferences, and organise individual consultations as well as agro forums across the country. All these services are provided free of charge. The aim is to help entrepreneurs to improve their skills in areas such as management, marketing, finance and taxation, which will support them in developing their businesses. In 2019, we have trained more than 4,000 business representatives in different fields and organised four business forums with around 800 participants in different regions of Georgia. During the year, we have also held a number of six-week intensive courses for our SME clients, "IFRS for SMEs", training around 160 participants in total.

Support of early-stage businesses remains our top priority and we continue to develop new services within our innovative programme "Startaperi". Startaperi aims to create more successful startups in Georgia by supporting them with easily accessible capital, a digital platform for advertising campaigns, as well as various educational programmes and conferences. During the year, 700 start-ups were trained in different fields. In 2019, we also launched "Startup discussions", a monthly knowledge sharing platform for startup founders to learn from other successful startups. This initiative proved to be very successful, attracting around 100 participants each month.

Since 2016, in partnership with EFSE, we have been organising an Annual Business Awards ceremony in order to support entrepreneurship in Georgia. This ceremony has become the major business event of the year in the country, attracting more than 2,000 community members. This year, over 350 business participated in the Business Award ceremony and five winners were announced in the following categories:

- Product/service of the year;
- Employer of the year;
- Exceptional corporate social responsibility;
- Innovation of the year; and
- Startup of the year.

The event attracted a reach of 25 million in press and social media while a survey conducted by the independent research agency, ACT, showed that top-of mind awareness of the project reached 72% in 2019.


BUSINESS
AWARD
2019

SPACE

VISA

Yevgen Lisnyak, Senior Director and Head of Strategic Partnerships, Fintech & Ventures (Visa, CISSEE), commented: "At Visa we believe in the power of partnership to bring our profound experience and innovative solutions to emerging payment players like Space. Being in the center of Fintech ecosystem, we aim to share our knowledge, best practices and network of technological partners with Space to achieve mutual goals in expanding the reach of digital financial services. Today, we are witnessing a rapid transformation of the financial banking sector, where new players are playing a significant role. Neobanks are agile, consumer-centric, flexible and innovative, offering modern consumers completely new financial solutions and a new digital banking experience. We are excited to be able to support fintechs to navigate the payments landscape in the Caucasus region to achieve their business growth and international expansion ambitions."

SPACE

2019 HIGHLIGHTS

508k downloads

2.6 mln transactions during 2019

GEL 27 mln loan portfolio

121k total cards attached

4.9 stars of Apple store with **5.9k** reviews

Partnership agreement with Visa

181k total registered customers

GEL 154 mln transactions volume during 2019

10k borrowers

65k Space cards issued

4.8 stars of Google play with **6.0k** reviews

OVERVIEW

Space is the first Georgian neobank, a mobile app without traditional branches or a physical presence. Structured as an autonomous business, Space is a trailblazing mobile application for managing daily finances, which challenges and redefines the traditional banking experience and strives to make banking simple, friendly and fun. In all operational aspects, it is a fintech startup project: from people to processes to corporate culture.

Space is a fully cloud solution that was built in order to resolve the complexity of integration with traditional legacy systems. Its flexible IT architecture makes it possible to launch new products much faster than in traditional banking.

Space will play an important role in our international expansion strategy and will allow us to expand our presence in new markets in the most efficient way, using a capital-light model.

Space was launched in May 2018 in Georgia and has already attracted around 181 thousand customers, out of whom 46% were previously inactive TBC customers. As of 31 December 2019, the Space loan book amounted to GEL 27 million and the number of borrowers reached 10 thousand. Also, during 2019 the number of transactions stood at 2.6 million, while the volume of transactions amounted to GEL 154 million.

PRODUCT DESCRIPTION AND ITS MAJOR BENEFITS

Space differentiates itself through its simple and intuitive design, unique customer experience, price transparency and instant service delivery.

Currently Space is offering the following products and capabilities:

- remote account opening in under 5 minutes;
- instant consumer loans 24/7 up to 50,000 GEL;
- Savings pot;
- instant money transfers to any bank 24/7;
- mobile top and bill payments;
- debit cards,
- Wallet with the possibility to attach other bank cards;
- Apple pay;
- QR installments for e-commerce and offline stores.

Saving pots, which was launched in December 2019, is a modern alternative to traditional saving and deposit products. It will enable customers to save money more easily with the help of features such as goal setting, automatic saving rules and flexible access options. Customers will be able to choose from three main automatic saving rules that are attached to everyday transactions. In addition, pots will allow customers to access their money at any time without restrictions. Customers will also be able to share their pots with friends to save money collectively for different occasions such as birthdays, presents, etc.

In July 2019, Space introduced a unique cash-back program, offering cash-back in every food chain worldwide. A 5% cashback is issued to customers who pay with Space cards in cafes, restaurants, fast food restaurants or when they order food via delivery applications such as Glovo or Wolt. During 2019, around 13 thousand customers benefited from this service.

In addition, in response to our customers' wishes, in July 2019, we introduced a weekly gamification contest, which is a different take on a traditional loyalty program. Customers compete with each other to gain rewards. Points, which are called "stars", are given for making transactions with a Space card, inviting others to join Space, making bill payments and even by playing Space game that are built into the app. Each Friday, the top 300 customers receive cash rewards ranging from GEL 5 to GEL 150. More than 28% of total Space customers are actively involved in this contest and 2,705 customers received cash rewards by 31 December 2019.

One achievement that particularly stands out in 2019 was the signature of a partnership agreement with Visa to jointly develop an innovative banking service and to introduce cutting-edge, user-centric and secure banking solutions, which will help us in our ambitions to expand our digital banking footprints beyond Georgia.

MAJOR SUBSIDIARIES

TBC INSURANCE

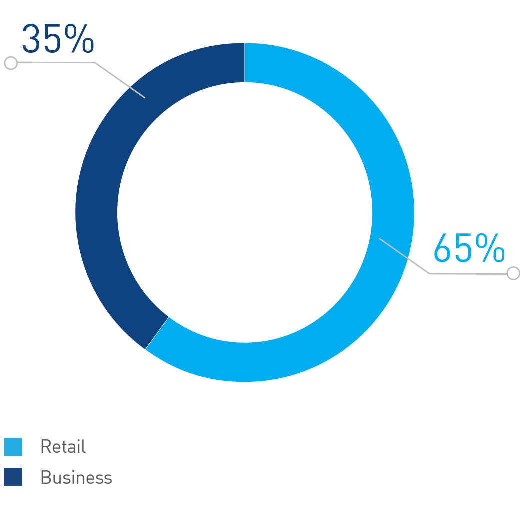
TBC Insurance is a rapidly growing, wholly owned subsidiary of TBC Bank and is the main bancassurance partner of the Bank. The company was acquired by the Group in October 2016, and since then it has worked hard to strengthen its position, becoming the largest retail player in the non-health insurance market in Georgia, with a market share[1] of 36.6% and serving more than 260,000 customers.

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

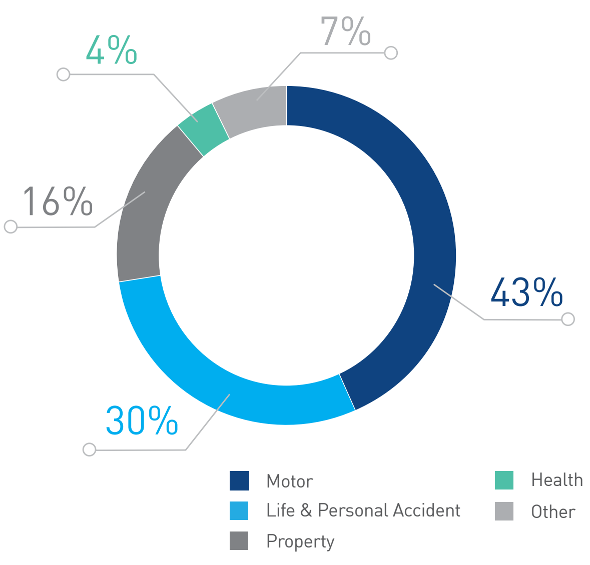
Starting from the second quarter of 2019, TBC Insurance entered the health insurance market with a focus on the premium segment. Our strategy is to capture the affluent market by leveraging our strong brand name, leading digital capabilities and cross selling opportunities with payroll customers.

The bancassurance business[2] represents 41.2% of the total gross written premium (GWP) as of 31 December 2019, while the breakdown of total GPW by segments and products is given on the below pie charts.

TOTAL GWP IN 2019 BY SEGMENTS



TOTAL GWP IN 2019 BY PRODUCTS



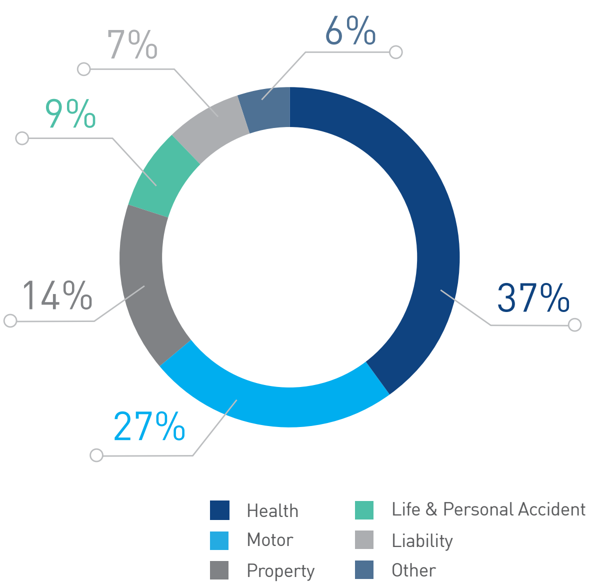
MARKET OVERVIEW

The insurance business in Georgia is regulated by an independent body, the Insurance State Supervision Service of Georgia, which closely monitors insurance companies and sets the minimum and solvency capital requirements. There are 17 insurance companies in the Georgian insurance market. The Georgian insurance market has a high growth potential as it is under-penetrated with gross written premium to GDP standing at around 1.3%[3] as of September 2019, which is one of the lowest among CEE countries. The density, which is measured as gross written premium per capita, is also low compared to peer countries, standing at US$ 56.4 as of December 2019.

In 2019, the non-health insurance market grew by 19.9%, or 12.7% on a constant currency basis and reached GEL 378 million. The compulsory motor third party liability insurance (MTPL), which is expected to come into force in 2021, will further increase the market by an estimated GEL 150 million. The largest products on the market are motor and property insurance, which combined account for 66.3% of the total market. Aldagi and TBC insurance are the two largest players with market shares[4] of 29.1% and 21.5% respectively, as of 31 December 2019, followed by GPIH with 14.2%.

In 2019, the health insurance market grew by 7.9% on a constant currency basis and amounted to GEL 224 million. We expect accelerated market growth in the coming years driven by the increasing trend in average monthly premium. The largest players in the health insurance market are Imedi L and GPIH with market shares of 31.9% and 24.0% respectively, followed by Ardi insurance with 12.5% as of 31 December 2019.

GWP OF GEORGIAN INSURANCE MARKET BY PRODUCTS IN 2019



MAIN ACHIEVEMENTS AND STRATEGY

In 2019, our main focus in the retail non-health business was increasing the sales offloading ratio[5] and the motor claims offloading ratio[6]. As a result, the number of policies sold via digital channels increased by 146.0% YoY and reached 51,160 in 2019, leading to an offloading ratio of 48.3% compared to 29.3% a year ago. Over the same period, the number of motor claims handled distantly also increased sharply, with the motor claims offloading ratio reaching 51.2% in December 2019, up by 16.1pp YoY. Furthermore, in July 2019, we introduced a digital motor policy renewal process, which will result in reduced acquisition costs and increased operational effectiveness over the medium-term. By the end of the year, 26.5% of all renewed motor policies were renewed digitally.

On the MSME side, we have standardized certain insurance products and processes in order to provide simplified solutions to our customers. In parallel, we continue to actively utilize our MSME bancassurance web portal, which helps us to increase our foothold in the severely underpenetrated MSME market. In terms of corporate clients, we continue to leverage the bank's strong corporate client base in order to attract new customers. As a result, our market share of non-health legal entities reached 11.4% in 2019, compared to 10.4% in 2018.

Regarding the health business, from November 2019 TBC Insurance offered individuals the opportunity to receive claim reimbursements via chat bot messenger. This initiative is unique in the market and will greatly improve the claim regulation process on the client side.

1 Market share without mandatory border MTPL. With mandatory border MTPL market share was 30.2%. Starting from March 1, 2018 border MTPL has been introduced and GWP was divided evenly between 17 insurance companies, therefore it has decreased our market share. Source: insurance.gov.ge
2 The selling of credit linked and voluntary insurance products and services by JSC TBC Bank
3 Source: Geostat and insurance.gov.ge
4 Market shares are without mandatory border MTPL. With mandatory border MTPL market shares of Aldagi, TBC Insurance and GPIH stood at 27.3%, 20.0% and 13.4% respectively. Starting from March 1, 2018 border MTPL has been introduced and GWP was divided evenly between 17 insurance companies, therefore it has decreased our market share. Source: insurance.gov.ge
5 The number of policies sold via digital channels divided by the total number of voluntary retail policies
6 The number of motor claims regulated distantly (by web & call center) divided by the total number of motor claims

Overall, TBC Insurance recorded strong growth in 2019 with gross written premium increasing by 31.5% to reach GEL 79.0 million, leading to a market share[1] of 21.5%, up by 1.1pp YoY. Over the same period, our net earned premium increased by 48.3% and amounted to GEL 52.9 million, while our net combined ratio grew by 3.5pp and stood at 82.8%, driven by increased operating expenses in health insurance. As a result, our net profit went up by 12.5% and reached GEL 8.5 million. Looking forward, we will continue to grow and expand our insurance business and become the number one player in Georgia in the medium-term, with the highest net promoter score (NPS) among the industry players in the country.

Strategic priorities Non-health Insurance	Mid-term target
Market Share	30% +
Net Combined Ratio	< = 85%
Offloading ratio in voluntary retail sales[2]	70% +
NPS[3]	The best in industry

Strategic priorities Health Insurance	Mid-term target
# of Insured Premium Staff	50,000
Net Combined Ratio	< = 95%
Loss Ratio	< = 85%
NPS[3]	The best in industry

Our mid-term target for net combined ratio increased from below 80% in 2018 to below 85% in 2019, due to the strong competition on the market and reduced margins. We also plan to increase the corporate share in our portfolio, which will in turn increase the need for reinsurance.

We also raised our offloading ratio target from above 50% in 2018 to above 70% in 2019, as the trend towards digitization is more positive than expected. Moreover, the digital renewal process also enhanced our capabilities to increase digitalization at a faster pace.

1 Without mandatory border MTPL. Market share with mandatory border MTPL stood at 20.0%, up by 0.9 pp YoY. Starting from March 1, 2018 border MTPL has been introduced and GWP was divided evenly between 17 insurance companies, therefore it has decreased our market share
2 Number of sales conducted in digital sales divided by total number of retail voluntary sales
3 Based on the internal survey

B Bot

TBC INSURANCE

TBC LEASING

TBC Leasing is a wholly owned subsidiary of TBC Bank and is the leading leasing company in Georgia, with 68.0% market share[1] as of 31 December 2019. It was founded in 2003 by TBC Bank and, since then, it has considerably strengthened its position on Georgian market, serving around 4,000 customers with a total leasing portfolio of GEL 258.3 million as of 31 December 2019.

TBC Leasing serves both individuals and legal entities and provides comprehensive leasing solutions and advisory services, including financial leasing, operating leasing, sales and leasebacks tailored to customers' needs. Legal entities account for around 84.6% of our portfolio with services, construction, health care and production being the largest sectors. Our retail portfolio is comprised of new and used cars, with respective shares of 43.8% and 56.2% in total. Our retail customers are served at our service centers, while we use the bank's channels to sell our products to MSME and corporate customers.

The company actively cooperates with two governmental projects, "Produce in Georgia" and "Agriculture Projects Management Agency" (APMA), which aim to support the development of manufacturing, service and agriculture industries by subsidizing companies' interest expenses. During 2019, we issued GEL 34 million leases within these programs and our portfolio grew by 80.8% YoY to GEL 53 million. We also strive to increase awareness of leasing solutions to startup companies for whom leasing is an affordable and particularity convenient option to obtain the necessary equipment.

In addition, TBC Leasing actively cooperates with the largest vendors of Georgia to facilitate sales and financing of new vehicles and equipment used in transportation, construction and manufacturing. During 2019, together with Tegeta Motors, its long-run strategic partner and a leader in the automotive products and services industry, TBC Leasing ran active joint campaigns for the promotion of sales of new vehicles and equipment.

Furthermore, TBC Leasing is actively engaged in financing green and energy efficient assets. During 2019, in cooperation with SOCAR Georgia Petroleum and SCANIA Georgia, the company provided financing in the amount of GEL 4.5 million for fuel transporting heavy vehicles, which are manufactured by SCANIA in accordance with the Euro 6 emission standard and therefore are ecofriendly and energy efficient. In addition, in 2019, TBC Leasing obtained a multicurrency credit facility in amount of GEL 30 million from FMO with 30.0% of the amount to be utilized in energy efficient projects.

Our focus for 2020 remains to further grow the leasing business in Georgia, as well as to develop supplementary services for our clients "to make their lives easier" in line with the group's mission.

TBC PAY

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

TBC Pay also offers cash management services to companies with a large volume of cash operations, allowing customers to deposit money directly to their bank account, which will appear instantly on their electronic statement.

In 2019, the company significantly expanded its operations in the payment business as well as cash management. The number of transactions in self-service terminals increased by 7.9% YoY to 46.7 million, while the volume of these transactions went up 37.3% YoY to reach GEL 3,194.7 million accounting for around 88% of total number and volume of transactions. This was driven by the increase in number of self-service terminals, as well as by careful analysis of suitable locations for the installation of these terminals. Currently, TBC Pay has 3,671 self-service terminals in operation compared to 3,281 a year ago. Over the same period, the volume of cash management transactions amounted to GEL 990.4 million in 2019, up by around 114% year on-year, while the number of such terminals increased from to 454 from 131 a year ago. Among our large clients are the leading petroleum companies, pharmacy retailers and food producers in Georgia. As a result, in 2019, our net revenue reached GEL 35.1 million, up by 14% year-on-year, while our EBITDA amounted to GEL 18.3 million, up by 14.0% year-on-year.

We continue to enhance our digital offerings and in 2019, we enriched our web-platform with new features and functionalities making bill payments easier and faster. We also introduced an e-wallet enabling TBC Pay clients to conduct their electronic transactions without the use of credit cards. The customer just needs to top-up the e-wallet balance periodically. Furthermore, we launched the TBC Pay mobile app for both iOS and Android users, which is the first mobile payments application, allowing clients to use its services without any additional mobile internet charge.

Our main priorities for 2020 remain fine-tuning our digital offerings, with a special focus on mobile application, as well as enhancing customer satisfaction in order to provide the most comfortable and effective payment services to the Georgian population and businesses.

TBC CAPITAL

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

The launch of the Government's pension fund at the beginning of the year was an important step forward in supporting the development of capital markets in Georgia. The pension fund's active involvement in capital markets should especially help new equity issuances, which are still hard to come by, while bonds issuances have significantly increased in recent years. As of 31 December of 2019, the pension fund accumulated around GEL 506.8 million or 1.0% of GDP.

Another important achievement was popularizing the Tbilisi Inter Bank Rate (TIBR) by placing the first corporate bond[2] linked to TIBR, rather than on the National Bank of Georgia's (NBG) refinancing rate. This initiative further strengthens Georgian Capital markets, as a more stable benchmark gets established as a reference rate, more accurately depicting current market conditions and providing a fairer pricing option than the monetary policy rate from NBG.

Furthermore, TBC Capital actively assisted Silknet[3] and JSC TBC Bank to dual-list their Eurobonds on the Georgian Stock Exchange together with the Irish Stock Exchange. This supports the development of the local exchange market, as local investors with no direct reach to international markets can invest in Eurobonds issued by local companies (more information about Eurobonds is given in the corporate and investment banking section on pages 26 to 29).

In 2020, our main focus remains to support the development of local capital markets, as well as to enhance our brokerage and research business units. We also see large potential in M&A transactions on the local market. There are a number of players in several sectors actively seeking consolidation opportunities, which we see as a good base to start educating the market. Apart from sector champions, we anticipate consolidation moves to be made by medium sized companies as well, which increases the player base substantially and gives us an opportunity to capture the rising market.

More information about TBC Capital can be found in the corporate and investment banking section on pages 26 to 29.

1 Based on internal estimates
2 This bond was issued by JSC Nikora, a leading meat products producer and retailer in Georgia
3 Silknet is a leading telecommunication service provider in Georgia

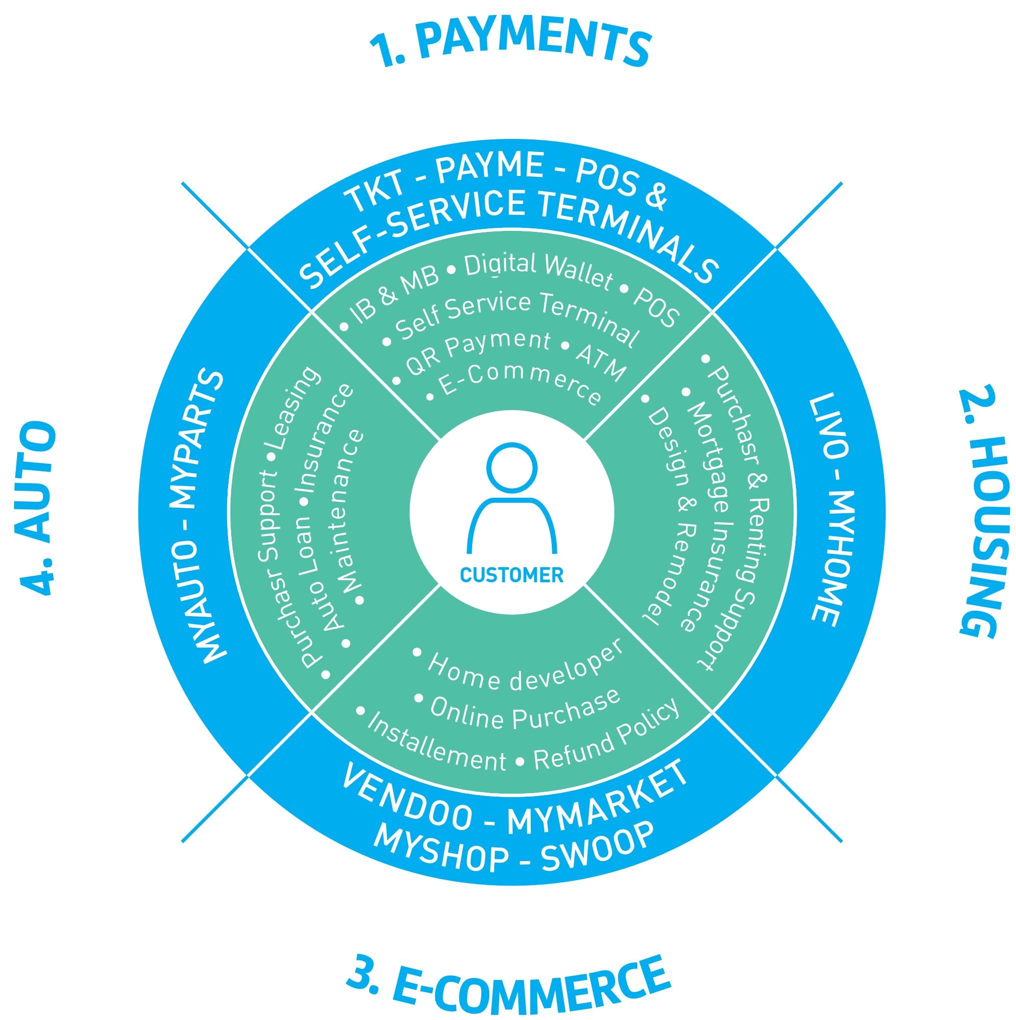
ECOSYSTEMS

In order to deepen our relationship with our customers and expand our range of digital touchpoints, we added a new strategic priority in 2019: to develop customer-focused ecosystems that are closely linked to our core financial products and services.

Our ambitions are to:

- Establish new standards of customer experience;
- Facilitate digital sales and engagement;
- Create new revenue streams; and
- Collect valuable customer data.

In this regard, we have already launched payments, housing and e-commerce ecosystems and are also actively developing an auto ecosystems.



PAYMENTS ECOSYSTEM

PAYMENTS ECOSYSTEMS

As our customers conduct a broad range of payment transactions daily, we aspire to provide frictionless payment solutions for all their existing and anticipated needs. For this purpose, we have created a dedicated payments ecosystem with a holistic view of all payment solutions. Our payments ecosystem comprises traditional payment channels such as POS terminals, e-commerce and self-service terminals, as well innovative payment methods. We are number 1 in e-commerce and POS terminal transactions volume, with a market share of above 53%[1] by the end of 2019. We are also among the world's best in terms of the number of contactless payments, which stood around 86%[2] of total card payments as of 31 December 2019.

Our aspiration is to become a regional payments provider, with annual growth rate in payments commission income of 20% and also to reduce cash payments in Georgia. This year we launched several innovative payment solutions including Apple Pay, TPay, which is the first QR Payment and online checkout system in the region[3], ATM QR withdrawals and TBC Bracelets:

- In September 2019, we were among the first movers to launch Apple Pay, enabling our customers to conduct payments through Apple devices not only in Georgia, but also internationally. Apple Pay is easy to set up and users will continue to receive all the rewards and benefits offered through our credit and debit cards. Furthermore, we have a mobile wallet application for Android that allows customers to pay directly using near-field communication (NFC) technology.
- TPay was launched in July 2019 and it gives opportunity to our micro clients to offer cashless payments to its customers in a convenient and cost-efficient way at the counter. TPay has a dedicated application with simple interface, which enables users to add any bank card. Moreover, TBC customers can conduct QR payments through their mobile bank application. In addition, while shopping online, customers no longer need to enter card details. Instead, they can check out with their TBC online banking account or just scan a QR code displayed on the checkout page with their TBC mobile banking application or TPay application. The new checkout process is twice as fast as the standard one and is also more secure.
- By the end of the year, we also launched ATM withdrawals using QR codes and Apple Pay, enabling our customers to conduct cardless money withdrawals through their mobile banking application and Apple devices, respectively.
- In December 2019, we launched a new payments solution, TBC Bracelet, which can be added to any TBC debit account and allows our customers to make payments without cards or eWallets. The bracelet has an appealing visual, is eco-friendly and water, freeze and heat resistant.

In addition, to enhance our value proposition beyond banking and offer an improved customer experience in lifestyle offerings, we increased our share in our associated company TKT.ge to 55% from 26% in May 2019. TKT.ge is a leading online platform in Georgia that allows people to buy tickets for various events such as the cinema, the theatre or concerts as well as airplane and train tickets.

Our payments ecosystem also includes our Uzbek subsidiary, Payme, which is a leading payments platform in the country with around 1.8 million users. More information about this business is given on page 17.

We achieved outstanding results in our payments ecosystem over the course of 2019. The number of payments transactions[4] went up by 36.9% YoY and reached 236.4 million, while the volume of payment transactions amounted to GEL 11.8 bln, up by 34.1% YoY.

1 Source: NBG
2 Data from Business Insider Intelligence was used for comparison purposes
3 The region in this context comprises Armenia, Azerbaijan and Georgia
4 Includes both retail & business payments

HOUSING ECOSYSTEM

LIVO.GE

In January 2019, we acquired a 90% share of the real estate platform Allproperty.ge, a local real estate listing company, for US$ 225,000. We used this platform to launch Livo.ge, the first housing digital ecosystem in Georgia, which will bring together various real estate services into one, smooth holistic digital platform that creates value for all stakeholders.

Launched in May 2019, Livo.ge has an asset light business model. It is an open platform that partners with third party providers for provision of various services. Our main focus is to generate effective leads for our customers based on accurate analysis of user data.

Livo.ge boasts an enhanced user interface and offers a wide range of traditional and innovative services:

- Traditional services: personal profiles, advertisements and 3D tours & photographers.
- Innovative services: mortgage loans, insurance, lead generation, the first real-estate valuation service in Georgia within 24 hours, premier agent service for brokers and information about air pollution.

We have ambitious plans to introduce new cutting-edges solutions in the coming years including Live auction and Livo artificial intelligence tools, which will empower our customers to make the most optimal decisions.

TBC Bank invested around US$ 755,000 in the development of the company in 2019 and plans to invest an additional US$ 700,000 in 2020.

Our housing ecosystem gained popularity quickly and attracted 274,000 unique visitors by December 2019, while the number of listings amounted to 24,000. As a result, Livo.ge's estimated total digital traffic reached around 20% in housing market in Georgia, based on the number of visitors. In terms of financial results, Livo.ge's revenue stood at GEL 2.5 million for the full year 2019 (out of which GEL 2.2 million was TBC's contribution from real estate valuation)and the company plans to break even in the third quarter 2020. In terms of operational targets, our main priority for 2020 will be increasing the number of unique visitors and the number of listings.

MYHOME.GE

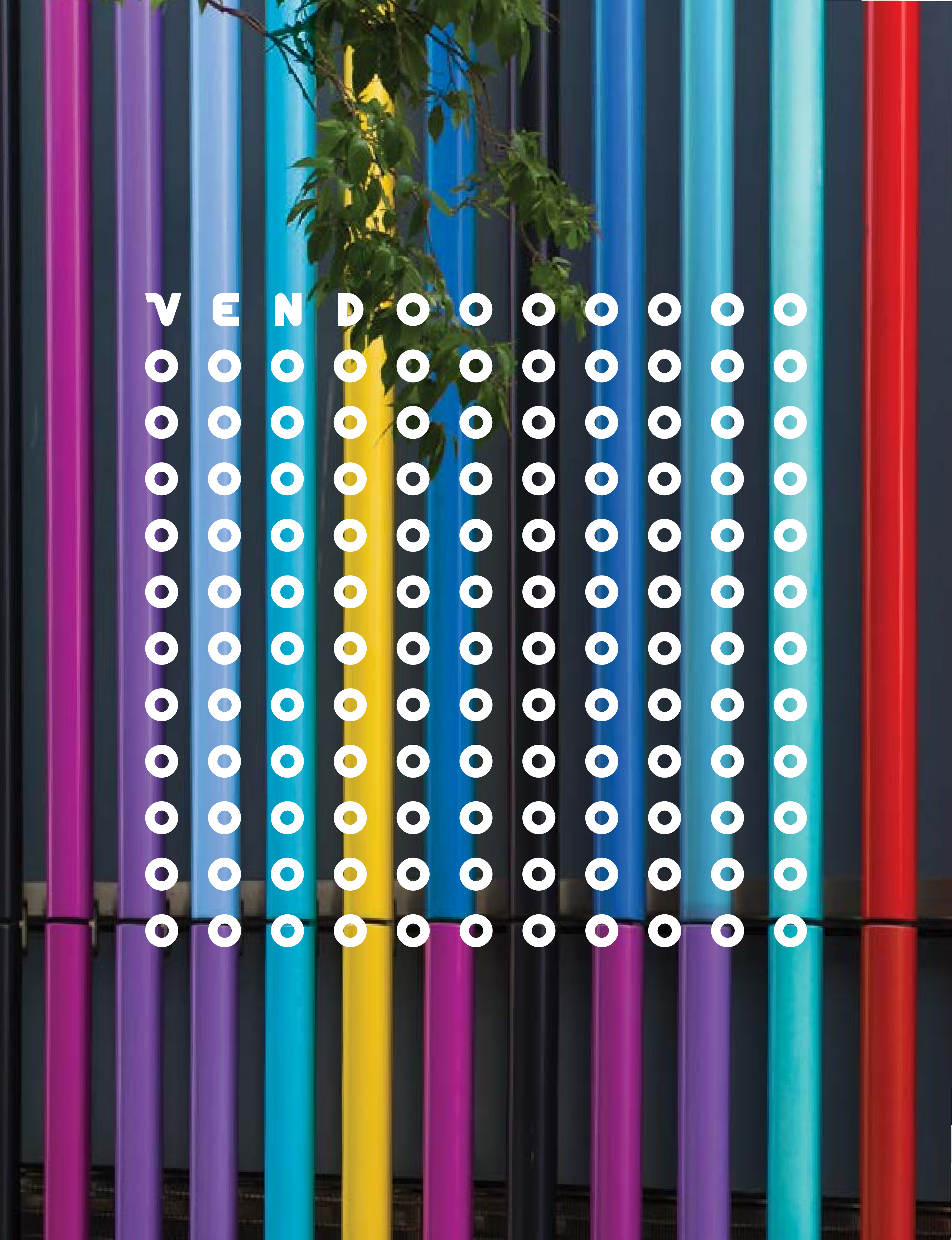
In August 2019, for a consideration of GEL 19.45 million, TBC Bank acquired a 65% stake in LLC My.ge, the leading classified e-commerce player in Georgia, trading under the My.ge Group ("My Group") name. My Group operates in three online marketplace verticals: automotive & automotive spare parts, consumer-to-consumer goods and housing.

Myhome.ge, the housing digital platform, is a leading classified digital platform in Georgia for real estate purchase and renting with an estimated total digital traffic of 35% in housing market in Georgia, based on the number of visitors. In December 2019, the number of unique visitors reached 360,000, while the number of listings stood at 140,000. In the current year, the company generated revenues of GEL 1.4 million, while its EBITDA amounted to GEL 0.4 million. Our strategy for 2020 is to diversify service offerings and increase the company's revenue streams. In addition, we plan to launch new market-disrupting sub-platforms by leveraging the existing consumer base and digital traffic.

livo

Housing Ecosystem

livo.ge


VENDO

E-COMMERCE ECOSYSTEMS

VENDOO.GE

In August 2018, we acquired Swoop, a well-known Georgian online discount and sales company, for a consideration of US$ 70,000, as the first step in developing an e-commerce market place in Georgia, through our innovative digital trading platform, Vendoo.

We are developing Vendoo into an asset light platform that will be the key intermediary between buyers and sellers, modelled on industry peers such as Alibaba and Rakuten.

The platform, www.vendoo.ge, was launched in May 2019 and allows customers to purchase various products online, access consumer finance and benefit from prompt delivery and a flexible refund policy. Local businesses will benefit from Vendoo's large customer base and online marketing possibilities.

Vendoo is growing fast: by the end of 2019, it already had a diverse product offering comprised of electronics, personal care products, gardening & housing, toys, household chemicals, books & stationery and beverages. As of 31 December 2019, the company partnered with over 230 merchants and had around 27,000 stock keeping units (SKUs), while the number of unique visitors reached 337,000 in December 2019 and gross merchandise volume (GMV) amounted to GEL 2.9 million for the full year 2019. As a result, Vendoo's estimated total digital traffic reached around 24% in comparable e-commerce in Georgia, based on the number of visitors. Our major priority for 2020 will be increasing the number of SKUs and the number of unique visitors as well as growing GMV. The introduction of the new merchant portal will also enable faster onboarding of SMEs on the platform, enabling them to scale up sales across the country.

The e-commerce business has significant potential given that the e-commerce market in Georgia is underpenetrated and there are no big players on the market. In addition, a lot of Georgians shop online abroad, which also creates additional growth potential for the local market. The total addressable market was estimated to be around GEL 200 million[1] in 2019, and we expect it to grow by around 30% in 2020.

In addition to the initial investment of US$ 70,000 in 2018, TBC Bank invested around US$ 2.5 million in the development of the company in 2018-2019.

MYMARKET.GE & MYSHOP.GE[2]

Mymarket and Myshop are the number one classified players in C2C and B2C e-commerce in Georgia. Myshop is an online outlet platform offering a wide range of products, while Mymarket offers both new and secondary products as well as various household services. Together, both business lines have an estimated total digital traffic of around 80% in comparable e-commerce in Georgia, based on the number of visitors. In 2019, Mymarket completely renovated its platform with a more user-friendly design and new, personalized features, significantly enhancing the shopping experience.

In December 2019, the number of unique visitors reached 900,000, while the number of sellers stood at 45,000. In 2019, the company generated revenues of GEL 1.2 million, while its EBITDA amounted to GEL 0.3 million.

Our strategy for 2020 is to integrate delivery and on-line payments services into the platform, which will enable us to provide end-to-end service to our customers. This will significantly enhance the user experience as it will allow us to act an escrow agent between sellers and buyers, ensuring timely delivery and product quality checks. This, in turn, will lead to an increase in on-platform transaction volume and is also expected to increase the overall market size, due to expanding cross-country delivery capabilities. Furthermore, we plan to add consumer lending capabilities to the platform, which will also support the growth of gross merchandise volume.

1 Based on internal estimates
2 The platforms of My Group

AUTOMOTIVE ECOSYSTEM

MYAUTO.GE & MYPARTS.GE[1]

My Group's platforms, Myauto and Myparts, are the leading players in the automotive and spare parts markets in Georgia, with an estimated total digital traffic of 80% in each comparable sector in Georgia.

These platforms offer the purchase and renting of second-hand cars as well as a wide assortment of auto parts. In December 2019, the number of unique visitors to these platforms reached 1,550,000, while the number of listings stood at 400,000. In 2019, the company generated revenues of GEL 2.5 million, while its EBITDA amounted to GEL 0.9 million.

Our strategy for 2020 is to integrate auction, leasing and escrow services into the platform. Moreover, as a part of our revenue stream diversification strategy, we plan to expand promotion services for new car dealerships as well as start selling leads. Enriching the platform with various new services would help us to increase the platform's attractiveness, which will in turn support the growth of transaction volume. In addition, there are various opportunities for launching new market-disrupting sub-platforms by leveraging the existing consumer base and digital traffic.

1 The platforms of My Group

LEADING E-COMMERCE COMPANY IN GEORGIA

www.my.ge

STAKEHOLDER ENGAGEMENT

As we aim to create value for all our stakeholders, we actively engage with them in order to incorporate their needs and expectations into our strategy, purpose and values.

As part of the Directors' responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act, the Board ensures that the Group engages with its stakeholders through many different channels to understand their needs and concerns, build trusted relationships and make decisions as a result of this engagement that are fair and balanced for all stakeholders.

STAKEHOLDER GROUPS	OUR GOALS AND ASPIRATIONS	OUR ENGAGEMENT
Our shareholders and fixed income investors	Generate long-term sustainable value	The Group has an active investor relations programme, to enable shareholders to engage with the Company and the Board, not only on business issues but also to raise any governance concerns that they might have. **Investor meetings** The Chief Executive Officer, the Chief Financial Officer and Director of International Media and Investor Relations maintain very close engagement with our major investors by: - Communication at quarterly financial results calls; - Participating in roadshows after every quarterly results announcement; - Regularly attending investor conferences across numerous geographic locations to promote the awareness and understanding of the Group's business. During the last year, these key executives met with approximately 200 investors in the UK, Continental Europe, the US, Canada and the United Arab Emirates. **TBC Capital Markets Day** All of the Bank's senior executives are involved in hosting an annual capital markets day in London. They are also available for calls with key investors and face-to-face meetings with investors visiting Georgia. **Investor Relations website** The Group also has a dedicated investor relations website, which contains detailed information about the company. **AGM** All shareholders are welcomed at the AGM where all directors are available to discuss any issues that they might raise.
Our customers	Make the life of our customers easier	The Group's business depends on continuously improving the customer experience, with tailored products and improving services which provide well-suited solutions and a superior customer experience for customers. Client feedback is regularly reviewed, and concerns are analysed in detail. The Group ensures that its financial products are easily accessible to people living in remote areas through the Bank's wide-network of self-service terminals and is also committed to support financial inclusion by developing various affordable offerings to micro businesses along with the Georgian population who do not have bank accounts. To better understand our customers' requirements and develop well-suited solutions, we actively interact with them via various channels including: - Communication via branches, VIP service areas, the call center and digital channels; - Regular customer satisfaction surveys by independent research companies; - Active interaction via social media.

During 2019, the Board introduced a stakeholder impact analysis for all proposals brought to the Board and will consider an analysis in the annual strategy plan review. These actions assist the Directors in performing their duties under section 172 of the Companies Act 2006 and confirms to the Board that the impact of business plans on all stakeholders is being considered by management when developing initiatives for Board approval.

Throughout the year, senior management attend the Group's board meetings to present key development and investment projects to the Board. All presentations made to the Board consider both the benefit to shareholders of the proposal and the impact on other key stakeholders, including employees.

One non-executive Director has been appointed to be responsible for staff engagement. It is intended that this role will be rotated periodically.

Our goal is to develop a strategy that is mutually beneficial to all our stakeholders and helps them achieve their aspirations. To measure our progress in this regard, we use a set of well-balanced performance measures that comprise both financial and non-financial metrics and are closely linked to our executives' remuneration. The Remuneration Committee considers remuneration and incentive plans across the whole business at each level.

The following table describes how our Directors have engaged with our key stakeholders during the year and the impact of this engagement when making key decisions as a Board.

KEY TOPICS DISCUSSED 2019	OUR RESPONSE AND IMPACT ON BOARD DECISIONS
• Marco-economic developments in the country, the political situation and the regional outlook, as well as the banking sector outlook and regulatory changes; • New strategic objectives including the development of ecosystems and international expansion; • Business performance and outlook; • The existence of a proper ESG system within the Company; • Matters related to TBC's founders, as described on page 106.	In our quarterly financial results presentation and report, we have substantially increased disclosure on our ecosystems. We have also increased the coverage of our macro-economic research, which provides regular updates on recent macro developments in the country. In addition, we have significantly enhanced our EMS systems, as described on pages 72-83. With regards to the matters relating to our founders, we proactively approached key shareholders, analysts and other market participants to clarify the situation and answer any related questions. We also focused on better communicating our corporate governance structure and its development over the last 10 years. Our dividend policy aims to pay out dividends based on a pay-out ratio of 25-35% of the total consolidated net profit each year.
Feedback from our customers reflected their wish to see more personalised, digital and integrated solutions that are delivered in a fast and convenient way. Customers living in remote areas are also looking for financial products that are easily accessible.	As a result of the feedback received from our customers, we are: • Developing customer focused digital ecosystems, which provide a wide range of interrelated services and products to customers in the most simple and seamless way possible. • Fine-tuning our internet and mobile banking applications with more intuitive and useful features. • Actively developing our newly launched fully-digital Bank, Space for our digitally savvy customers. • Harnessing our big data analytics to develop ever more customized solutions for our customers. • Further increasing our wide network of self-service terminals to remote areas.

STAKEHOLDER GROUPS	OUR GOALS AND ASPIRATIONS	OUR ENGAGEMENT
Our colleagues	Create the best working environment for our colleagues, in which people feel motivated, valued and safe	In order to better understand our employees' needs, we use different online channels including the intranet, a Facebook group and informal meetings with members of top management to keep our colleagues up-to-date with the Group's progress and strategy. Employees are also encouraged to share their views through internal forums. We also run an annual employee feedback survey in partnership with the leading international universities and research firms. The results are carefully analyzed by the Board and taken into consideration. In case a more detailed survey of employee opinion is needed, we form focus groups to understand the particular challenges of the department. Tsira Kemularia is the non-executive Director who has taken responsibility for engaging with employees across the Group, by meeting with key senior staff and at key staff briefing events. She reports back her meetings to the Board.
Our community and environment	Support the community through a wide range of CSR activities and actively manage our environmental and social impact.	As the largest bank in Georgia, we feel a responsibility to our community and strive to support areas which are key for the country and its future through a wide range of CSR activities. We also strive to preserve Georgia's cultural heritage and environment by conducting business in responsible and sustainable manner. In order to better understand the social challenges in our community, we conduct regular surveys among the Georgian population and, based on the results, plan respective CSR activities. We also actively cooperate with different educational institutions to support talented young people in their professional development. In terms of business development, we actively engage with entrepreneurs and business owners via our full-scale business support platform (www.tbcbusiness.ge).

KEY TOPICS DISCUSSED 2019	OUR RESPONSE AND IMPACT ON BOARD DECISIONS
The key topic raised during the year was the need for better communication about the Group's strategic priorities and initiatives, because as our Group continues to grow, employees can at times feel less connected to the Company. Many employees mentioned during informal meetings with management that, with the high pace of innovation and digitalization within the Group, a more informal environment with less bureaucracy and strict boundaries would be welcomed.	In order to raise our colleagues' awareness and understanding of the Group's key strategic initiatives, we have developed special introductory programs in relation to two of our important ongoing initiatives: the company wide agile transformation and the data management principle. More information is given in our colleagues section on pages 60-67. We also increased internal communication by involving the CEO to ensure employees feel as connected as possible to the Company. Every Friday, he meets with different departments informally and discusses the Group's strategy and goals with them. In addition, top management also holds regular meetings with employees regarding strategic initiatives. This year, we started an agile transformation project within the Group. This is a huge transformation in the bank culture, which aims to simplify processes and reduce bureaucracy as well as boost employee commitment and creativity.
The key issues raised through our various interactions with our community are the lack of free educational resources for the young generation, especially in STEM fields, limited support for entrepreneurs and the shortage of jobs in the economy.	In order to address the existing challenges in our community, we run several initiatives, including partnerships with different educational institutions as well as organizing wide-scale donation programmes, to support talented young people from vulnerable families. We also continue to actively enrich our business support platform with more useful business tools to support businesses to grow and prosper, which in turn will create new job openings.

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

OUR CUSTOMERS

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

RESPONSIBLE BANKING, DIGITAL ENGAGEMENT AND FINANCIAL INCLUSION

We are committed to providing our customers with responsible banking products and services that are well suited to their needs, simple to understand and have a straightforward fee structure. In addition, in January 2019, The National Bank of Georgia (the NBG) introduced the responsible lending regulation, which further supports appropriate access to credit for customers ensuring their long-term prosperity and growth. Furthermore, we actively participate in NBG's larization initiative, which aims to reduce the FX risk associated with local currency volatility among the Georgian population by encouraging lending in the local currency. In 2019, we issued GEL 669 million GEL-denominated mortgages and GEL 1,096 million consumer loans, while the share of Lari loans in the total retail portfolio increased by 4.8 pp to 47.2%[1] from December 2018, on a constant currency basis.

As we strive to make the lives of our customers easier, we operate an omni-channel distribution platform with a strong focus on digital channels, which enables our customers to conduct most of their daily transactions easily and remotely. Our award-winning mobile and Internet banking applications remain the most popular communication channels, accounting for 42.0% of all transactions. The other widely used channel is self-service terminals, which are spread all over the country, including areas with no easy access to physical branches, making banking accessible for people living in remote districts. At the end of 2019, 17.0% of all transactions were conducted through these terminals.

Furthermore, in order to deepen the relationship with our customers and expand our value proposition beyond financial services, in 2019, we started the development of customer-centric digital ecosystems. In 2019 we launched payments, housing and e-commerce ecosystems and are also actively developing an auto ecosystem. These digital platforms will enable our customers to receive a wide range of offerings needed on daily basis in the most convenient way, as well as empowering them to do business such as renting or selling apartments, cars and other goods. (Please refer to pages 43-51 for more information about our ecosystems).

We are also focused on developing innovative solutions that aim to embrace the unbanked Georgian population and micro businesses. In this regard, this year, we have introduced several new products in the MSME segment, including:

- Approving mini loans using tablets, which enables micro business owners, who are based in remote areas, to get loans approved on the spot, without going to branches; and
- The TPay application, a universal payment system enabling cashless transactions in micro merchants, mainly in rural areas, where currently only cash is accepted.

In addition, we use our advanced data analytics capabilities in order to develop personalized, affordable offerings to unbanked individuals considering their spending habits and disposable income.

CUSTOMER SATISFACTION

One of the most important values for TBC Bank, as a service company, is customer care, well-being and satisfaction. We regularly request feedback from our clients and use this information to analyse their needs and fine-tune our value proposition accordingly. We also pay special attention to our customers' concerns and have a dedicated department dealing with clients' complaints. We react promptly to each case and work closely with a customer to understand his/ her problem.

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

In order to reinforce our customer-centric culture, this year we conducted a bank-wide survey and identified employees who demonstrated exceptional customer care. These employees were recognized as service leaders and were awarded with special gifts.

1 or 48.8% at 31.12.2018 exchange rates


SERVICE
CHAMPION
SERVICE
CHAMPION

CUSTOMER PRIVACY AND DATA SECURITY

We are committed to safeguarding our customers' personal information and are constantly working on upgrading our control systems in order to ensure high-level customer privacy and data security. We use advanced information security technologies to identify and prevent any fraudulent activities. In order to minimise cyber security risks and detect cyber threats more effectively, we constantly enhance our defence system with artificial intelligence measures and techniques.

We are conducting external audits and threat intelligence led cyber-attack readiness exercises on a regular basis, which provides us with a practical view of our information and cyber security position. It also gives us a benchmark against international best practices and helps to define readiness levels against real-world cyber threats. We are using it as one of the inputs in our continuous improvement cycle. The latest review was conducted in 2019 by Deloitte UK, which confirmed that our critical systems ensure high reliability against cyber threats.

We also ensure full transparency about what we do with the personal data of our customers, employees, suppliers and business partners, and only process it for specific business purposes. At any time, individuals can request to change, limit or delete the personal data that we hold about them by contacting us via email at compliance@tbcbank.com.ge or by post. For this purpose, we have developed a Privacy Policy, which is in line with the requirements of the applicable laws, including Georgian regulation and certain relevant requirements of EU General Data Protection Regulation (GDPR), and carefully monitor compliance with it. The full policy can be found on our IR website at www.tbcbankgroup.com

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

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

SUPPORTING BUSINESSES DEVELOPMENT

TBC continues to be an important provider of financial services to MSMEs, which is a key driver of the country's economic development. In 2019, we provided around GEL 2,549 million lending to our MSME clients, up 26.0% compared to 2018. The main sectors financed were agriculture and trade.

As the revenue of most MSMEs is generated in Georgian Lari, we strive to provide them with accessible financial resources in local currency. This enables our clients to decrease their exposure to foreign exchange risk and ensures growth and prosperity in the long term. In 2019, 52% of all disbursements to MSMEs were denominated in the local currency.

In addition, we attract special purpose facilities from different international financial institutions to support young entrepreneurs, women-led MSMEs, businesses operating in rural areas, innovative projects, energy efficient and renewable energy products as well as foreign trade. The total amount disbursed under these projects amounted to around GEL 569 million as of 31 December 2019 . More information, about each facility could be found on our website under the press release section at www.tbcbankgroup.com.

Furthermore, we provide extensive non-financial support to MSMEs through our business support programme and assist business representatives with acquiring necessary competence, finding investors and partners, developing their activities and implementing modern technologies. More information about this programme can be found on pages 30-33 in the MSME section.


#1
BUSINESS
SUPPORTER
IN GEORGIA
TBC FOR BUSINESS

Engaged and happy colleagues are key to our successful and sustainable development. By fostering a collaborative and supportive working environment, we strive to create an agile culture, in which each employee is empowered to take more responsibilities and develop his/her full potential.

OUR COLLEAGUES

AGILE TRANSFORMATION

2019 was a big organizational transformation year for TBC as we made a big leap towards becoming an agile and flexible organization in order to react quickly to the fast-changing market environment and foster an innovative mindset among our employees. The agile reorganization process was successfully implemented in the retail, MSME and IT departments. The main purpose was to eliminate unnecessary processes and bureaucracies and build a more dynamic, adaptive and customer-centric culture. The new structure stimulates creativity and innovation by encouraging team members to take more responsibility and ensuring that everybody is focused on achieving a shared goal. We started the reorganization process by announcing job vacancies internally and allowing our employees to apply for the positions they desire. As a result, 30% of those employees who participated in agile transformation process applied and were hired for different positions, giving them opportunity to develop in a new field that is of more interest to them.

An agile structure allows us to create an exceptional working environment for our employees and give them more autonomy and room for creativity. For this purpose, we announced Friday as a "working outside the office day" to allow our employees to work in a more relaxed and comfortable atmosphere. Also, in an agile culture, mistakes are welcomed and are treated as part of the learning curve.

As feedback and coaching is an essential part of agile transformation, we conducted an intensive agile training for our employees in order to help them adapt to the new environment. In addition, we introduced 360-degree feedback, which provides each employee with the opportunity to receive balanced feedback from all parties and improve their professional performance and growth.

The first results of the agile transformation project are rather impressive. FTE productivity has increased by 10.0% in December 2019 compared to previous year, our organizational agility score[1] has improved by 4.3% and employee happiness[2] increased by 16.0% over the same period.

We plan to roll-out agile transformation across other departments during 2020.

ATTRACTING NEW TALENT

As people are our most valuable asset, we strive to attract the best talent by building and constantly updating the database of potential candidates. The selection process is comprised of several steps and is tailored to the specific needs of each position. Selected candidates are offered attractive employment conditions, which include a fixed salary and a performance based bonus a well as a good benefits package.

Since 2011, we have also run a wide-scale internship programme for the best students from Georgia's leading universities to give them an opportunity to gain experience and expand their knowledge. This programme has been very successful, helping us to identify new talents who are part of our team today. This year, 80 students were selected for an internship and 47 were employed in various departments including finance, risks, corporate, marketing, IT and data analytics. The biggest demand was for IT and data analytics specialists, given our strategic focus on digitalization and data analytics.

In 2019, TBC established IT Academy, the learning center for students with technical backgrounds, which offers extensive Front-end and Back-end bootcamp courses and aims to train the young generation in professions that are in high demand in today's highly digitalized era. Bootcamp courses are conducted by foreign trainers who have worked with Microsoft, Oracle, SAP and other global technology companies. This programme is free of charge for students and is fully funded by TBC Bank. Out of the 1,500 applications we received for this course, 117 students were selected for the course and 25 were employed at TBC Bank. To promote informational technologies among young people, we also organize meetups and hackathons for them.

This year we also introduced TBC Camp, a special learning programme for university students of finance, which aims to increase students' professional knowledge and awareness. Within this programme, this year we held a Stock Pitch Competition (SPC) for fourth year finance students in leading universities in Georgia. The project

1 Based on internal survey, which measures the company's ability to respond to the fast changing environment
2 Based on the internal survey

helps us to identify bright talents and recruit them into the corporate investment banking department. SPC is a unique project, which is integrated in the syllabus of the university curriculum. It is comprised of intensive on-site training and preparation of real investment cases in selected companies, which are presented to a panel of judges. As a result, students gain comprehensive practical experience in company valuation techniques as well as improve their presentation skills. In the future, we plan to continue holding many other projects within TBC Camp.

LEARNING AND DEVELOPMENT

Supporting the learning and development of our employees was identified as one of our key priorities this year. For this purpose, we developed several in-house educational programs to help our employees gain new skills and perspectives that are closely aligned to our strategic objectives and are needed for successful performance of their duties in today's fast changing technological era. The courses are conducted by experienced middle and top management staff members as well as leading professionals from the respective fields and are offered free of charge.

- **Business School** – offers a tailored course for corporate, finance and risk professionals which comprises both hard skills such as financial and risk modelling and soft skills including effective communication and presentation skills.
- **Agile academy** – offers a general course in agile and scrum methodology and aims to explain the benefits of an agile organizational structure with illustrative best practice examples.
- **Avalanche academy** – aims to increase general awareness within the company about the importance of big data analytics by presenting implemented case studies. It also offers advanced training in data science and engineering for newly recruited individuals to work in the data analytics department.

In addition, we continue to run TBC Academy, an in-house educational platform that was established back in 2011 and offers workshops and trainings in various fields such as financial institutions, capital markets, ethics and financial fraud management, as well as soft skills including leadership, customer service, business communication, team building and others. In total, during 2019, more than 4,300 employees attended various in-house trainings mentioned above.

Moreover, we provide financial support for our employees to attend various external courses and gain international certifications such as CFA, FRM, ACCA, as well as attend various professional trainings in leadership, management, sales, customer service, finance and risks. During 2019, more than 1,500 employees received financial support for their professional development. In addition, around 80 mid-level managers received trainings in soft skills such as leadership, people management and effective communication during the course of the year.

Since 2012, we have also offered TBC Scholarships to our middle managers to co-finance their studies abroad at the world's leading universities as well as at top Georgian Universities. In 2019, 10 managers received this scholarship.

To boost employee interest and motivation regarding self-development, we have also organized various masterclasses since 2017 for our colleagues all over the country, where leading Georgian professionals are invited to share their experience and knowledge. Since the launch, 7,800 employees have attended these events.

This year, another important initiative was to conduct an intensive, custom-designed strategic session for the top management and selected members of middle management at Stanford University Graduate School of Business. The program was specifically designed around TBC's long-term priorities with a focus on ecosystems, agile transformation and managing people and aimed to help TBC's management to view the business from a variety of perspectives and generate new ideas.

EMPLOYEE MOTIVATION AND ENGAGEMENT

We maintain our focus on increasing our employees' motivation by organizing various social activities for them, including internal clubs, championships and retreats. TBC club unites employees based on their interests and hobbies. As of December 2019, we have 10 such clubs, which bring together more than 2,000 employees. We organize internal championships in different fields, including the intellectual game "What? Where? When?" and various sports events. Since 2014, our employees have also participated in the Wings for Life World Run, a running competition that raises funds for research to cure spinal cord injuries. We also offer a vast range of non-monetary awards to our employees, including tickets for different events and special discounts. TBC provides branded back-to-school gift packages to the young children of our employees. We have a dedicated online brand shop for our colleagues, where various accessories and clothes are available. This year we also held a massive campaign across the bank related to the rugby world cup, in which the Georgian rugby team participated. We distributed rugby t-shirts and held online broadcast of rugby matches for our employees.

Since our employees' health is of the utmost importance to us, we have run TBC Fund since 2009. TBC Fund is a charity fund that was established to cover the medical expenses of our employees and their close relatives in case of severe diseases. 81% of our employees regularly donate up to 2% of their salaries and the fund has already helped more than 1,500 people since it was established.

In order to accurately measure our employee satisfaction and engagement levels, we annually run a feedback survey in partnership with leading international universities and research firms. The results of the survey are presented to the management board, thoroughly discussed and relevant actions planned.

STARTUP-LEAVE

As we aim to promote an innovative mindset throughout the company, this year we launched an unparalleled project in Georgia, Startup-leave. This initiative gives an opportunity to our employees to start their own startup by taking six months paid leave to develop their business. In June 2019, TBC Bank organized its first Startup leave challenge for its employees. Applicants were asked to present original business ideas that would support the development of the Georgian market. 24 teams participated in this competition and presented their ideas to the independent jury. In September 2019, three projects were selected:

- Inventors.ge – is an online platform that receives orders from people to buy new and used auto parts and delivers them to their home address
- Ge Parts – aspires to create an online platform that will offer auto parts for sale from many small retailers
- Soko – aims to create an online platform for organizing different events.

SOKO

The founder of "Soko" is Tornike Kachkachishvili, a digital services expert at the business mobile bank department. The idea is to create a platform that will help people to organize different events in a simple and comfortable way by connecting them with relevant service providers. The platform will be open to all interested parties and will provide information about the details and availability of different services as well as allow customer to rate the service providers, thus helping future customers to make more informed decisions.

"I am very thankful to TBC Bank for providing me with this unique opportunity. It has been my dream for a long time to try myself as an entrepreneur and now I have time to fulfil my aspiration." commented Tornike Kachkachishvili, a winner.

PERFORMANCE ASSESSMENT AND REWARD

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

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

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

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

As mentioned above, we offer competitive remuneration packages to our employees, which are comprised of fixed salary, performance based bonuses and a benefits package, which includes medical insurance, pension contributions, paid annual and sick leave, as well as six months of fully paid maternity and paternity leave. Additional benefits include monetary gifts in case of marriage and childbirth and compensation in the case of serious illness or death. Since 2013, we have also run a special club for large families, which aims to provide a one-time gift of GEL 10,000 to all TBC Bank employees upon the birth of their fourth and fifth child and GEL 50,000 upon the birth of their sixth child or more. Since the establishment of the club, we have granted more than GEL 1 million to 56 employees.

We operate a deferred share bonus scheme for our middle managers whereby 15%-25% of the total annual remuneration is paid in the form TBC PLC shares which are subject to a three year continued employment condition and holding period: 33% and 33% are awarded on the first and second anniversaries respectively, and the remaining 34% on the third anniversary. This scheme encourages a long-term commitment to the company and helps to align middle managers' interests with those of the shareholders. In 2020, 100,931 shares were awarded as bonus shares to middle managers. In addition, this year we introduced deferred share bonus scheme for our employees who are part of the agile structure, whereby 10% of the total annual remuneration is paid in the form TBC PLC shares which are subject to three year continued employment condition and holding period as mentioned above. In 2020, 42,709 shares were awarded as bonus shares to such employees. (Detailed information regarding the directors' remuneration system can be found in the remuneration report on pages 151 to 179.)

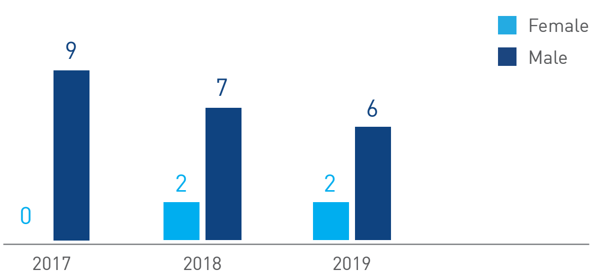
EQUALITY AND DIVERSITY

We have created a sustainable and successful business in which all employees are treated equally and fairly and are supported and coached to succeed. We provide a safe work environment free from any kind of discrimination and each and every employee is valued, respected and treated equally regardless of gender, age, marital status, sexual orientation, race, ethnicity, religious and political beliefs or disability. We take special care of our colleagues with disabilities and strive to improve our workplace to make it more flexible for them. Furthermore, we support them to have the same access to learning, development and job opportunities.

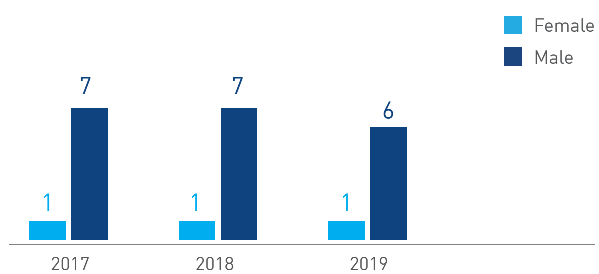
We remain committed to having a gender-balanced workforce through a workplace environment and culture that supports and empowers women. As a result, 65% of employees at TBC Bank are women while the share of women in senior roles is 35%. We plan to further improve the gender balance across managerial positions.

Gender diversity statistics

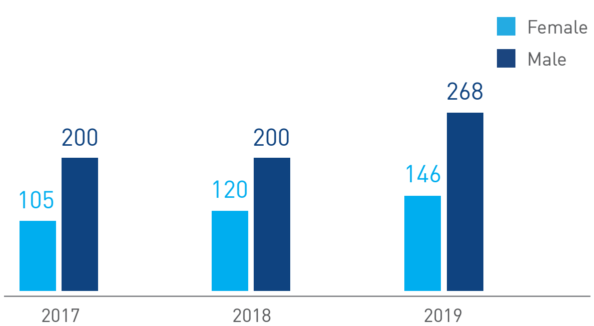
BOARD OF DIRECTORS



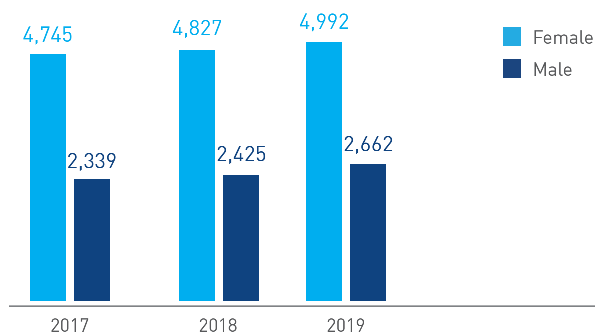
SENIOR MANAGEMENT



MIDDLE MANAGEMENT*

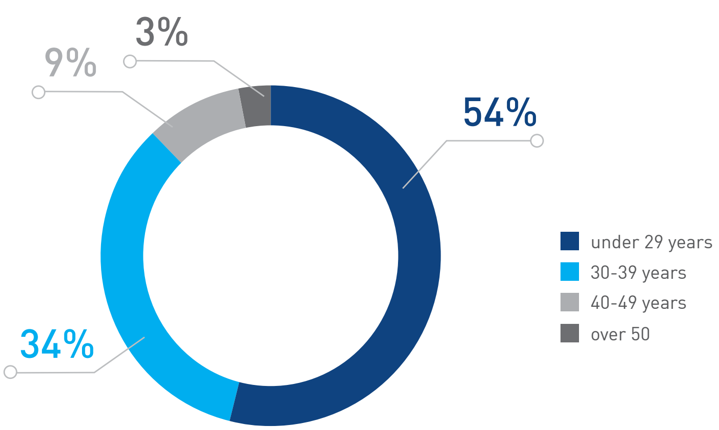


ALL EMPLOYEES



We also have a good mix of people comprised of employees with extensive working experience and young and bright talents with innovative and fresh ideas who have just graduated from top universities in Georgia and abroad. We believe that age diversity creates a more dynamic and high-performing team that leads to better results.

AGE DIVERSITY STATISTICS OF 2019



* Direct reports to senior management

GENDER PAY GAP

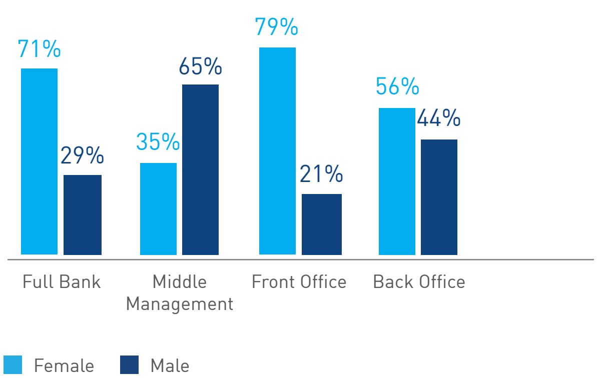
We regularly review our pay levels and make sure that men and women are paid equally for doing the same type of job.

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

In 2019, the change in the median gender pay and bonus gaps of back office employees in favor of men is related to the high number of employees being recruited at IT positions, who are predominantly men.

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

GENDER DISTRIBUTION ACROSS DIFFERENT POSITIONS[1]



GENDER PAY AND BONUS GAP STATISTICS[2]

Gender pay gap is based on the data from April 1, 2019 to April 30, 2019.

Gender bonus gap is based on the data from April 6, 2018 to April 5, 2019.

TABLE 1

Bank Full	2019	2018
mean gender pay gap in hourly pay	44.4%	48.9%
median gender pay gap in hourly pay	46.5%	43.0%
mean bonus gender pay gap	56.6%	53.7%
median bonus gender pay gap	57.8%	52.4%

TABLE 2

Middle Management	2019	2018
mean gender pay gap in hourly pay	-7.3%	-21.4%
median gender pay gap in hourly pay	-14.9%	-13.4%
mean bonus gender pay gap	-40.0%	-33.9%
median bonus gender pay gap	-82.4%	-104.2%

TABLE 3

Front Office Employees	2019	2018
mean gender pay gap in hourly pay	50.2%	50.8%
median gender pay gap in hourly pay	52.5%	54.4%
mean bonus gender pay gap	66.5%	64.5%
median bonus gender pay gap	71.5%	65.5%

TABLE 4

Back Office Employees	2019	2018
mean gender pay gap in hourly pay	21.8%	29.6%
median gender pay gap in hourly pay	19.7%	-7.7%
mean bonus gender pay gap	30.5%	20.2%
median bonus gender pay gap	20.5%	-11.3%

ETHICAL STANDARDS, RESPONSIBLE CONDUCT AND SAFETY AT WORK

TBC Bank is committed to running a business that promotes high ethical standards, values and respect toward human rights, as well as by encouraging our employees to act with integrity and responsibility towards each other and other stakeholders.

In 2019, we updated a set of internal policies and procedures and we closely monitor their execution:

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

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

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

Compliance with the Group's Code of Ethics and Code of Conduct is closely monitored by the HR Department and Compliance Department on a regular basis. The Internal Audit Department also conducts periodic audits in order to identify any breach or misconduct in relation to compliance with these policies. No material breaches of the Group's Code of Ethics and Code of Conduct were identified during 2019.

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

To ensure employees' protection and improve working conditions, we have a Whistleblowing Policy in place, available to all, which aims to identify and respond to potential violations that may jeopardise employees' work effectiveness. The policy encourages every staff member to report on any suspected violations in an open manner, without fear of retaliation. In addition, TBC Bank provides channels for anonymous whistleblowing (including hotline, email or letter) for anyone who believes that a violation of internal standards or legal requirements has taken place but is uncomfortable using the normal reporting lines. Our guidelines seek to ensure that complaints are recorded and that employees are safeguarded from any potential retaliation. This year we received 41 whistleblowing reports, which were reported to the Risk Committee, which in turn reported to the Board.

The Compliance Department regularly conducts employee training sessions in order to raise awareness and highlight the importance of anti-corruption, anti-bribery and ethical issues. Periodic audits are also conducted by the Internal Audit Department to identify any violations or inappropriate behavior. No such material instances were identified during 2019.

We are constantly improving the working conditions for our employees and strive to create a safe and comfortable environment. In October 2019, TBC Bank hired an independent consulting company specialized in labour safety issues. The company will help us to significantly enhance our health and safety policy across the group and implement the necessary measures to improve working conditions. We also started conducting trainings for employees to raise their awareness about health and safety issues.

1 The data in the given table is presented for the bank only
2 The data on gender pay gap is presented only for the bank, which accounts for the 82.0% of the total Group's employees. Negative gap indicates a percentage pay gap in favor of women, while positive gap indicates a percentage pay gap in favor of men

OUR COMMUNITY

We acknowledge our role and responsibility to Georgian society and are actively involved in developing the following areas: the young generation, arts & culture and sport.

YOUNG GENERATION

We remain committed to supporting young talents in their professional development and continue launching new projects and initiatives in this regard.

Since 2016, TBC Bank has been the main partner of the Young Researchers and Innovators Competition Leonardo da Vinci, an annual event that aims to popularize science, technology, engineering and math (STEM) among the young generation. This is a large-scale event which is held among high-school students all over the country. Participating teams are requested to present an innovative scientific idea that is supported by comprehensive research and experiments. This year was highly competitive as 45 students participated in the competition. The winning team received a one-year scholarship from TBC Status, our affluent retail segment, to implement their project.

In 2018, in partnership with the Millennium Innovation Award, TBC held a nationwide challenge that aimed to promote innovations in STEM fields among youth throughout Georgia. In 2019, TBC provided financial support to send the winning team to the Space Center University at the NASA Space Center in Houston, USA.

TBC Bank is also supporting children's festivals that unite diverse educational and entertainment activities. This year, we partnered with Tbilisi International Book Festival, which exhibits and sells a large variety of Georgian and international literature. This book fair is a large-scale event and is visited by many people from large cities as well as Georgian regions.

In addition, since 2017, we have run an online charity platform, www.statusdonates.ge, that strives to support young talents and promote success. The platform features different stories of people in need or specific projects. Short movies are made on each story and uploaded to the platform. Since the launch, the programme has financed 45 projects in the amount of GEL 170,000 and has improved the lives of over 90 people.

At the end of 2018, we also introduced a new project called "TBC scholarship", which aims to support young, talented people from vulnerable families, in different fields including sport, science and arts. Since the launch, more than 200 Georgian young, talented people have received annual scholarships in order to develop their knowledge and skills and become successful professionals.

ARTS & CULTURE

TBC is one of the major supporters of culture and art in Georgia. In this regard, we continue to promote both cultural institutions and individual creative projects.

Our stellar project this year was the celebration of David Kakabadze's 130th anniversary in partnership with the David Kakabadze Foundation. David Kakabadze was a prominent Georgian painter, scientist, inventor and one of the founders of Georgian modernism. The anniversary was celebrated with a multi-stage project:

- Gallery that united paintings, notes and sketches from state arts institutions as well as from the artist's family and private collections;
- TBC Art Gallery hosted a multimedia project called GAMMA. As part of the project, three young Georgian artists created audiovisual spatial installations in digital media based on inspirations from David Kakabadze's concepts;
- We published the anniversary edition of the David Kakabadze catalogue, which fully reflects the range and scale of the artist's research and methods;
- TBC Bank supported the establishment of David Kakabadze's archive, which comprises the artist's paintings and historical documents;
- We supported digitalization of the artist's works in different museums and theaters all over the country in order to facilitate open and modern access to Georgian heritage;
- This year, we also launched BAZA, an interdisciplinary educational platform that tends to promote knowledge sharing in the fields of contemporary art, science and research. BAZA connects young artists and professionals, as well as people interested in science, art and culture. The first symposium was dedicated to David Kakabadze's 130th anniversary.

In 2019, TBC became a partner of the National Museum of Georgia and will support the opening of a new modern museum in Vani, which is an ancient town in Georgia. The new museum will present various artefacts that were found at antique archeological sites.

Another important event was organizing a photo exhibition of Guram Tsibakhashvili, the famous Georgian photographer. The exhibition depicted Georgian history of the 1990s and aimed to raise public awareness of this post-soviet period.

In terms of our long-term projects, we continue to support Georgian literature and the Georgian alphabet:

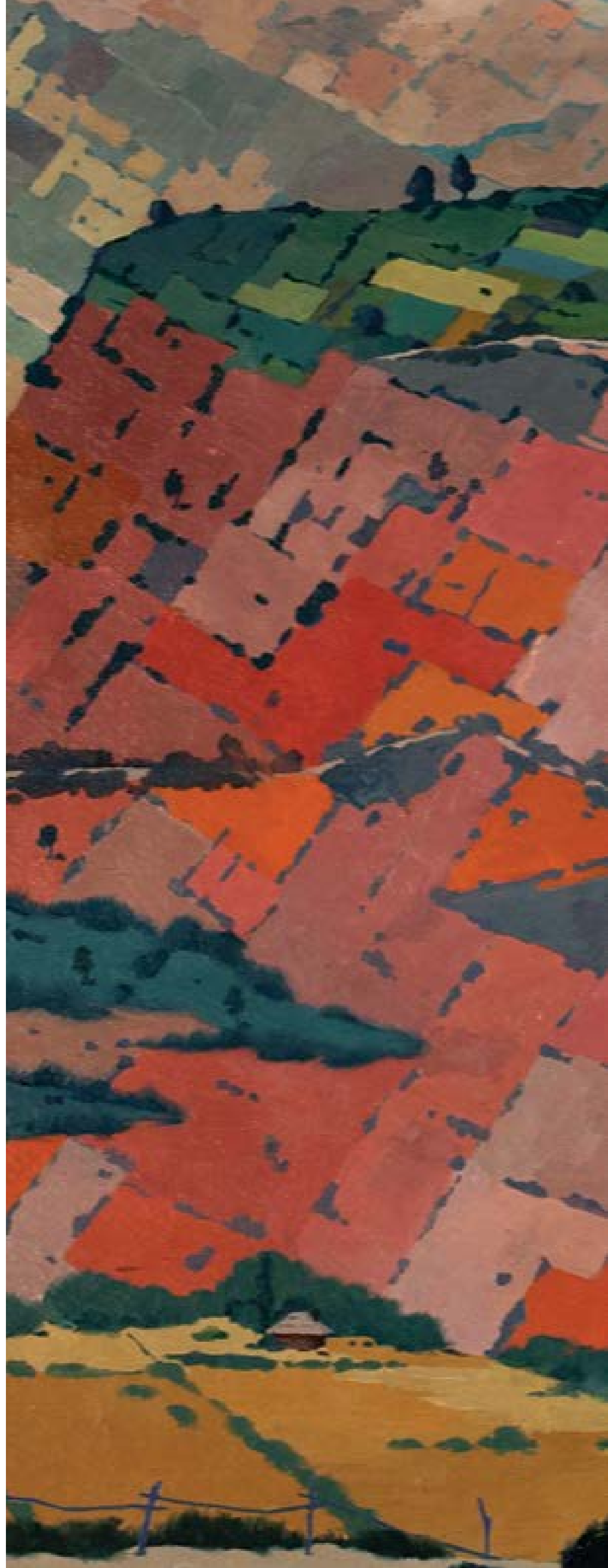
- Saba is the leading literary award in Georgia, which we established back in 2003. Since its inception, Saba has awarded more than 160 prizes in different categories for a total amount of over GEL 750,000. We also run www.saba.com.ge, the largest online platform for Georgian electronic and audio books. This website provides access to 6,000 electronic books and has attracted c. 190,000 readers, both in Georgia and abroad. This year Saba held its seventeenth awards ceremony;
- To popularize the Georgian language and to integrate the Georgian alphabet into the digital world, in 2016 we launched #WriteinGeorgian. As part of this project, we collaborated with Microsoft in 2017 to create www.kartulad.ge, the first Georgian-language platform that aims to integrate the Georgian language into Microsoft's programmes and software such as Skype, Office, and others. The platform encourages the Georgian population to engage with the website and translate sentences taken out of Georgian literature. In 2019, under this project, we held the second competition in Georgian fonts, which aims to popularize and develop the Georgian alphabet. As many as 200 works by Georgian calligraphers participated in the competition, out of which the 16 best fonts were selected to be digitalized and will become available to public.

SPORT

TBC has been the general sponsor of Georgian Rugby Union since 2015. As the country's national game, rugby is close to the heart of Georgians and promotes Georgia's image on the international stage. We are proud to contribute to the development of rugby in Georgia and are committed to supporting our national rugby team. Within our partnership with Georgian Rugby Union, we strive to raise public awareness of rugby and conduct various campaigns including issuing special rugby cards for our customers and sponsoring the "Win a Trip to Japan" campaign. We also support young talents in rugby and in 2019, for the first time, we organized a rugby camp for 27 young rugby players with outstanding skills.

DAVID KAKABADZE

David Kakabadze's Project was awarded the Cross-Sector Partnership Award from Meliora, Georgia's Responsible Business Awards 2019




KAKABADZE

OUR ENVIRONMENTAL AND SOCIAL MANAGEMENT

We are strongly committed to conducting our business in a responsible and sustainable way and take active measures to manage the environmental and social risks associated with our direct and indirect activities. This approach enables us to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures to mitigate climate change.

Our Environmental Policy governs our Environmental Management System (EMS) within the group and ensures that we comply with applicable environmental, health and safety and labour regulations and use sound environmental, health and safety, and labour practices, as well as take reasonable steps to make sure that our customers also fulfill their environmental and social responsibilities. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com).

The Environmental Policy:

- Defines the environmental aspects and impacts of our business activity;
- Elaborates and develops measures to minimize our negative impact on the environment;
- Takes efficiency and responsible resource management into account;
- Ensures our compliance with the applicable environmental, health, safety and labour regulations;
- Raises awareness among our staff;
- Prevents the Bank from financing businesses that have a negative effect on the environment and society;
- Promotes sustainability finance among our clients

TBC Bank has a dedicated Environmental and Social Risk Management (ESRM) team, which is comprised of full-time employees. Our ESRM team is responsible for overseeing the implementation and operation of our EMS and for reporting environmental management plans and results to the Environmental Committee on a quarterly basis. Our ESRM team is part of SME and Corporate Business Credit Risk Department, which reports directly to the Chief Risk Officer.

Our EMS is based on four directions/pillars:

- Internal environmental measures;
- Environmental and social risk management in lending;
- Sustainable finance;
- External communication.

Pillar I - Internal Environmental Measures:
Since banking is not a high-polluting activity, the implementation of an internal environmental management system to address the Group's resource consumption is not expected to have a significant impact on the surrounding environment. However, TBC Bank has reviewed all of the operational activities, procured items, and outsourced services that it can control (present and planned), and has identified all of the material environmental aspects relevant to the business. These are sub-categorised into indirect and direct environmental aspects, analyzed based on a comprehensive scorecard, and managed accordingly.

As a premium-listed company trading on the LSE, TBC Bank is required to calculate and report upon the greenhouse gas (GHG) emissions stemming from its direct operations. For this purpose, TBC Bank has established a comprehensive internal environmental system to manage its GHG emissions within the Group and is committed to reducing its GHG emissions by closely monitoring its consumption of energy, water and paper. A guideline for the documentation of environmental data was elaborated and responsible staff members were assigned for data collection, including defined frequency and indicators. TBC Bank also commissioned an independent Health, Safety, Environment (HSE) consulting company, G&L Management LTD, to verify the measurements of its GHG emissions.

	Total CO2 Emissions (tonnes)			KPIs
Data for the FY	**2017**	**2018**	**2019**	**2020**
Scope 1* Fuel Combustion (heating, vehicles,generators)	2,409	2,584	3,164	-7%
Scope 2 (Electricity consumption)	1,375	1,391	1,260	-4%
Scope 3 (International flights)	366	644	697	-
Total emissions (tCO2)	**4,150**	**4,619**	**5,121**	**-5%**
Total emission per full time employee (CO2t/pp)	**0.60**	**0.65**	**0.69**	**-5%**
Water consumption per employee (m3/pp)	12.36	13.49	11.90	-6%
Printing paper per person in reams	23.52	11.20	11.11	-3%

*Scope 1:
a) 1,443 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2019 compared to 1,483 CO2e in 2018 and 1,538 CO2e in 2017.
b) 1,631 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2019 compared to 1,013 CO2e in 2018 and 763 CO2e in 2017.
c) 90 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2019 compared to 88 CO2e in 2018 and 108 CO2e in 2017.

In 2019, total GHG emissions increased by 11% mainly due to higher consumption of fuel from TBC owned vehicles. This was mainly related to our subsidiary, TBC Pay, which added 130 vehicles driven by increased network of self-service terminals.

Total water consumption of TBC PLC was decreased by 12%, mainly due to prevention of leakages which occurred on different premises.

In 2020, we aim to reduce total emissions by 5% by implementing the following measures: raising staff awareness towards electricity and gas consumption, closely monitoring central heating systems as well as increasing the share of electric vehicles in total distance traveled. As for water consumption, we are planning to install more water pressure regulators on selected premises, which will enable us to prevent water leakages.

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

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

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

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

In order to ensure full compliance with local environmental regulation, TBC Bank conducts internally environmental legal check on annual basis. Our environmental legal register details the specific legal and other requirements applicable to TBC Bank, and shows how the requirements apply to TBC Bank's environmental aspects. The last updates of the environmental legal check was conducted in September, 2019.

Additionally, the following documents were enhanced and approved during the year:

- **Green Procurement Recommendations** – the document defines the general procurement recommendations within the company and also highlights product groups where environmentally friendly or energy efficient goods have to be given priority over the normal goods. Environmental clause was added in the procurement agreement which defines requirement of the compliance with local health, safety and environmental standards. As a part of the supply chain development project, the check-list of environmental and social risk assessment for long term suppliers was created and the evaluation of suppliers against this checklist was conducted on a regular basis. In 2019, several spot-checks were held to determine appropriate corrective action plans. This process will continue during 2020.
- **Waste Management Guideline** – this document describes the categories of waste that are separated and managed by TBC Bank, the guidelines for waste categorization, as well as frequency and method of collection. In 2019, as a part of the waste management pilot project, we equipped our head-office buildings with waste separation bins. Moreover, a memorandum was signed with a specialized service provider to deliver separated waste to recycling companies. The shredded paper is then delivered to a company that produces books that are later delivered to libraries in the mountainous regions of Georgia. Glass/cans are taken to re-processing plants, while plastic is shredded for the export abroad for further recycling and the production of granules. Currently, we are working with a service provider to add special e-waste bins at our head office premises. The waste management projects will be expanded to our branches next year.

The bank also operates a green car fleet. Around 70% of the bank's vehicles are hybrid and electronic cars, leading to an approximately 30% reduction in the monthly use of fuel. Within the project's scope, electric chargers have been installed in 14 locations in Tbilisi and the regions, which can be used by TBC employees and clients as well as the public. In future, it is planned to increase the number of electronic chargers.

Furthermore, in order to raise staff awareness of environmental issues, we conduct annual seminars and provide regular updates on our environmental activities to our colleagues. In 2019, all bank employees conducted the mandatory online EMS e-learning course and successfully completed the self-evaluation test.

Pillar II - Environmental and Social Risk Management in lending

For all commercial transaction, TBC Bank endeavours to ensure that customers demonstrate an organized and systematic approach to environmental and social risk management and comply with local and national environmental, health and safety, and labour regulations and standards.

For this purpose, TBC Bank has developed Environmental and Social Risk Management (ESRM) Procedures to ensure that appropriate, risk-based, sector specific, environmental and social risk assessment is applied to its commercial lending activities. These procedures are fully integrated into the credit risk management process in TBC Bank and are applied to all commercial lending. The procedures incorporate appropriate consideration of IFC's Performance Standards (PSs), EBRD's Performance Requirements (PRs) and ADB's Safeguard Requirements (SRs).

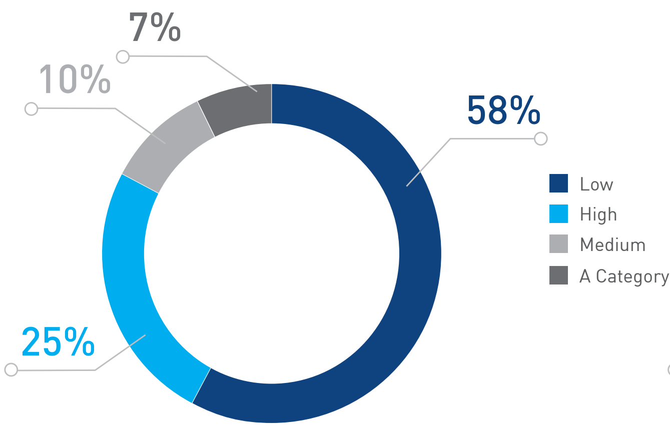
These procedures include:

- transaction qualification and the risk categorization;
- identification and appropriate assessment;
- mitigation and control; and
- monitoring and reporting of environmental and social risks.

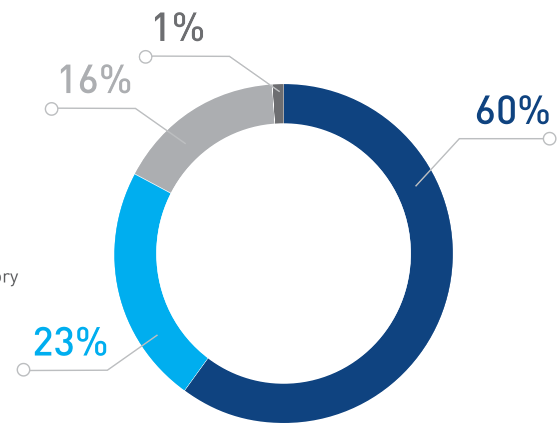
By assessing and monitoring the environmental and social impacts as part of the credit risk analysis of business clients, incentivizing the use of environmental best practices in their businesses and engaging in sustainability financing, TBC Bank strives to mitigate the negative environmental impact of the financed businesses.

Business loans

E&S RISK CATEGORIES BY LOAN VOLUME AS OF 31 DECEMBER 2019



E&S RISK CATEGORIES BY NUMBER OF LOANS AS OF 31 DECEMBER 2019



Low Risk - transactions with minimal or no adverse social or environmental impacts, which are not generally subject to further assessment (beyond their identification as such) except for the requirement for customer's [assent/certification/disclosure] of compliance/non-compliance with local and national environmental, health and safety and labour laws and regulations.

Medium Risk – transactions with limited potential for adverse social or environmental impacts that are few in number, generally site-specific, largely reversible, clearly evident at the time of the assessment, and readily addressed through mitigation measures, which typically require a limited or focused environmental and/or social assessment, or straight-forward application of environmental sitting, pollution standards, design criteria, or construction standards.

High Risk – transactions with potential highly significant, negative and/or long-term environmental and/or social impacts, the magnitude of which may be difficult to determine at the loan application stage, which typically require analysis of environmental and social risks and impacts in the context of the total area of influence of the customer's operations. As part of the risk assessment, the client will identify individuals and groups that may be differentially or disproportionately affected by its operations.

Category A - with potential significant adverse social(2) or environmental impacts which may be diverse, irreversible or unprecedented. The assessment of which usually requires the inputs of independent external experts, and may require the involvement of IFI E&S specialists in the due diligence assessment process.

To successfully implement ESRM procedures, TBC Bank conducts regular training of relevant credit officers in collaboration with International Financial Institutions (IFIs) and relies on the use of a variety of publically available environmental and social risk management tools, including, but not limited to: local regulations; EBRD's Environmental and Social Risk Management Manual (e-Manual v4.0); a website supported by IFC https://firstforsustainability.org/; FMO's sectoral guidelines for environmental and social risk (further E&S) assessment; and ADB's ESMS Template for Banks and Funds, which are unified in sector specific Environmental Social Due Diligence (ESDD) forms developed by TBC Bank.

The latest update of ESRM procedures in collaboration with our partner IFIs was conducted in the first quarter of 2019. The following amendments were implemented:

- business sector categorization (sector/industry/sub-industry) was synchronized with IFIs' E&S risk categorization list;
- a summary of IFIs' sector specific guidance notes and local legal requirements were integrated in the respective ESDD forms;
- E&S risk categorization and reporting was integrated in the software, including a random selection function for the quarterly E&S monitoring of disbursed loans;
- a list of legal requirements (licenses and permits) by sectors was created.

The automation of the E&S risk assessment process provides more flexibility for staff and limits their manual work, which in turn reduces errors and mistakes during the risk classification and selection process.

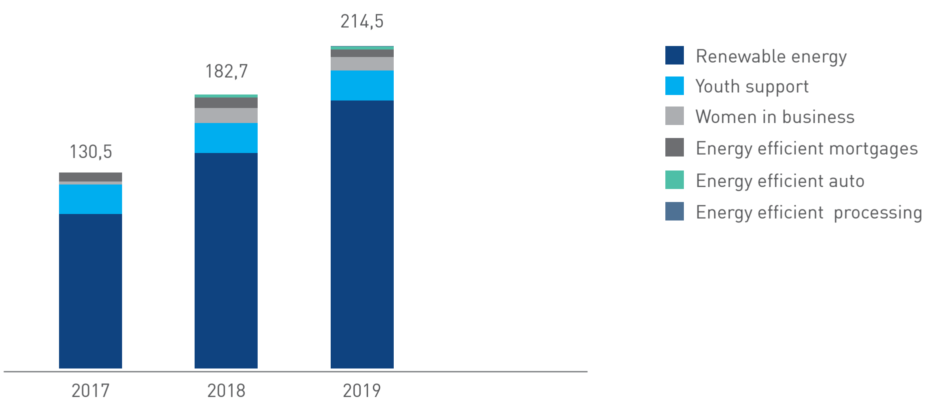
In order to communicate the above-mentioned amendments to employees, 12 extensive E&S training sessions were held and 96 employees were trained, including SME Credit Officers, Credit Analyst, Credit Risk Managers and Business SME Lending/Sales Coordinators. Furthermore, our ESRM team members successfully passed IFC's sustainability training and e-learning program (STEP) online courses and were awarded certificates.

As part of the supply chain development project, TBC Bank conducted several activities in partnership with its lenders and IFIs, in order to raise public awareness of ESG issues:

- On 27-28 June 2019, TBC and FMO held a two-day International E&S Masterclass in Tbilisi, which was conducted for the first time in the Caucasus Region. The event was attended by E&S risk staff from local commercial institutions in Georgia as well as by bank representatives from Azerbaijan, Armenia and Uzbekistan. TBC and FMO presented existing E&S risk management standards and best practices, conducted interactive discussions on case-studies and held group-work exercises, including site-visits and field trips;
- "Doing Makes the Difference" – FMO and TBC delivered a public lecture on E&S risk management issues to students at ISET - International School of Economics;
- TBC and GCPF held a two-day training workshop on financing the Energy Sector (Renewable Energy Project) on 25-26 July, 2019. Christian Erich Grutte, an international energy expert, provided seminars about renewable projects finance to our clients.

Pillar III - Sustainable finance
TBC Bank is committed to sustainable lending development within the company and is actively involved in developing a standardized approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing for individuals and business clients. For this purpose, we cooperate with Green for Growth Fund (GGF) to conduct local market research and set benchmark for green finance to streamline and considerably enhance existing green lending operations within the company through the establishment of dedicated green lending guidelines. In addition, we are building in-house expertise, and our head of the ESRM team has successfully completed Renewable Academy online course in Green Finance Expert certification, which was provided with GGF TA support. In addition, our ESRM and Debt Capital Market team members participated in IFC's Green Bonds and Sustainable Finance Executive Program.

THE BANK'S BREAKOWN OF SUSTAINABLE LOAN PORTFOLIO IN MILLON US$



Note: Our sustainable finance portfolio includes loans financed by special purpose funds received from IFIs except for the renewable energy, which includes all hydro power plants finance by the bank.

Pillar IV - External Communications
Transparency and open communication are an essential part of our daily activities. The feedback and recommendations received from our stakeholders and other interested parties enable us to continuously improve our performance. In doing so, we have developed a grievance mechanism to enable interested parties to provide their complaints in regards to E&S issues. Records of all communication are stored, including responses according the TBC Bank's Procedure for addressing external E&S queries and concerns. Interested parties may submit their query on the webpage: http://www.tbcbank.ge/web/en/web/guest/e-s or to the following e-mail address: E&Srisk@tbcbank.com.ge. During 2019, no such complaints were received with regards to environmental and social issues.

TBC Bank also takes active part in supporting the development of environmental and social regulation in the country. Our ESRM team is a member of the regular environmental committees organized by the American Chamber of Commerce in Georgia, the Business Association of Georgia (BAG) and the Business and Economic Centre.

In 2019, our ESRM team also took part in a workshop that was jointly organized by the Ministry of Economy and Sustainable Development of Georgia and the German Society for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH), which aims to support the development of national climate resilient economic strategies and the introduction of respective macroeconomic modelling tools, to achieve effective adaptation plans in Georgia.

Outlook
In order to ensure the credibility of our Environmental Management System, we have launched a preparatory project to obtain certification according to ISO14001:2015 standards, which is expected in 2020.

RATINGS

MSCI ESG RATING

In 2019, TBC Bank Group received a rating of A (on a scale of AAA-CCC) in the MSCI ESG Rating assessment.

MSCI
ESG RATINGS

A

CCC	B	BB	BBB	A	AA	AAA

DISCLAIMER STATEMENT

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SUSTAINALYTICS ESG RATING

TBC Bank Group PLC holds 20.6 ESG rating as of 17 December 2019

SUSTAINALYTIC

20.6 MEDIUM RISK

NEGLIGIBLE	LOW	MEDIUM	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

RELATIVE PERFORMANCE	Rank (1st = lowest risk)	Percentile (1st = lowest risk)
Banks (Industry Group)	**83** out of 934	**10th**
Regional Banks (Subindustry)	**11** out of 386	**4th**

ISS ESG SCORE

ISS ESG

As of 1st February 2020, TBC Bank Group attained the following scores for

- 2 Governance
- 3 Environment
- 2 Social

Lower Governance Risk = 1   Higher Governance Risk = 10
Higher E&S Disclosure = 1   Lower E&S Disclosure = 10

ENERGY EFFICIENCY AWARD, INVESTMENT IN FOOD PRODUCTION

Liderfood LLC

Liderfood is one of the key players in the Georgian meat production market with about a 25% market share, producing sausages, ham, semi-finished products such as meat dumplings etc. Since its establishment in 2008, Liderfood was located in an old building. In 2016, TBC disbursed a loan to the Liderfood to renovate and rebrand the company, as well as invested in a new energy efficient building for the production line.

Within the project, the company acquired new refrigeration equipment and constructed a completely energy efficient building with total investment amounting to US$ 0.5 million. As a result, Liderfood saves 657 MW/h energy annually and its CO2 emission is reduced by 335 tons annually.

ENERGY EFFICIENCY AWARD, INVESTMENT IN ENERGY SECTOR

Shilda HPP

In 2012, TBC Bank financed Energy LLC, a leading manufacturing company in Georgia focused on renewable energy projects, to build Shilda hydro power plant (Shilda HPP). The capacity of Shilda HPP is 5 MW and produces 32 GWh of electricity annually. Within the project, the company purchased turbines, generators and other electrical equipment.

By producing 32 GWh of electricity, Shilda HPP could reduce more than 10,000 tons of CO2 emissions in Georgia annually.

EBRD AWARDS

In recognition of our commitment to financing green projects under EBRD's Green Economy Financing Facility, this year we received a distinguished award from EBRD for our brilliant performance in the corporate banking sector and our contribution in promoting Green Finance in Georgia.

In addition, our clients Liderfood and Shilda also received energy efficient awards from EBRD.

MELIORA AWARD

TBC Bank won GREEN INITIATIVE AWARD for its “Green Car Fleet” project from Meliora, Georgia’s Responsible Business Awards 2019

NON-FINANCIAL INFORMATION STATEMENT

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

NON-FINANCIAL INFORMATION	PAGES
The entity's business model	Business model and strategy, pages 12 to 17
Environmental matters	Our environmental and social management, pages 72 to 83
Employees	Our colleagues, pages 60 to 67
Social matters	Our community, pages 68 to 71
Human rights	Ethical standards, responsible conduct and safety at work, page 67
Anti-corruption and anti-bribery	Ethical standards, responsible conduct and safety at work, page 67
Non-financial key performance indicators relevant to the entity's business	Key performance indicators, pages 18-19
Description of principal risks and mitigations	Material existing and emerging risks, pages 84 to 92


WHY? HOW? WHAT?
KEEP THIS ALWAYS IN MIND! - ALWAYS TRY
TO SEE A BIGGER PICTURE!

Risk management is a critical pillar of the Group's strategy. It is essential to identify emerging risks and uncertainties that could adversely impact the Group's performance, financial condition and prospects. This section analyses the material principal and emerging risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by risks and uncertainties other than those listed below. More details regarding risk management practices can be found on pages 93-107.

The Board has undertaken a robust assessment of both the principal and emerging risks facing the Group and the long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting. For more information, please see the Going Concern and Viability Statements on pages 134-135.

PRINCIPAL RISK AND UNCERTAINTIES

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

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

Risk description

Credit risk is the greatest material risk faced by the Group, given the Group is engaged principally in traditional lending activities. The Group's customers include legal entities as well as individual borrowers.

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

Risk mitigation

A comprehensive credit risk assessment framework is in place with a clear segregation of duties among the parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision-making process for smaller retail and micro loans is largely automated. The rules for manual and automated underwriting are developed by units within the risk function, which are independent from the origination and business development units. In the case of corporate and SME borrowers, the loan review process is conducted within specific sectoral cells, which accumulate deep knowledge of the corresponding sectoral developments.

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

The Group's credit portfolio is structurally highly diversified across customer types, product types and industry segments, which minimizes credit risk at Group level. As of 31 December 2019, the retail segment represented 39.9% of the total portfolio, which was split between mortgage and non-mortgage exposures 62.7% and 37.3%, respectively. No single business sector represented more than 8.6% of the total portfolio at the end of 2019.

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

The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2019, 72.5% of the Group's portfolio was secured by cash, real estate or gold. A sound collateral management framework ensures that collateral serves as an adequate mitigating factor for credit risk management purposes

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

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

Risk description

A significant share of the Group's loans (and a large share of the total banking sector loans in Georgia) is denominated in currencies other than GEL, particularly in US$ and EUR. As of 31 December 2019, the local regulator, the National Bank of Georgia ("NBG") reported that 55.4% of the total banking sector loans were denominated in foreign currencies. As of the same date, 58.7% 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 the foreign currencies via remittances, tourism or exports. Nevertheless, customers may not be protected against significant fluctuations in the GEL exchange rate against the currency of the loan. The US$/GEL rate remained volatile throughout 2019 and GEL weakened 7.1% YoY. The GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in its depreciation.

Risk mitigation

Particular attention is paid to currency-induced credit risk, due to the high share of loans denominated in foreign currencies in the portfolio. The vulnerability to exchange rate depreciation is monitored in order to promptly implement an action plan, as and when needed. The ability to withstand certain exchange rate depreciation is incorporated into the credit underwriting standards, which also include significant currency devaluation buffers for unhedged borrowers. In addition, the Group holds significant capital against currency-induced credit risk, as also shown by the regulatory stress test. Details of the stress testing are described on page 135.

Given the experience and knowledge built throughout the recent currency volatility, the Group is in a good position to promptly mitigate exchange rate depreciation risks. In January 2019, government authorities continued their efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000, under which loans must be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers, further limiting their exposure to currency induced credit risk. The NBG eased the above mentioned regulation from April 2020. The changes is more relevant to hedged borrowers. For unhedged borrowers PTI and LTV thresholds will stay significantly more conservative.

As a result, FX denominated loans in the retail segment decreased to 52.8% in 2019 compared to 56.1% in 2018.

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

A slowdown of economic growth in Georgia and political instability related to the upcoming parliamentary elections could 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 portfolio growth rates. Negative macroeconomic developments could compromise the Group's performance through various parameters, such as exchange rate depreciation, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralisation, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in the neighbouring countries and main trading partners could negatively impact Georgia's economic outlook through a worsening current account (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

Risk description

According to the Geostat, real GDP increased by 5.1% in 2019. A slightly more than 5.0% economic growth for the full year 2019 once more underlines the resilience and high growth potential of the Georgian economy. This growth is particularly encouraging on the backdrop of the challenges that the economy faced in 2019, the most important being flight ban imposed by the Russian Federation. The GEL exchange rate depreciation and above target inflation remained additional challenges in 2019, however, the response of the macro policymakers have been appropriate. The NBG tightened the monetary policy rate from 6.5% at the beginning of September to 9.0% as of the end of December 2019. This tighter monetary policy stance in GEL, coupled with the strong external sector, has contributed to a stronger GEL exchange rate. By the end of 2019, the US$/GEL exchange rate stood at 2.87, down by 3.0% from the previous quarter. Also, the monthly dynamics of prices indicate some moderation of inflation by the end of 2019.

Fiscal spending significantly supported the growth in 2019, with the budget deficit coming in at estimated 2.4% of GDP in 2019. The actual impact of the fiscal sector on growth was even higher, taking into consideration the advance payments made by the end of 2018.

As for the system- wide credit growth, while the penetration has increased, the credit to GDP ratio was still close to its long- term trend, especially when measured at a constant exchange rate. Despite some acceleration in FX lending, the de-dollarization of the financial sector remains a top priority for the central bank, however, going forward, it is expected that relatively more attention will be devoted to the liabilities' side. Overall, from a macro perspective there were no signs of a build up of system- wide risks in 2019. At the same time, Georgia remains vulnerable to external and to some extent internal shocks, which could have an adverse impact on the Georgian economy, resulting in lower growth or, in some severe circumstances, a contraction of the economy. These negative developments could also have a negative impact on the GEL exchange rate.

Risk mitigation

To decrease its vulnerability to economic cycles, the Group identifies cyclical industries and proactively manages its underwriting approach and clients within its risk appetite framework. The Group has in place a macroeconomic monitoring process that relies on close, recurrent observation of the economic developments in Georgia, as well as in neighboring countries, to identify early warning signals indicating imminent economic risks. This system allows the Group to promptly assess significant economic and political occurrences and analyse their implications for the Group's performance. The identified implications are duly translated into specific action plans with regards to reviewing the underwriting standards, risk appetite metrics or limits, including the limits for each of the most vulnerable industries. Additionally, the stress-testing and scenario analysis applied during the credit review and portfolio monitoring processes enable the Group to have an advance evaluation of the impact of macroeconomic shocks on its business. The resilience towards a changing macroeconomic environment is incorporated into the Group's credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through prudent financials, debt-servicing capabilities and conservative collateral coverage.

4.The Group faces the capital risk of not meeting the minimum regulatory requirements under the increasing capital requirement framework, which may compromise growth and strategic targets. Additionally, adverse changes in FX rates may impact the capital adequacy ratios.

Risk description

In December 2017, the NBG introduced a new capital adequacy framework. Under the updated regulation, capital requirements consist of a Pillar 1 minimum requirement, combined buffers (systemic, countercyclical and conservation buffers) and Pillar 2 buffers, which are introduced gradually over a four-year period. As of year end 2019, the Bank's minimum capital requirements increased by 0.6%, 0.7% and 0.8% for CET1, Tier 1 and Total Capital, respectively, compared to the end of 2018. The increase in minimum requirements is mainly driven by a planned increase in the systemic risk buffer of 0.5%.

The Bank's capitalization as of December 2019 stood at 12.0%, 14.6% and 19.1% compared to the regulatory minimum requirement of 10.4%, 12.5% and 17.5% for CET1, Tier 1 and Total capital, respectively. The ratios were well above the respective regulatory minimums. In 2019, the Bank further strengthened and optimized its capital position by issuing an Additional Tier 1 instrument in the amount of US$ 125 million.

As a result of COVID-19 pandemic, the NBG implemented certain countercyclical measures in relation to capital adequacy requirements:

- Postponing the phasing in of concentration risk and the net GRAPE (General Risk Assessment Program) buffer capital requirements on CET1 capital, planned in March 2020;
- Allowing banks to use the conservation buffer and 2/3 of currency induced credit risk (CICR) buffer;
- Leaving possibility of releasing all the remaining pillar 2 buffers (remaining 1/3 CICR, concentration risk and Net Grape buffers) in case of necessity.

During the time the Bank utilizes conservation and Pillar 2 buffers, it is restricted to make any capital distribution.

If the NBG changes the decision with regards to capital adequacy limits, the banking sector shall have one year to comply with the changes.

Besides the expected negative impact of COVID-19 pandemic, GEL volatility still remains one of the significant risks impacting the Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.80pp, 0.69pp and 0.51pp drop in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

Risk mitigation

The Group undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Such analyses indicate that the Group holds sufficient capital to meet the current 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 close co-ordination with the NBG the Bank created an extra loan loss provision buffer to prepare for the potential impact of the COVID-19 pandemic on the Georgian economy. As of 31 March 2020, TBC Bank booked additional provisions in accordance with local standards in amount of c.3.1% of the loan book.

5. The Group is exposed to regulatory and enforcement action risk.

The Bank's activities are highly regulated and thus face regulatory risk. The NBG can increase 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.

Risk description

The NBG sets lending limits and other economic ratios (including, inter alia, lending, liquidity and investment ratios) in addition to mandatory capital adequacy ratios.

At the beginning of 2019, the NBG introduced the full version of the responsible lending regulation limiting the growth of the consumer loans. The regulation defined income verification techniques and introduced caps on payment-to-income (PTI) ratios, loan-to-value (LTV) ratios and the maximum maturity of retail loans; stricter thresholds are applied to loans denominated in foreign currency.

The NBG is also responsible for conducting investigations into specific transactions to ensure compliance with Georgian finance laws and regulations. In that regard, the Bank was subject to an inspection by the NBG in connection with certain transactions that took place in 2007 and 2008. The inspection alleged that these transactions between the Bank and certain entities were not in technical compliance with Georgian law regulating conflicts of interest. In February 2019, the Company, the Bank and the NBG issued a joint statement confirming the settlement of this investigation and stating that the Bank fully complied with the economic normative requirements and limits set by the NBG.

In parallel, the Georgian Office of Public Prosecution launched an investigation into the same matter and has charged the founders of the Bank. The court case with the founders is ongoing. However, the founders have stood down from all their positions within the Group and the Bank.

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

TBC Bank's subsidiary has been granted a banking licence in Uzbekistan and is planning to launch operations in the summer 2020. As a result of this project, increased regulatory compliance requirements for the Group are anticipated.

Additionally, as part of the Group's international strategy, the ongoing merger between Yelo Bank (former Nikoil Bank) and TBC Kredit is subject to regulatory approval. Assuming the approval is granted, the Group's intention is to increase its shareholding in the merged entity to over 50% over a four year period. This will, in turn, increase the Group's exposure to the regulatory environment in Azerbaijan.

The Group takes operational steps with the intention of ensuring compliance with relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see page 301 in the Group's Audited Financial Statements.

Risk mitigation

The Group has established systems and processes to ensure full regulatory compliance, which are embedded in all levels of the Group's operations. The dedicated compliance department reports directly to the Chief Executive Officer and has a primary role in the management of regulatory compliance risk. The Group's Risk Committee is responsible for regulatory compliance at the Board level. In terms of banking regulations and Georgia's taxation system, the Group is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation. There was also an extensive dialogue with the regulator regarding the new regulation on responsible lending. Together with the new regulation on responsible lending, the government introduced initiatives to ensure continuous, broad access to financing. These include simplification of the tax code to incentivize income registration rate. Although the decisions made by regulators are beyond the Group's control, significant regulatory changes are usually preceded by a consultation period that allows all lending institutions to provide feedback and adjust their business practices.

Regarding the investigations by the NBG in February 2019, the Company, the Bank and the NBG issued a joint announcement confirming the settlement of this investigation. In response to the regulatory review and investigations, the founding shareholders have stood down from their roles within the Group and the Bank. The Company has implemented a mirror board structure strengthening the board with the new appointments (for further information, please see Corporate Governance and Nomination Committee Report on pages 143-146). In addition, the Bank, with the assistance of external advisers, undertook a review of the Bank's relevant internal controls systems. Although these reviews did not identify any material deficiencies in the Bank's existing internal controls and compliance systems, they did make certain technical recommendations for further improvements of the Bank's processes and procedures, which are being implemented.

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

Risk description

The Group's loan portfolio is diversified, with maximum exposure to the single largest industry (energy and utility) standing at 8.6% of the loan portfolio as of 31 December 2019. This figure is reasonable and demonstrates adequate credit portfolio diversification. At the end of 2019, the exposure to the 20 largest borrowers stands at 12.3% of the loan portfolio, which is in line with the Group's target of alleviating concentration risk.

Risk mitigation

The Group constantly monitors the concentrations of its exposure to single counterparties, as well as sectors and common risk drivers, and it introduces limits for risk mitigation. As part of its risk appetite framework, the Group limits both single-name and sector concentrations. Any considerable change in the economic or political environment, in Georgia as well as in neighbouring countries, will trigger the Group's review of the risk appetite criteria to mitigate emerging risk concentrations. Stringent monitoring tools are in place to ensure compliance with the established limits. In addition, the Bank has dedicated restructuring teams to manage borrowers with financial difficulties. When it is deemed necessary, clients are transferred to such teams for more efficient handling and, ultimately, to limit any resulting credit risk losses. The NBG's new capital framework introduced a concentration buffer under Pillar 2 that helps to ensure that the Group remains adequately capitalised to mitigate concentration risks.

7. Liquidity risk is inherent in the Group's operations.

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

Risk description

In the first quarter of 2019, the Bank experienced a higher volatility of deposit flows. The decrease was primarily driven by retail deposit reductions (mostly in January and February) prior to the settlement of the NBG investigation, but it also reflected the effects of seasonality.

Throughout 2019, the Group was in compliance with the minimum liquidity requirements set by the NBG, which introduced a liquidity coverage ratio in 2017. This is in addition to the Basel III guidelines, under which a conservative approach was applied to deposit withdrawal rates, depending on the concentration of client groups. From October 2019, the Bank's foreign currency mandatory reserve was fully categorized as a high quality liquid asset (HQLA) for regulatory LCR calculation purposes, which had a positive effect on the LCR ratio.

In September 2019, the NBG also introduced a Net Stable Funding Ratio. As of 31 December 2019, the net loan to deposits plus international financial institution funding ratio stood at 104.8%, the liquidity coverage ratio at 110.1%, and the net stable funding ratio at 126.7%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

As a result of COVID-19 pandemic, the NBG will implement certain countercyclical measures in relation to liquidity requirements, if necessary:

- Decreasing LCR limits;
- Decreasing mandatory reserve requirements in foreign currency;
- Updating criteria for security or repo pledging to support GEL liquidity.

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

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

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

Risk description

The majority of the Group's total income derives from net interest income. Consequently, the NIM's fluctuations affect the Group's results. In 2019, the NIM decreased by 1.3 pp YoY to 5.6%. The decrease was driven by the introduction of the responsible lending regulation from 1 January 2019, limiting the Bank's ability to lend money to higher-yield retail customers.

The Group manages its direct exposure to the LIBOR and local refinancing rates through respective limits and appropriate pricing. As of 31 December 2019, GEL 5,788 million in assets (31%) and GEL 3,813 million in liabilities (24%) were floating, related to the LIBOR/FED/ECB (deposit facility) rates and as per internal judgment, whereas GEL 5,320 million of assets (29%) and GEL 3,360 million of liabilities (21%) were floating, related to the NBG's refinancing rate. The reprising maturity of floating liabilities within a one-year horizon exceeds the one of floating assets.

Risk mitigation

The strong increase in net fee and commission income and other operating income safeguards against margin declines and profitability concerns for the Group. The decrease in credit loss allowance driven by improved performance across all segments also supports the Bank's profitability.

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

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

Risk description

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

Risk mitigation

The Group actively monitors, detects and prevents risks arising from cyber-attacks. Staff members monitor the developments on both the local and international markets to increase awareness of emerging forms of cyber-attacks. Intrusion prevention and Distributed Denial of Service (DDoS) protection systems are in place to protect the Group from external cyber-threats. Security incident and event monitoring systems, in conjunction with the respective processes and procedures, are in place to handle cyber -incidents effectively. Processes are continuously updated and enhanced to respond to new potential threats. A data recovery policy is in place to ensure business continuity in case of serious cyber-attacks. In addition, an Information Security Steering Committee is actively involved in improving information security and business continuity management processes to minimise information security risks.

As a result of COVID-19 pandemic, the Bank activated secure remote working policies, which ensure that home-working environments are protected against relevant cyber-threats and security team provides effective oversight of teleworking channels.

10. 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 banking sector, fraud risks are evolving. Unless proactively managed, fraud events may materially impact the Group's profitability and reputation.

Risk description

External fraud events may arise from the actions of third parties against the Group, most frequently involving events related to banking cards and cash. Internal frauds arise from actions committed by the Group's employees, and such events happen less frequently. During the reporting period, the Group faced only a few instances of fraud, none of which had a material impact upon the Group's profit and loss statement. Nonetheless, fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain funds. Therefore, unless properly monitored and managed, the potential impact can become substantial.

Risk mitigation

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

11. The Group is currently exposed to reputational risk

The media coverage in Georgia surrounding the founders' of the Bank represents a risk to the reputation of the Group (more information is given in page 106).

Risk Description

There are principal risks which may arise from negative publicity surrounding TBC Bank and its public perception, as well as that of the banking sector in Georgia as a whole. In particular, the media exposure in relation to TBC Bank and its founders' has threatened to have an adverse impact on the Bank's operations. An inability to manage such reputational risks could have an adverse impact upon the Bank and its stakeholders, including its clients, employees and shareholders.

Risk Mitigation

To mitigate possibility of reputational risks, the Bank works continuously to maintain strong brand recognition within its stakeholders. The Bank actively monitors its brand value by receiving feedback from stakeholders on an ongoing basis. The Group tries to identify early warning signals of potential reputational or brand damage in order to both mitigate it and elevate it to the attention of the Board before escalation. Dedicated internal and external marketing and communications teams are in place which have the responsibility to monitor risks, develop scenarios and create respective action plans.

12. The Group faces the risk that its strategic initiatives do not translate into long-term sustainable value for its stakeholders

The Group's business strategy may not adapt to the environment of ever changing customer needs.

Risk Description

The Group may face the risk of developing a business strategy that does not safeguard long-term value creation in an environment of changing customer needs, competitive environment and regulatory restrictions. In addition, the Group may be exposed to the risk that it will not be able to effectively deliver on its strategic priorities and thereby compromise its capacity for long-term value creation.

Risk Mitigation

The Group conducts annual strategic review sessions involving the Bank's top and middle management in order to ensure that it remains on the right track and assess business performance across different perspectives, concentrating analysis on key trends and market practices, both in the regional and global markets. In addition, the Bank continuously works with the world's leading consultants in order to enhance its strategy. Further, the Group conducts quarterly analysis and monitoring of metrics used to measure strategy execution, and in case of any significant deviations, it ensures the development of corrective or mitigation actions.

13. The Group is exposed to risks related to its ability to attract and retain highly qualified employees

A strong employee base is vital to the success of the Group

Risk Description

The Group faces the risk of losing of key personnel or the failure to attract, develop and retain skilled or qualified employees. In particular, the strategic decision to transform into a digital company entails increased demands on high calibre IT professionals across the Group. In addition, in order to adapt to the fast changing business environment, the Group needs to foster an "Agile" culture and equip employees with the necessary skills.

Risk Mitigation

The Group pays significant attention to human capital management strategies and policies, which include approaches to the recruitment, retention and development of talent, and offers competitive reward packages to its employees. The Group has also developed and implemented an "Agile" framework that aims to increase employee engagement and satisfaction. Moreover, the Bank set up an IT academy to attract and train young professionals. The best students are offered employment at the Bank. In addition, the Bank has an in-house academy that provides various courses for the employees in different fields.

EMERGING RISKS

Emerging risks are those that have large unknown components and may affect the performance of the Group over a longer time horizon. We believe the following are risks that have a potential to increase in significance overtime and could have the same impact on the Group as the principal risks.

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

TBC Bank's subsidiary, TBC Bank in Uzbekistan, has obtained a banking licence in April 2020 and is planning to launch its operations in Uzbekistan in June 2020. The total amount of investment in 2020 from all shareholders will amount up to US$ 40 million with TBC Bank accounting for 51%. This investment exposes to the Group to Uzbekistan's macro-economic, political and regulatory environments, including exposure to risks arising from credit, market, operational and capital adequacy risks. In addition, the Group is expanding its international presence in Azerbaijan.

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

Risk description

The risk posed by the operating environment in Uzbekistan and Azerbaijan may change the Group's risk profile as a result of this international expansion.

According to the latest IMF forecasts, Uzbekistan is a rapidly developing economy with above 5% real GDP growth projected in the medium term. The Uzbekistani economy is well diversified with no major reliance on a particular industry. It has one of the lowest public debts as a percentage of GDP in the region and high international reserves, implying macroeconomic stability as well as room for future high growth. The new government of Uzbekistan plans to reform the economy and open it up to foreign investment. While the operational environment in Uzbekistan can be assessed as attractive, there are important risks that could materially affect the Group's performance in the country. These risks include, but are not limited to, political instability, the slow pace of reforms, adverse developments in inflation and fluctuations in the exchange rate.

Azerbaijan is a small, open economy with a high reliance on oil exports. The economy of Azerbaijan started to recover in 2017 after the contraction in 2016 caused by the significant decline in oil prices in the period of 2014-2016. According to the latest IMF estimates, the economy is expected to decline by 2.2% in 2020. Along with the relatively stable oil prices and exchange rate, annual inflation has remained stable in 2019. Azerbaijan's economic recovery has also contributed to the strengthening of its financial sector and the gradual recovery of credit. Despite a relatively more stable environment, Azerbaijan's growth is still significantly dependent on oil prices and any adverse developments in oil prices could negatively affect growth perspectives and the exchange rate.

Furthermore, potential political instability and unfavorable developments in state regulations can also negatively affect the Group's business in Azerbaijan.

Risk mitigation

The Group's strategy is to follow an asset-light, limited capital investment approach with a strong focus on digital channels and to invest in stages, to make sure that we are comfortable with the results and the operating environment before committing additional investment. The Group plans to serve retail and MSME customers, which will in turn lead to a non-concentrated portfolio and subsequently to lower credit risk. The Group will partner international financial institutions, which intend to take a shareholding in the Uzbek bank in order, to ensure the funding of our business plan and sufficient flexibility across our operations in Uzbekistan.

The Group has been operating in Azerbaijan through a small microfinance organization for a number of years, which provides experience and knowledge of the local banking environment. In addition, our exposure in Azerbaijan is limited before the option is exercised. The Group will exercise the option only after it becomes comfortable with the developments, including the operating environment. The management will focus on establishing a strong risk management function to ensure that all risks are managed and mitigated properly. The Group will leverage its strong risk management expertise to establish sound risk management practices in new jurisdictions.

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

2. The Group is exposed to the risks arising from climate change

Risk description

The risks associated with climate change have both physical impact arising from more frequent and severe weather changes and transitional impact that may entail extensive policy, legal and technological changes to reduce ecological footprint of the households and businesses. For the Group, both of these risks can materialise through the impairment of asset values and deteriorating creditworthiness of our customers, which could result in reduction of the Group's profitability. The Group may also become exposed to reputational risks as a result of its lending to or other business operations with the customers deemed to be contributing to climate change.

Risk mitigation

The Group's objective is to act responsibly and manage the environmental and social risks associated with its operations in order to minimise negative impacts on the environment. This approach enables us to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change.

The Group has in place an Environmental Policy, which governs its Environmental Management System (the "EMS") and promotes adherence of the Group's operations to the applicable environmental, health and safety and labour regulations and practices. We take all reasonable steps to support our customers in fulfilling their environmental and social responsibilities. Management of environmental and social risks is embedded in the Group's lending process through the application of the EMS. The Group has developed risk management procedures to identify, assess, manage and monitor environmental and social risks. These procedures are fully integrated in the Group's credit risk management process. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com).

3. The Group's performance may be affected by Libor discontinuation and transition

Risk description

There is a number of different types of financial instruments on the Group's balance sheet, each of which carries interest rates benchmarked to the London Interbank Offered Rate ("LIBOR"). LIBOR is also used by the Group in its risk measurement, accounting and valuation processes. In 2017, the FCA announced that it has agreed with LIBOR panel banks to sustain LIBOR until the end of 2021 and called financial sector participants to start working towards the transition to other reference rates. The discontinuation of LIBOR and the process of transition exposes the Group to execution, conduct, financial and operational risks, and may result in earnings volatility, customer complaints and legal proceedings, or have other adverse impact on the Group's business and operations.

Risk mitigation

The Group is in the process of identifying implications of such transition to other reference rates on its risk profile by analysing its execution, conduct, financial and operational risks and how such risks could be addressed. TBC is pro-actively working with industry participants, such as the NBG, the Banking Association of Georgia and IFI lenders to facilitate orderly transition to other reference rates. The Group is starting its efforts to raise awareness of the transition, both internally and externally, to ensure that staff has all the necessary knowledge and tools to facilitate the transition and that all of the Group's customers are treated fairly. We actively monitor the international as well as local transition-related developments to regulate and align the Group's transition process with the market practice.

4. Spread of coronavirus (COVID-19) comes with unpredictable economic and social consequences

Risk description

COVID-19 outbreak, declared as a pandemic by the World Health Organisation, started in China and spread rapidly around the world in early 2020. COVID-19 pandemic has already caused major economic disruptions, halted international travel and resulted in country lockdowns. COVID-19 pandemic results in a decreased economic growth in Georgia, increased unemployment, depreciation of the GEL, decreased commodity and real estate prices and impaired creditworthiness of the private sector, and increases financial and non-financial risks of the Group.

As tourism contribution in Georgian economy was significant, the impact is likely to be sizable. The growth is also expected to be impacted negatively through lower exports, remittances and FDI inflows, as well as the lockdown to prevent the widespread of the virus. At the same time, imports should also adjust. Nevertheless, there will be increase in current account balance.

However, Georgia is acting very actively to attract support from the international financial organisations. According to the government's announcement as of 15 March, around US$ 1.7 billion, or 10% of 2019 GDP would be mobilized to support predominantly the government's financing needs and partially the central bank's international reserves. In addition, around US$ 1.5 billion should be used to support the private sector. This injections are expected to materially counteract the negative impact of the COVID-19 crisis. Per IMF projections, as of 14th April[1], Georgian economy is expected to contract by 4.0% in 2020, while in 2021 the growth is expected to recover to 3.0%.

Together with the international support, it is also important to take into account that there we no signs of overheating of the Georgian economy during the pre-distress period, including the housing market. Therefore, assuming the COVID-19 is predominantly temporary, rather than permanent shock, most of the industries should recover relatively quickly with the hospitality sector likely lagging behind for some additional period.

According to the IMF[1], the economy of Azerbaijan is expected to decline by 2.2% in 2020 with 0.7% recovery a year after. In Uzbekistan, the growth is expected to be positive for both 2020 and 2021 with 1.8% and 7.0% respectively.

Risk mitigation

The Group actively analyses various scenarios of economic consequences of COVID-19 pandemic. We introduced three month grace period on payments of principal and interest for all retail and MSME customers and hardly-hit corporate borrowers.

We have close communications with our business customers discussing their strategies and sharing our outlook on the economy and its key sectors.

In addition, as part of the stress testing exercise, we have analysed multiple scenarios to ensure that the Group has sufficient liquidity and capital to meet updated regulatory capital and liquidity requirements. The NBG implemented countercyclical measures to support financial stability of the banking system by relaxing capital and liquidity requirements if necessary. For more information, please see the capital risk management section on pages 100-104.

Moreover, the government has come up with a number of initiatives to support businesses and the economy such as (i) deferral of income taxes for companies operating in tourism industry, (ii) subsidizing interest payments for small and medium sized hotels (iii) doubling the volume of VAT refunds to companies (iv) increasing capital expenditure and providing additional economic incentives.

1 IMF World Economic Outlook, April 2020

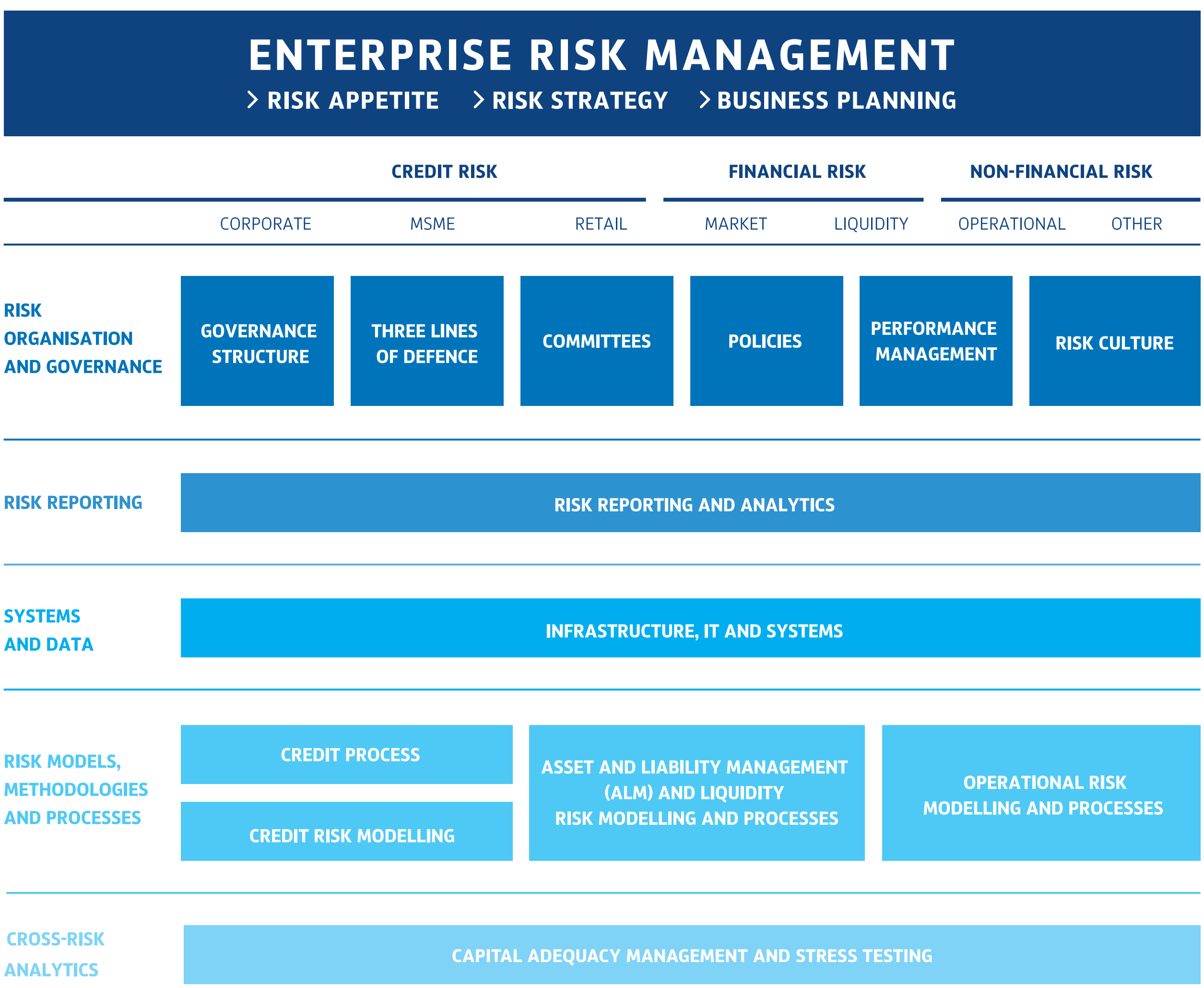
OVERVIEW

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 resilience. 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 resilience.
- Ensure that risk management underpins the implementation of strategy. The staff responsible for risk management provide assurance on the feasibility of achieving objectives through risk identification and management. Identifying and adequately pricing risks, as well as taking risk mitigation actions, supports the generation of desired returns and the achievement of planned targets.
- Use risk management to gain a competitive advantage. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensuring the sustainability and resilience of the business model and the positioning of risk management as the Group's competitive advantage and strategic enabler.

Risk management framework

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



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, the clear segregation of authority and effective communication between the different entities facilitate clarity regarding the Group's strategic and risk objectives, adherence to the established risk appetite and sound risk management. The Group's governance structure ensures adequate oversight and accountability, as well as a 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[1]		BOARD	RISK COMMITTEE	AUDIT COMMITTEE	
SUPERVISORY BOARD[1]		SUPERVISORY BOARD	RISK COMMITTEE	AUDIT COMMITTEE	
MANAGEMENT BOARD[1]		RISK COMMITTEE	OPERATIONAL RISK COMMITTEE	ALCO	INFORMATION SECURITY COMMITTEE
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, the Supervisory Board and the Management Board. All three boards have dedicated risk committees. The Board and the Supervisory Board each have a Risk Committee that supervises the risk profile and risk governance practices within the Group, as well as an Audit Committee that is responsible for implementing key accounting policies and facilitating internal and external auditor activities. The Management Board's Risk Committee was established to guide the Group-wide risk management activities and monitor major risk trends to ensure that the risk profile complies with the established risk appetite. The Management Board's Operational Risk Committee makes decisions related to operational risk governance, while the Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of asset-liability management policies. The Board, the Supervisory Board and the Bank's senior management govern risk objectives through the Risk Appetite Statement, which establishes the desired risk profile and risk limits. 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

1 These terms are defined in the glossary on page 320

decisions as part of a framework comprised of clear and sophisticated delegations of authority, based on the "four-eyes" principle. All new products and projects pass through risk teams to ensure that the risks are comprehensively analysed. These control arrangements guarantee that the Group makes informed decisions that are adequately priced and that any risks exceeding the Group's established targets are not taken. Credit, liquidity, market, operational and other non-financial risks are each managed by dedicated teams. The Group's strong and independent risk-management structure enables the fulfilment of all required risk management functions within the second line of defence by highly skilled professionals, with a balanced mix of credentials in banking and real sectors in local and international markets. In addition to the risk teams subordinated to the Chief Risk Officer, the compliance department reports directly to the CEO and is specifically in charge of anti-money laundering and compliance risk management. As a third line of defence, the internal audit department is responsible for providing independent and objective assurance and recommendations to the Group to promote the further improvement of operations and risk management.

ENTERPRISE RISK MANAGEMENT

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

- Risk appetite development, cascading and monitoring are essential elements of the Group's strategy. A risk budget is allocated to individual business lines to ensure the achievement of aggregated metrics.
- 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. Various scenario analysis and stress testing methods are conducted by Bank to ensure that the Bank maintains adequate capital in order to withstand the given stress scenario and remain in a stable financial condition.
- Long term capital planning and continuous work on capital optimisation and analytics is also a key aspect of the Bank's risk management procedures.
- Consistency of risk management practices within TBC Bank is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that risks are identified, measured and governed in an optimal manner within TBC Bank, and reported and understood on a consolidated basis.
- Generating an adequate return on risk, plays a crucial role in the sustainability of the business model. Risk inputs for pricing are designed in a way to serve as a backdrop against excessive risk taking and guarantee that TBC Bank takes adequately priced risks.
- Estimating expected losses, monitoring and analytics across various segments and products are further key features of our strategy.
- Aggregation and analysis of all risk metrics to assess the Group's risk profile on a consolidated basis is also carried out. Regular reports on TBC Bank's risk profile are submitted to the Management Board and to the Supervisory Board's Risk Committee.

CREDIT RISK MANAGEMENT

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

The major objectives of credit risk management are to put in place a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement. The Group adopts segment- and product-specific approaches for prudent and efficient credit risk management. Therefore, the corporate, MSME and retail portfolios are managed separately to address the specifics of individual segments. Corporate and MSME (except micro) borrowers have larger exposures and are managed on an individual basis, whereas micro and retail borrowers are managed on a portfolio basis. Major credit risk functions can be summarised as follows:

Credit approval

The Group strives to ensure a sound credit-granting process by establishing well-defined lending criteria and building up an efficient process for the assessment of a borrower's risk profile. A comprehensive credit risk assessment framework is in place with a clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision-making process for smaller retail and micro loans is largely automated. After a thorough assessment of borrowers' requirements, credit analysts in the case of corporate and loan officers in the case of SME borrowers prepare a presentation containing certain key information in relation to the potential borrower and submit it for review to the business underwriting risk management. An underwriting risk manager ensures that the project analysis provided by the credit analyst/loan officer is complete, all risks and mitigating factors are identified and adequately addressed, and the loan is properly structured. Business underwriting risk managers specialise in a particular sector to be aware of current industry trends and developments.

A multi-tiered system of loan approval committees is in place with different approval levels to consider the borrower's overall indebtedness and risk profile. These committees are responsible for reviewing credit applications and approving exposures, with different committees based on the size and risk of the loan. At the highest level, the Chief Executive Officer, Corporate Business Director and Chief Risk Officer are involved. In addition, exposures to the 20 largest borrowers or for amounts exceeding 5% of the Bank's regulatory capital would require review and approval by the Board Risk Committee. Loan officers submit the credit applications for retail and micro exposures to the respective underwriting risk management units. Depending on the amount of the loan, a loan approval committee will review the loan request based on specified limits regarding the risk level of the customer. For the underwriting of unsecured loans, point-of-sale loans and credit cards, the income verification process is performed according to the regulations on responsible lending. For decision-making, internal scorecard models and ratings provided by the credit bureau are utilized. 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. However, limits have been established within the risk appetite framework to ensure that the Group continues its efforts toward minimising the share of foreign currencies in the portfolio. Various management tools and techniques are applied to mitigate the inherent currency-induced credit risk in the loan book, encompassing all phases of credit risk management. In January 2019, the government continued its efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000, under which loans must be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers, further limiting the exposure to currency induced credit risk.

The Group applies conservative lending standards to unhedged borrowers with exposures denominated in foreign currencies to ensure that they can withstand a certain amount of forex depreciation without credit quality deterioration. In addition to the measures in place throughout the underwriting process, the Group actively monitors and assesses the quality of loans denominated in foreign currencies through stress-testing exercises and holds sufficient capital buffers against unexpected losses. In the event of a material currency depreciation, the Group has tools in place to accelerate its monitoring efforts, identify customers with potential weaknesses and introduce prompt mitigation.

Credit concentration risk

The Group is exposed to concentration risk, defined as the potential deterioration in portfolio quality due to large exposures or individual industries. It has established a set of tools to efficiently manage concentration risk and, in particular, concentrations of single names and sectors in the portfolio. The Group is subject to concentration limits on single names and the largest 20 borrowers, and is focused on optimising the structure and quality of the latter portfolio. In addition, the Group imposes limits on individual sectors with more conservative caps applied for high-risk sectors, which are defined based on comprehensive analysis of industry cycles and outlook. Credit concentrations are monitored monthly. Trends in the risk positions are analysed in detail and corrective actions are recommended should new sources of risk or positive developments emerge. Along with managing concentration levels in the portfolio, the Group estimates unexpected losses and the respective economic capital for concentrations of both single name borrowers and sectors using the Herfindahl-Hirschman Index, thus ensuring that sufficient capital is held against concentration risk.

Collateral management policy

Collateral represents the most significant credit risk mitigation tool for the Group, making effective collateral management one of the key risk management components. Collateral on loans extended by the Group may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third-party guarantees. The collateral accepted against a loan depends on the type of credit product and the borrower's credit risk. The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. A centralised unit for collateral management governs the Group's view and strategy in relation to collateral management, and ensures that collateral serves as an adequate mitigating factor for credit risk management. The collateral management framework consists of a policy-making process, a sound independent valuation process, a haircut system throughout the underwriting process, collateral monitoring (including revaluations and statistical analysis) and collateral portfolio analysis.

The Collateral Management and Appraisal Department (CMAD) defines Collateral Management Policy & Collateral Management Procedures (approved by the Board), purchases an appraisal service that must be in line with International Valuation Standards (IVS), acting NBG regulations and internal rules (policy/procedures and etc.), authorizes appraisal reports, manages collateral monitoring process (assets with high FV are revaluated annually, while statistical monitoring is used for collaterals with low value). The CMAD uses a mixed quality check scheme for valuation: appraisal reports are reviewed internally by its staff and separately by an external company. Almost all activities under the collateral management are automated through an in-house web application. The collateral management function uses market researches conducted under the project: Real Estate Market laboratory (REM lab).

Credit monitoring

The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposure, overall portfolio performance and external trends that may impact on the portfolio's risk profile. The Risk Committee 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 take prompt, 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 jeopardizing the repayment of the credit. Dedicated restructuring and recovery units manage weakened borrowers across all business segments, with collection and recovery strategies tailored for business segments and individual exposure categories. The restructuring unit's primary goal is to rehabilitate the borrower and transfer the exposure back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of the exposure. Corporate and SME borrowers are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid, and the main stream of recovery is no longer the borrower's cash flow. Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees.

The Group's goal in the recovery process is to negotiate a loan recovery strategy with the borrower and secure cash recoveries to the extent possible, or to negotiate repayment through the sale or repossession of collateral.

Collection functions for retail and micro loans support customers who are experiencing difficulties in fulfilling their obligations. Such customers may miss payments or notify the Group about their difficulty with loan repayments. A centralised team monitors retail borrowers in delinquency which, coupled with branches' efforts, aims to maximise collection. Special software from FICO is used for early collection management purposes.

Collection strategies are defined based on the size and type of exposure. Specific strategies are tailored to different subgroups of customers, reflecting their respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Retail and micro loans are generally transferred to the recovery unit at 60-90 days past due. Collateralised loans are transferred to the internal recovery unit, whereas the Group collaborates with external collection agencies for unsecured loans. To recover collateralised loans, the recovery plan is outlined considering the individual borrower's specifics and may involve loan repayments under revised schedules or the sale of collateral. Collection agencies generally negotiate with the borrowers so that the full repayment of the loan or loans can be rescheduled and repaid accordingly. Once the exposure is transferred to the recovery unit, if the Group is unable to negotiate acceptable terms with the borrower, the Group may initiate collateral repossession, which is usually a standard process with limited legal complications, and may include court, arbitration or notary procedures. Restructuring and recovery units are supported by qualified incumbent lawyers for efficient accomplishment of litigation and repossession processes

Measurement of Expected Credit Losses

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

The project was undertaken with the support of Deloitte and the representatives of the Group's risk, finance and IT departments were responsible for the methodology and IT tool implementation. The new models are more complex and make it possible to incorporate expectations of macro developments based on predefined scenarios. The expected credit loss (ECL) measurement is based on four components used by the Group: (i) probability of default ("PD"); (ii) exposure at default ("EAD"); (iii) loss given default ("LGD"); and (iv) discount rate. The Group uses a three-stage model for the ECL measurement and classifies its borrowers across three stages:

- Stage I – the Group classifies its exposures as Stage I if no significant deterioration in credit quality has occurred since the initial recognition and the instrument was not credit-impaired when initially recognised;

- Stage II – the exposure is classified as Stage II if any significant deterioration in credit quality has been identified since the initial recognition but the financial instrument is not considered credit-impaired; and
- Stage III – the exposures for which the credit-impaired indicators have been identified are classified as Stage III instruments.

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

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

The Group actively reviews and monitors the results produced from IFRS 9 models to ensure that respective results adequately capture the expected losses.

FINANCIAL RISK MANAGEMENT

Liquidity risk management

Liquidity risk is the risk that the Group either may not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or may only be able to access those resources at a high cost. Both funding and market liquidity risks can emerge from a number of factors that are beyond the Group's control. Due to financial market instability, factors such as a downgrade in credit ratings or other negative developments may affect the price or ability to access the funding necessary to make payments in respect of the Group's future indebtedness.

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

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

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

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

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

Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis. To manage funding liquidity risk, the Group has an internally developed model using a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR), both under Basel III liquidity guidelines. Additionally, the Group applies stress tests and "what if" scenario analyses and monitors the NBG's minimum liquidity ratio. In 2017, the NBG introduced its own LCR for liquidity risk management purposes. In addition to the Basel III guidelines, the ratio applies conservative approaches to the deposit withdrawal rates depending on the client group's concentration. Since September 2017, the Bank has also monitored compliance with the NBG's LCR limits. In addition to the total LCR limit, the NBG has also defined limits per currency for the GEL and foreign currencies. The LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows. It is used to help manage short-term liquidity risks. To promote larization in the country of Georgia, NBG defines lower limit for GEL LCR than that for FX LCR. From October 2019 FC Mandatory Reserves are considered at 100% within HQLA for NBG LCR purposes. In addition, in the same period, NBG lowered FC mandatory reserves requirements from 30% to 25%.

In September 2019 the NBG introduced a Net Stable Funding Ratio ("NBG NSFR") for funding liquidity risk management purposes. The NSFR is calculated by dividing the available stable funding by the required stable funding. It is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for the Bank to rely on more stable sources of funding on a continuing basis. On a monthly basis the Bank monitors compliance with the set limit for NBG NSFR. As of 31 December the ratios were well above the prudential limits set by the NBG as follows:

	2019	2018	2017
Average Liquidity Ratio	32.2%	33.3%	32.5%
Net Stable Funding Ratio	126.7%	N/A	N/A
Total Liquidity Coverage Ratio	110.1%	113.9%	112.7%
GEL Liquidity Coverage Ratio	83.7%	102.5%	95.6%
FX Liquidity Coverage Ratio	128.4%	121.1%	122.9%

Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption.

To manage market liquidity risk, the Group follows the Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Group's high-quality liquid assets can be sold without causing a significant movement in price and with minimum loss of value. In addition, the Group has a liquidity contingency plan, which forms part of the overall prudential liquidity policy. The plan is designed to ensure that the Group can meet its funding and liquidity requirements and maintain its core business operations in any deteriorating liquidity conditions that could arise outside the ordinary course of its business.

As a result COVID-19 pandemic, the NBG will implement certain countercyclical measures in relation to liquidity requirements, if necessary:

- Decreasing LCR limits;
- Decreasing mandatory reserve requirements in foreign currency;
- Updating criteria for security or repo pledging to support GEL liquidity.

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

To maintain and further enhance its liability structure, the Group sets targets for deposits and funds received from international financial institution investors in its risk appetite via the respective ratios. The loan to deposit and IFI funding ratio (defined as total value of net loans divided by sum of total value of deposits and funds received from International financial institutions) stood at 104.8%, 89.9% and 92.5%, at the 31 December 2019, 2018 and 2017 respectively.

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. VAR as of December 2019 equaled 8.4% (2018: 10.9%; 2017: 12.3%). 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.

Market risk

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

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

Foreign exchange risk

The NBG requires the Bank to monitor both balance sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain the latter within 20% of the Bank's regulatory capital. For the year ended 31 December 2019, the Bank maintained an aggregate balance open currency position of 0.5%.

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 NBG and the Supervisory Board. The heads of the treasury and financial risk management departments separately monitor the Bank's compliance with these limits daily.

Compliance with these limits is also reported daily to the Management Board and periodically to the Supervisory Board and its Risk Committee. On a Group-wide level, foreign-exchange risk is monitored and reported monthly.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. During the years ended 31 December 2019, 2018 and 2017, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**As of 31 December 2019**	**As of 31 December 2018**	**As of 31 December 2017**
Maximum loss (VAR, 99% confidence level)	(2,291)	(8,890)	(2,206)
Maximum loss (VAR, 95% confidence level)	(1,584)	(6,162)	(1,462)

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 a part of the loans offered by the Group, are at fixed interest rates, while a portion of the Group's borrowing is based on a floating interest rate. The Group's floating rate borrowings are, to a certain extent, hedged because the NBG pays a floating interest rate on the minimum reserves that TBC Bank holds with it. Furthermore, many of TBC Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan 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 Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk.

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 Committee.

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

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

Counterparty risk

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

To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty, while on a portfolio basis it limits the expected loss from both treasury and trade finance exposures. As of 31 December 2019, 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.

CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Group may not have sufficient level of capital to maintain its normal business activities , and to meet its regulatory capital requirements under normal or stressed operating conditions. The management'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. The Group undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. 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 capital management and timely actions when needed. In 2019, the Group and the Bank complied with all regulatory capital requirements.

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

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

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements. The updated minimum regulatory capital requirements are 4.5%, 6.0% and 8.0% for Common Equity Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital, respectively;
- the introduction of a requirement that banks hold an additional combined buffer through Common Equity Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated certain commercial banks in Georgia as DSIBs for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2.0% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Pillar 2 requirements. In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer and a net general risk assessment programme buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer has become effective from 1 April 2018 and the need for the net stress buffer will be assessed based on the regulatory stress testing results. Under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common Equity Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital. As of December 2019, the Bank's Pillar 2 requirement is 1.9%, 2.5% and 5.5% for Common Equity Tier 1, Tier 1 and Total Regulatory Capital, respectively.

Both, Tier 1 and Total Regulatory Capital adequacy ratios are calculated based on the Basel III methodology introduced by NBG. The following table presents the capital adequacy ratios as well as minimum requirements set by the NBG:

In thousands of GEL	**2019**	**2018**	**2017**
Tier 1 Capital	**2,281,706**	1,678,716	1,437,218
Tier 2 Capital	**692,323**	672,553	448,069
Regulatory capital	**2,974,029**	2,351,269	1,885,287
Risk-weighted Exposures			
Credit Risk Weighted Exposures	**13,825,677**	11,458,497	9,754,146
Risk Weighted Exposures for Market Risk	**15,429**	179,381	28,802
Risk Weighted Exposures for Operational Risk	**1,749,821**	1,516,993	970,241
Total Risk-weighted Exposures	**15,590,927**	13,154,871	10,753,189
Minimum Tier 1 ratio	**12.5%**	11.8%	10.3%
Tier 1 Capital adequacy ratio	**14.6%**	12.8%	13.4%
Minimum total capital adequacy ratio	**17.5%**	16.7%	12.9%
Total Capital adequacy ratio	**19.1%**	17.9%	17.5%

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December are given in the tables below:

	2019	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	**4,432,843**	**1,733,894**
Gross loans and accrued interests,	**11,582,327**	**9,037,390**
Repossessed Assets	**78,384**	**78,384**
Fixed Assets and intangible assets	**628,655**	**366,364**
Other assets	**1,349,790**	**1,603,780**
minus general provision, penalty and interest provision	**(39,886)**	**(39,886)**
Total	**18,032,113**	**12,779,926**
Total Off-balance	**5,203,594**	**1,045,751**
Market Risk	**15,429**	**15,429**
Operational Risk	**933,238**	**1,749,821**
Total Amount	**24,184,374**	**15,590,927**

	2018	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	4,181,199	1,625,289
Gross loans and accrued interests,	9,206,646	7,203,609
Repossessed Assets	46,755	46,755
Fixed Assets and intangible assets	508,582	287,403
Other assets	1,428,945	1,639,128
minus general provision, penalty and interest provision	(37,705)	(37,705)
Total	15,334,422	10,764,479
Total Off-balance	2,694,174	694,018
Market Risk	179,381	179,381
Operational Risk	809,063	1,516,993
Total Amount	19,017,040	13,154,871

	2017	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	3,510,760	1,275,017
Gross loans and accrued interests,	8,233,132	6,798,464
Repossessed Assets	58,530	58,530
Fixed Assets and intangible assets	437,878	264,768
Other assets	553,176	713,096
minus general provision, penalty and interest provision	(30,862)	(30,862)
Total	12,762,614	9,079,013
Total Off-balance	1,919,565	675,133
Market Risk	28,802	28,802
Operational Risk	517,462	970,241
Total Amount	15,228,443	10,753,189

As a result of COVID-19 pandemic, the NBG implemented certain countercyclical measures in relation to capital adequacy requirements:

- Postponing the phasing in of concentration risk and the net GRAPE (General Risk Assessment Program) buffer capital requirements on CET1 capital, planned in March 2020.
- Allowing banks to use the conservation buffer and 2/3 of currency induced credit risk (CICR) buffer
- Leaving possibility of releasing all the remaining pillar 2 buffers (remaining 1/3 CICR, concentration risk and Net Grape buffers) in case of necessity.

During the time the Bank utilizes conservation and Pillar 2 buffers, it is restricted to make any capital distribution.

If the NBG changes the decision with regards to capital adequacy limits, the banking sector shall have one year to comply with the changes.

As a result of the provision made[1] and also the significant depreciation of the Georgian Lari during the course of March 2020, TBC Bank's CET1, Tier 1 and Total CAR as at 31 March 2020 are standing at 9.1%, 12.0% and 16.7%, respectively. These ratios remain well above the NBG's revised minimum requirements of 6.9%, 8.8% and 13.3%, respectively, which allow for the utilization of the conservation buffer and 2/3 of the currency induced credit risk buffer.

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 based on JSC TBC Bank's consolidated figures in accordance with Basel Accord is as follows:

In thousands of GEL	2019	2018	2017
Tier 1 capital			
Share capital	**542,204**	542,204	524,807
Retained earnings and disclosed reserves	**1,945,728**	1,509,990	1,254,331
Less: Goodwill	**(29,459)**	(29,459)	(26,892)
Non-controlling interest	**582**	527	4,735
AT1	**358,463**	-	-
Total tier 1 capital	**2,817,518**	2,023,262	1,756,981
Tier 2 capital			
Revaluation reserves	**43,195**	58,995	64,489
General Reserve	**159,938**	129,739	109,372
Subordinated debt (included in tier 2 capital)	**529,772**	548,508	355,944
Total tier 2 capital	**732,905**	737,242	529,805
Total capital	**3,550,423**	2,760,504	2,286,786
Credit risk weighted assets (including off-balance obligations)	**12,795,066**	10,379,124	8,749,752
Less: General Reserve	**(152,618)**	(204,391)	(118,492)
Market Risk	**34,216**	210,916	40,803
Total Risk-weighted assets	**12,676,664**	10,385,649	8,672,063
Minimum Tier 1 ratio	***4.0%***	*4.0%*	*4.0%*
Tier 1 Capital adequacy ratio	**22.2%**	19.5%	20.3%
Minimum total capital adequacy ratio	***8.0%***	*8.0%*	*8.0%*
Total Capital adequacy ratio	**28.0%**	26.6%	26.4%

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).

1 In close co-ordination with the NBG the Bank created an extra loan loss provision buffer to prepare for the potential impact of the COVID-19 pandemic on the Georgian economy. As of 31 March 2020, TBC Bank decided to book additional provisions in accordance with local standards in amount of c.3.1% of the loan book

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of 31 December 2019, 2018, 2017 are provided in the tables below:

In thousands of GEL	2019	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	**4,611,420**	**203,063**
Gross loans and accrued interests	**12,661,955**	**10,069,296**
Repossessed assets	**157,150**	**157,150**
Fixed assets and intangible assets	**626,191**	**596,732**
Other assets	**562,456**	**562,456**
Total	**18,619,172**	**11,588,670**
Total Off-balance	**5,171,419**	**1,206,395**
Less: Loan loss provision minus General Reserve	(152,618)	(152,618)
Market Risk	**34,216**	**34,216**
Total Amount	**23,672,190**	**12,676,663**

In thousands of GEL	2018	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	4,285,970	244,844
Gross loans and accrued interests	10,372,582	8,281,144
Repossessed assets	124,643	124,643
Fixed assets and intangible assets	504,035	474,576
Other assets	499,747	499,747
Total	15,786,977	9,624,954
Total Off-balance	2,674,697	754,170
Less: Loan loss provision minus General Reserve	(204,391)	(204,391)
Market Risk	210,916	210,916
Total Amount	18,468,199	10,385,649

In thousands of GEL	2017	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	3,609,132	214,353
Gross loans and accrued interests	8,553,217	6,885,960
Repossessed assets	116,809	116,809
Fixed assets and intangible assets	476,027	449,136
Other assets	409,876	409,876
Total	13,165,061	8,076,134
Total Off-balance	1,907,457	673,618
Less: Loan loss provision minus General Reserve	(118,492)	(118,492)
Market Risk	40,803	40,803
Total Amount	14,994,829	8,672,063

NON-FINANCIAL RISK MANAGEMENT

Operational risk management

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

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

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

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

To oversee and mitigate operational risk, the Group has established an operational risk management framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling effective management of operational risks are an integral part of the framework. The Management Board ensures a strong internal control culture within the Group, where control activities are an integral part of operations. The Board sets the operational risk appetite and the Operational Risk Committee oversees compliance with the limits. The Operational Risk 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 nonstandard cases as well as assessments of new products and procedures; monitoring IT incident occurrence and overseeing activities targeted at solving identified problems; and obtaining insurance policies to transfer the risk of losses from operational risk events.

The operational risk management department has reinforced its internal control, risk assessment teams and methodologies to further fine-tune the existing control environment. The same applies to the set of actions directed to homogenise operational risk management processes throughout the Group's member companies. The operational risk management department reports to the Chief Risk Officer. Various policies, processes and procedures are in place to control and mitigate operational risks, including: enacting an outsourcing risk management policy, which enables the Group to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor; implementing procedures to analyse systemic flaws and take corrective measures to prevent the reoccurrence of significant losses; involving the operational risk management department in the approval process for new products and services to minimise risks relating thereto; and developing a special operational risk awareness programme for the Group's employees and providing regular training to further strengthen the Group's internal risk culture.

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

Compliance

The compliance department is the 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 compliance officers, who act as compliance advisers and coordinators, addressing compliance issues in structural units or business lines. The Chief Compliance Officer reports quarterly to the Risk 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 Sanctions Policy, the Anti-Bribery, Anti-Corruption and Anti-Facilitation of Tax Evasion Policy; the Related-Party Transaction Policy; the Share Dealing Policy; the Code of Ethics; the Change Management Policy and the Whistleblowing Policy.

The compliance department manages regulatory risk by ensuring that applicable changes in laws and regulations are implemented by the process owners in a timely manner. The compliance department participates in new product/process risk approval process. Additionally the department conducts analysis of customer complaints, the operational risk event database, internal audit findings and litigation cases to proactively reveal process weaknesses. Based on the outcomes of this analysis, it then initiates changes to internal instructions or gives recommendations to the Bank's structural units on relevant process amendments. The compliance officers have the role of educators and advisers 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.

The NBG is also responsible for conducting investigations into specific transactions to ensure compliance with Georgian finance laws and regulations. In that regard, the Bank was subject to an inspection by the NBG in connection with certain transactions that took place in 2007 and 2008. The inspection alleged that these transactions between the Bank and certain entities were not in technical compliance with the Georgian law regulating conflicts of interest. In February 2019, the Company, the Bank and the NBG issued a joint statement confirming the settlement of this investigation and stating that the Bank fully complies with the economic normative requirements and limits set by the NBG. In response to the regulatory review and investigations, the founding shareholders stood down from their roles at both the Group and the Bank. The Company has implemented a "mirror board" structure strengthening the Board with the new appointments. In addition, the Bank, with the assistance of external advisers, undertook a review of the Bank's relevant internal controls systems. Although these reviews did not identify any material deficiencies in the Bank's existing internal controls and compliance systems, they did make certain recommendations for further technical improvements for the Bank, which are being implemented.

In parallel, the Georgian Office of Public Prosecution launched an investigation into the same matter and has charged the founders. The court case with the founders is ongoing. However, the founders have stood down from their positions at the Group and the Bank.

Anti-money laundering (AML)

The Group is committed to high standards both of anti-money laundering and counter terrorist financing (AML/CTF) and requires all Group member companies, management and employees to adhere to these standards in order to prevent the use of TBC Bank's products and services for money laundering/terrorist financing purposes. The Group's AML/CTF program is based on applicable legal and regulatory requirements, which are in line with FATF recommendations, EU regulations and best practices.

The Group's AML/CTF compliance program, as implemented, comprises written policies, procedures, internal controls and systems including, but not limited to: policies and procedures to ensure compliance with AML laws and regulations; KYC and customer due diligence procedures; customer screening against a global list of terrorists and specially designated nationalities; relevant financial and other sanctions lists; regular staff training and awareness raising; and procedures for monitoring and reporting suspicious activities of the Bank's customers etc.

As a part of the second line of defence, the AML unit ensures that risks are managed in accordance with the risk appetite defined by the Group and promotes a strong risk culture throughout the organization.

The Group has in place sophisticated AML solution that enables the AML unit to comply with the Sanctions Policy, to monitor clients' transactions and identify suspicious behavior. The AML unit works on the constant improvement of software to increase operational efficiency and decrease false-positive alerts.

In November 2019, the new Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing was introduced. Gap analysis have been conducted, resulting in plans to adjust internal processes and procedures in line with the new requirements is scheduled to take place in 2020.

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.

Legal

The Bank's legal department manages all legal and related matters concerning the activities of the Bank and the Group. In accomplishing its mission to ensure that such activities fully conform with all applicable laws and regulations, legal team delivers wide array of professional legal services – it (i) interacts with internal and external clients, outside counsel, government and regulatory entities, (ii) issues memos and opinions, (iii) drafts standardized and individual contracts, (iv) prepares corporate resolutions, (v) provides regulatory updates, (vi) represents the Bank in courts, other dispute resolution venues and before other third parties. The legal team, which comprises lawyers with diverse backgrounds and experience, consists of the following key divisions – regulatory and legal compliance, corporate, dispute resolution and corporate governance teams. Each division functions within its clear and distinct job descriptions corresponding to relevant knowledge, skill and capabilities of its members. As part of its agile transformation effort, several individual lawyers are working within and/or in close cooperation with the teams in charge of specific commercial projects. The department ensures effective execution of its duties through existing set of different processes and procedures.

The Bank's General Counsel manages the legal department. S/he determines key business objectives for all legal teams, introduces policies and vision, as well as ensures effective performance of their duties. The General Counsel reports directly to the Management Board and the Supervisory Board and their respective committees on existing legal risks, their mitigation strategies and vision for their effective management in the future.

Conduct risk

Conduct risk is defined as the risk to the delivery of fair outcomes for customers and other stakeholders. In 2019 the Group upgraded the Code of Conduct and the Code of Ethics according to the new "Code of Ethics and Standards of Professional Conduct of Commercial Banks". Both documents set high ethical standards that each employee is responsible to uphold.

The Group's business holds a unique place of trust in the lives of more than 2.6 million customers throughout Georgia. Therefore, preserving market confidence through the protection of our customers' interests is of the utmost importance for the financial stability of the Group and the attainment of its strategic objectives.

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

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

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

1. developing and maintaining policies and procedures to ensure that the respective departments and individual employees comply with the provisions set out by regulatory provisions, best practice and the Code of Conduct, the Code of Ethics and the Group's internal handbook;
2. maintaining a liaison with the compliance department regarding the administration of policies and procedures and the investigation of complaints regarding the conduct of the department, its manager and/or its employees;
3. ensuring that the product information provided to clients by front-line employees is accurate and complete, and is conveyed (both in written and oral form) in a simple and understandable way regardless of the level of sophistication of a given client;
4. maintaining records of client conversations and emails that contain sensitive and sales-related information, including information pertaining to the acquisition of new clients and making complex product offers to existing and prospective clients;
5. delivering timely, on-going training for new employees regarding proper conduct and ensuring that all employees stay up to date on evolving compliance standards within the Group through periodic training;
6. developing an open culture that encourages employees to speak up without fear of punishment. Specifically, this means setting up processes for the prevention and detection of conflicts of interest, creating ethical incentives and bonus formulas, and aligning incentives and disciplinary practices to the Group's risk appetite; and
7. employing qualified staff and sufficient human and technological resources to investigate, analyse, implement and monitor sales and after-sales activities. This approach ensures that the management of conduct risk is not limited to risk management units, including the compliance department, but is fully embraced by front-line departments and that the proper conduct is fully integrated into required job skills.

In 2019 the Group amended its training materials to cover all requirements regarding ethical conduct and delivered training to the whole staff.

VIABILITY STATEMENT

The assessment of principal risks underpins the Viability Statement in the Directors' Report for 2019 (see pages 134 to 135). The assessment involved consideration of the Group's current financial position over three years of coverage ending 1 January 2023, which is relevant to the strategic considerations of the Group.

OVERVIEW

TBC Bank Group PLC financial results are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS. The Group classifies and separately discloses certain incomes and expenses, which are non-recurring by nature and are caused by extraordinary events, as one-off items in order to provide a consistent view and enable better analysis of the financial performance of the Group. Underlying performance is an alternative performance measure (APM) and the reconciliation of the underlying profit and loss items with the reported profit and loss items and the underlying ratios are given under Annex 1 section on pages 122-123.

Starting from 1 January 2019, TBC Bank adopted IFRS 16. Therefore, the comparative information for 2018 is not comparable to the information presented for 2019.

TAX STRATEGY

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

Our objectives are built around the following key principles

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

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

PERFORMANCE HIGHLIGHTS

FY 2019 P&L Highlights

- Underlying profit for the period amounted to GEL 545.1 million (FY 2018: GEL 454.9 million)
- Reported profit for the period amounted to GEL 540.3 million (FY 2018: GEL 437.4 million)
- Underlying return on average equity (ROE) amounted to 22.6% (FY 2018: 22.8%)
- Reported return on average equity (ROE) amounted to 22.4% (FY 2018: 22.0%)
- Underlying return on average assets (ROA) amounted to 3.3% (FY 2018: 3.3%)
- Reported return on average assets (ROA) amounted to 3.2% (FY 2018: 3.2%)
- Cost to income of TBC Bank standalone[1] was 35.9% (FY 2018: 35.6%)
- Underlying cost to income of TBC Bank Group PLC stood at 39.5% (FY 2018: 37.8%)
- Reported Cost to income of TBC Bank Group PLC stood at 39.9% (FY 2018: 37.8%)
- Cost of risk on loans stood at 0.7% (FY 2018: 1.6%)
- Net interest margin (NIM) stood at 5.6% (FY 2018: 6.9%)
- Risk adjusted net interest margin (NIM) stood at 4.8% (FY 2018: 5.4%)
- Basic earnings per share stood at 9.83 (FY 2018: 8.07)
- Diluted earnings per share 9.76 (FY 2018: 8.00)

Balance Sheet Highlights as of 31 December 2019

- Total assets amounted to GEL 18,410.3 million as of 31 December 2019, up by 18.8% YoY
- Gross loans and advances to customers stood at GEL 12,662.0 million as of 31 December 2019, up by 22.1% YoY
- Net loans to deposits + IFI[2] funding stood at 104.8%, up by 14.9 pp YoY, and Regulatory Net Stable Funding Ratio (NSFR), effective from 30 September 2019, stood at 126.7%
- NPLs were 2.7%, down by 0.4 pp YoY
- NPLs coverage ratios stood at 91.1%, or 194.2% with collateral, on 31 December 2019 compared to 102.7% or 216.4% with collateral, as of 31 December 2018
- Total customer deposits amounted to GEL 10,049.3 million as of 31 December 2019, up by 7.5% YoY
- As of 31 December 2019, the Bank's Basel III CET 1, Tier 1 and Total Capital Adequacy Ratios per NBG methodology stood at 12.0%, 14.6% and 19.1% respectively, while minimum requirements amounted to 10.4%, 12.5% and 17.5% respectively

Market Share[3]

- Market share by total assets reached 38.2% as of 31 December 2019, remaining the same YoY
- Market share by total loans was 39.5% as of 31 December 2019, up by 0.7 pp YoY
- Market share of total deposits reached 39.0% as of 31 December, down by 2.2 pp YoY

1 For the ratio calculation all relevant group recurring costs are allocated to the bank
2 International Financial Institutions
3 Market share figures are based on data from the National Bank of Georgia (NBG). The NBG includes interbank loans for calculating market share in loans

CONSOLIDATED FINANCIAL RESULTS OVERVIEW FY 2019

Income statement highlights

in thousands of GEL	FY'19	FY'18	Change YoY
Net interest income	801,539	778,022	3.0%
Net fee and commission income	187,290	157,530	18.9%
Other operating non-interest income[4]	139,414	151,916	-8.2%
Credit loss allowance	(91,992)	(166,239)	-44.7%
Operating income after credit loss allowance	**1,036,251**	**921,229**	**12.5%**
Operating expenses	(450,726)	(411,029)	9.7%
Profit before tax	**585,525**	**510,200**	**14.8%**
Income tax expense	(45,184)	(72,765)	-37.9%
Profit for the period	**540,341**	**437,435**	**23.5%**
Underlying profit for the period	**545,105**	**454,861**	**19.8%**

Balance Sheet and Capital Highlights

in thousands of GEL	31-Dec-19	31-Dec-18	Change YoY
Total Assets	18,410,274	15,497,993	18.8%
Gross Loans	12,661,955	10,372,582	22.1%
Customer Deposits	10,049,324	9,352,142	7.5%
Total Equity	2,647,655	2,205,968	20.0%
Regulatory Common Equity Tier I Capital (Basel III)	1,871,892	1,629,594	14.9%
Regulatory Tier I Capital (Basel III)	2,281,706	1,678,716	35.9%
Regulatory Total Capital (Basel III)	2,974,029	2,351,269	26.5%
Regulatory Risk Weighted Assets (Basel III)	15,590,927	13,154,871	18.5%

Key Ratios

	FY'19	FY'18	Change YoY
Underlying ROE	22.6%	22.8%	-0.2 pp
Reported ROE	22.4%	22.0%	0.4 pp
Underlying ROA	3.3%	3.3%	0.0 pp
Reported ROA	3.2%	3.2%	0.0 pp
NIM	5.6%	6.9%	-1.3 pp
Risk adjusted NIM	*4.8%*	*5.4%*	*-0.6 pp*
Cost to income of standalone Bank[5]	35.9%	35.6%	0.3 pp
Underlying cost to income	39.5%	37.8%	1.7 pp
Reported Cost to income	39.9%	37.8%	2.1 pp
Cost of risk	0.7%	1.6%	-0.9 pp
FX adjusted cost of risk	*0.7%*	*1.5%*	*-0.8 pp*
NPL to gross loans	2.7%	3.1%	-0.4 pp
NPLs coverage ratio exc. collateral	91.1%	102.7%	-11.6 pp
CET 1 CAR (Basel III)	12.0%	12.4%	-0.4 pp
Regulatory Tier 1 CAR (Basel III)	14.6%	12.8%	1.8 pp
Regulatory Total CAR (Basel III)	19.1%	17.9%	1.2 pp
Leverage (Times)	7.0x	7.0x	0.0x

4 Other operating non-interest income includes Net insurance premium earned after claims and acquisition costs
5 For the ratio calculation all relevant group recurring costs are allocated to the bank

Net Interest Income

In FY 2019, net interest income amounted to GEL 801.5 million down by 3.0% YoY.

The YoY increase in interest income was primarily related to an increase in interest income from loans, which was related to growth of gross loan portfolio by GEL 2,289.4 million, or 22.1%. This effect was partially offset by a 1.3 pp drop in loan yields, mainly in the retail and MSME segments. The decrease in retail loan yields was driven by a continued impact of the NBG's regulation from January 2019, which limits the banks' ability to lend money to higher-yield retail customers, while the decrease in MSME loan yields was in line with the overall market trend.

Over the same period, interest expense increased by GEL 157.6 million, or 31.1%, which was mainly related to interest expense from bonds issued in summer 2019, as well as the increase in interest expense from deposits. The latter was related both to growth in the respective portfolio by 7.5% YoY and to an increase in deposit cost by 0.1 pp over the same period.

In 2019, we re-classified net gains on currency swaps from other operating income to net interest income. More information is given in annex 2 on page 123.

Consequently, NIM stood at 5.6% in FY 2019, compared to 6.9% in FY 2018, while risk adjusted NIM for the same period amounted to 4.8%, down by 0.6 pp YoY.

In thousands of GEL	**FY'19**	**FY'18**	**Change YoY**
Interest income	1,436,843	1,284,235	11.9%
Interest expense	(663,860)	(506,213)	31.1%
Net gains from currency swaps	28,556	N/A	100%
Net interest income	**801,539**	**778,022**	**3.0%**
NIM	**5.6%**	**6.9%**	**-1.3 pp**
Risk adjusted NIM	**4.8%**	**5.4%**	**-0.6 pp**

Net fee and commission income

In FY 2019, net fee and commission income totalled GEL 187.3 million, up by 18.9% on a YoY basis.

The increase on a YoY basis was spread across all categories and was related to overall growth of business.

In thousands of GEL	**FY'19**	**FY'18**	**Change YoY**
Net fee and commission income			
Card operations	56,037	50,174	11.7%
Settlement transactions	73,228	62,051	18.0%
Guarantees issued and letters of credit	30,289	23,414	29.4%
Other	27,736	21,891	26.7%
Total net fee and commission income	**187,290**	**157,530**	**18.9%**

Other Non-Interest Income

Total other non-interest income decreased by 8.2% on a YoY basis and amounted to GEL 139.4 million in FY 2019. This was mainly driven by the high base of other operating income last year due to the gain from sale of investment properties and the recognition of an option to buy shares in one of our large corporate clients in 2018. Another driver was the decrease in net income from foreign currency operations related to the re-classification of net gains on currency swaps. More information is given in annex 2 on page 123.

This decrease was partially offset by increase in net insurance premium earned after claims and acquisition costs, which increased by 50.8% YoY, mainly related to the increased scale of the insurance business.

In thousands of GEL	FY'19	FY'18	Change YoY
Other non-interest income			
Net income from foreign currency operations	101,467	106,874	-5.1%
Net insurance premium earned after claims and acquisition costs [1]	18,510	12,275	50.8%
Other operating income	19,437	32,767	-40.7%
Total other non-interest income	**139,414**	**151,916**	**-8.2%**

Credit Loss Allowance

In FY 2019, total credit loss allowance amounted to GEL 92.0 million, down by 44.7% on a YoY basis.

The decrease was mainly related to credit loss allowance on loans to customers, which was driven by strong performance in all segments, as well as the portfolio product mix change, related to the responsible lending regulation effective from 1 January 2019.

In thousands of GEL	FY'19	FY'18	Change YoY
Credit loss allowance			
Credit loss allowance for loan to customers	(82,030)	(143,723)	-42.9%
Credit loss allowance for other transactions	(9,962)	(22,516)	-55.8%
Total credit loss allowance	**(91,992)**	**(166,239)**	**-44.7%**
Operating income after credit loss allowance	**1,036,251**	**921,229**	**12.5%**
Cost of risk	**0.7%**	**1.6%**	**-0.9 pp**

Operating Expenses

In FY 2019, total reported operating expenses expanded 9.7% on a YoY basis and amounted to GEL 450.7 million, while over the same period underlying operating expenses increased by 8.3% and stood at GEL 445.1 million.

The increase was primarily due to an increase in staff costs and a rise in depreciation and amortization. The increase in staff costs was due to expansion of business as well as increase in share price over the three year period for the purpose of top and middle management share based bonuses accruals. The increase in depreciation and amortization was mainly due to the adoption of IFRS 16 from January 2019, which led to the reclassification of leases from administrative expenses to depreciation.

As a result, our cost to income ratio increased by 2.1 pp and stood 39.9% in FY 2019, while underlying cost to income was 39.5% up by 1.7 pp YoY.

In thousands of GEL	FY'19	FY'18	Change YoY
Operating expenses			
Staff costs	(247,803)	(220,354)	12.5%
Provisions for liabilities and charges	(1,264)	(4,000)	-68.4%
Depreciation and amortization	(59,478)	(45,740)	30.0%
Administrative & other operating expenses	(142,181)	(140,935)	0.9%
Total reported operating expenses	**(450,726)**	**(411,029)**	**9.7%**
Total underlying operating expenses	***(445,121)***	***(411,029)***	***8.3%***
Reported cost to income	**39.9%**	**37.8%**	**2.1 pp**
Underlying cost to income	***39.5%***	***37.8%***	**1.7 pp**

1 Net insurance premium earned after claims and acquisition costs can be reconciled to the standalone net insurance profit as follows: net insurance premium earned after claims and acquisition costs less credit loss allowance, administrative expenses and taxes, plus fee and commission income and net interest income

Net Income

Reported net income for the full year 2019 increased by GEL 102.9 million, or 23.5% and stood at GEL 540.3 million. Without one-off items our net income would have increased by GEL 90.2 million, or 19.8% and amounted to GEL 545.1 million.

As a result, ROE stood at 22.4%, up by 0.4 pp YoY, while ROA remained unchanged and stood at 3.2%. Our underlying ROE stood at 22.6% down by 0.2 pp YoY, while ROA stood at 3.3% and remained the same over the same period.

In thousands of GEL	FY'19	FY'18	Change YoY
Profit before tax	**585,525**	**510,200**	**14.8%**
Income tax expense	(45,184)	(72,765)	-37.9%
Reported profit for the period	**540,341**	**437,435**	**23.5%**
Underlying profit for the period	***545,105***	***454,861***	***19.8%***
Reported ROE	**22.4%**	**22.0%**	**0.4 pp**
Underlying ROE	***22.6%***	***22.8%***	***-0.2 pp***
Reported ROA	**3.2%**	**3.2%**	**0.0 pp**
Underlying ROA	***3.3%***	***3.3%***	***0.0 pp***

Funding and Liquidity

Since September 2019, the National Bank of Georgia had introduced net stable funding ratio (NSFR) per Basel III standards. The comparable figure for 2018 is based on internal estimates.

	31-Dec-19	31-Dec-18	Change
Minimum net stable funding ratio, as defined by NBG	*100.0%*	*N/A*	*N/A*
Net stable funding ratio	126.7%	129.3%[1]	-2.6%
Net loans to deposits + IFI funding	104.8%	89.9%	14.9%
Leverage (Times)	7.0x	7.0x	0.0x
Minimum liquidity ratio, as defined by the NBG	*30.0%*	*30.0%*	*0.0%*
Liquidity ratio, as defined by the NBG	32.2%	33.3%	-1.1%
Minimum total liquidity coverage ratio, as defined by the NBG	*100.0%*	*100.0%*	*0.0%*
Minimum LCR in GEL, as defined by the NBG	*75.0%*	*75.0%*	*0.0%*
Minimum LCR in FC, as defined by the NBG	*100.0%*	*100.0%*	*0.0%*
Total liquidity coverage ratio, as defined by the NBG	110.1%	113.9%	-3.8%
LCR in GEL, as defined by the NBG	83.7%	102.5%	-18.8%
LCR in FC, as defined by the NBG	128.4%	121.1%	7.3%

Regulatory Capital

As of 31 December 2019, the Bank's Basel III CET 1 capital stood at 12.0%, down by 0.4 pp on a YoY basis. The drop was mainly driven by the increased portfolio and GEL depreciation during 2019. This effect was partially offset by net income generation over the same period.

Our Tier 1 and Total capital ratios increased by 1.8 pp and 1.2 pp respectively. The increase was mainly driven by income generation and issuance of AT1 instrument (in the amount of US$ 125 million) in summer 2019.

In thousands of GEL	31-Dec-19	31-Dec-18	Change
CET 1 Capital	1,871,892	1,629,594	14.9%
Tier 1 Capital	2,281,706	1,678,716	35.9%
Total Capital	2,974,029	2,351,269	26.5%
Total Risk-weighted Exposures	15,590,927	13,154,871	18.5%
Minimum CET 1 ratio	*10.4%*	*8.3%*	*2.1 pp*
CET 1 Capital adequacy ratio	12.0%	12.4%	-0.4 pp
Minimum Tier 1 ratio	*12.5%*	*11.8%*	*2.2 pp*
Tier 1 Capital adequacy ratio	14.6%	12.8%	1.8 pp
Minimum total capital adequacy ratio	*17.5%*	*15.8%*	*1.7 pp*
Total Capital adequacy ratio	19.1%	17.9%	1.2 pp

1 Based on internal estimates

Loan Portfolio

As of 31 December 2019, the gross loan portfolio reached GEL 12,662.0 million, up by 22.1% YoY, or by 17.9% on a constant currency basis. This was mainly supported by growth in the corporate segments (as well as by the re-segmentation of certain clients from the MSME segment in 1Q 2019 in the amount of GEL 128.0 million). Over the same period, the proportion of gross loans denominated in foreign currency decreased by 1.4 pp on a YoY basis and accounted for 58.7% of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency increased by 2.9 pp and stood at 57.2%.

At the end of December 2019, our market share in total loans stood at 39.5% up by 0.7 pp YoY, while our loan market share in legal entities was 38.9% up by 1.6 pp YoY, and our loan market share in individuals stood at 40.0% and remained the same YoY.

In thousands of GEL	31-Dec-19	31-Dec-18	Change
Loans and advances to customers			
Retail	**5,053,203**	**4,698,699**	**7.5%**
Retail loans GEL	*2,386,750*	*2,063,283*	*15.7%*
Retail loans FC	*2,666,453*	*2,635,416*	*1.2%*
Corporate	**4,660,473**	**3,177,289**	**46.7%**
Corporate loans GEL	*1,424,309*	*905,372*	*57.3%*
Corporate loans FC	*3,236,164*	*2,271,917*	*42.4%*
MSME	**2,948,279**	**2,496,594**	**18.1%**
MSME loans GEL	*1,419,804*	*1,170,343*	*21.3%*
MSME loans FC	*1,528,475*	*1,326,251*	*15.2%*
Total loans and advances to customers	**12,661,955**	**10,372,582**	**22.1%**

	FY'19	FY'18	Change YoY
Loan yields	**11.0%**	**12.3%**	**-1.3 pp**
Loan yields GEL	*15.7%*	*17.8%*	*-2.1 pp*
Loan yields FC	*7.8%*	*8.5%*	*-0.7 pp*
Retail loan yields	**12.1%**	**14.2%**	**-2.1 pp**
Retail loan yields GEL	*18.0%*	20.8%	-2.8 pp
Retail loan yields FC	*7.3%*	7.9%	-0.6 pp
Corporate loan yields	**9.3%**	**9.5%**	**-0.2 pp**
Corporate loan yields GEL	11.6%	11.0%	0.6 pp
Corporate loan yields FC	8.4%	9.0%	-0.6 pp
MSME loan yields	**11.4%**	**12.1%**	**-0.7 pp**
MSME loan yields GEL	15.4%	16.2%	-0.8 pp
MSME loan yields FC	7.7%	8.7%	-1.0 pp

Loan Portfolio Quality

The total PAR 30 improved by 0.3 pp on a YoY basis, driven by the retail segment, while total NPLs stood at 2.7%, down by 0.4 pp, which was primarily attributable to the strong performance of the corporate and MSME segments as well as solid portfolio growth.

Par 30	31-Dec-19	31-Dec-18	Change
Retail	2.1%	2.6%	-0.5 pp
Corporate	0.5%	0.4%	0.1 pp
MSME	2.8%	2.8%	0.0 pp
Total Loans	**1.7%**	**2.0%**	**-0.3 pp**

Non-performing Loans	31-Dec-19	31-Dec-18	Change
Retail	3.0%	2.9%	0.1 pp
Corporate	1.8%	2.7%	-0.9 pp
MSME	3.8%	4.2%	-0.4 pp
Total Loans	**2.7%**	**3.1%**	**-0.4 pp**

NPLs Coverage

	31-Dec-19		31-Dec-18	
	Exc. Collateral	Incl. Collateral	Exc. Collateral	Incl. Collateral
Corporate	97.1%	241.4%	96.4%	286.9%
Retail	111.1%	182.9%	132.4%	204.4%
MSME	59.7%	173.7%	68.4%	174.0%
Total	**91.1%**	**194.2%**	**102.7%**	**216.4%**

Cost of risk

The total cost of risk for FY 2019 stood at 0.7%, down by 0.9 pp YoY, driven by the change of product mix, as well as by robust credit quality across all segments, related to the responsible lending regulation effective from 1 January 2019.

Cost of Risk	FY'19	FY'18	Change YoY
Retail	1.6%	2.7%	-1.1 pp
Corporate	-0.1%	0.4%	-0.5 pp
MSME	0.3%	0.7%	-0.4 pp
Total	**0.7%**	**1.6%**	**-0.9 pp**

Deposit Portfolio

The total deposit portfolio increased by 7.5% YoY and amounted to GEL 10,049.3 million, while on a constant currency basis the total deposit portfolio was up by 2.9%. The proportion of deposits denominated in foreign currency increased by 0.2 pp on a YoY basis and accounted for 65.9% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency increased by 1.3 pp and stood at 64.4%.

By the end December 2019, our market share in deposits amounted to 39.0% down by 2.2 pp YoY, and our market share in deposits to legal entities stood at 40.6% down by 0.7 pp. Our market share in deposits to individuals stood at 37.9%, down by 3.3 pp YoY.

In thousands of GEL	31-Dec-19	31-Dec-18	Change
Customer Accounts			
Retail	**5,673,917**	**5,103,971**	**11.2%**
Retail deposits GEL	*1,098,681*	*935,339*	*17.5%*
Retail deposits FC	*4,575,236*	*4,168,632*	*9.8%*
Corporate	**3,187,319**	**3,230,653**	**-1.3%**
Corporate deposits GEL	*1,735,746*	*1,754,282*	*-1.1%*
Corporate deposits FC	*1,451,573*	*1,476,371*	*-1.7%*
MSME	***1,188,088***	***1,017,518***	***16.8%***
MSME deposits GEL	*594,388*	*515,827*	*15.2%*
MSME deposits FC	*593,700*	*501,691*	*18.3%*
Total Customer Accounts	**10,049,324**	**9,352,142**	**7.5%**

	FY'19	FY'18	Change YoY
Deposit rates	**3.3%**	**3.2%**	**0.1 pp**
Deposit rates GEL	*5.8%*	*5.6%*	*0.2 pp*
Deposit rates FC	*2.0%*	*2.1%*	*-0.1 pp*
Retail deposit yields	**2.8%**	**2.7%**	**0.1 pp**
Retail deposit rates GEL	5.0%	4.4%	0.6 pp
Retail deposit rates FC	2.3%	2.4%	-0.1 pp
Corporate deposit yields	**4.9%**	**4.9%**	**0.0 pp**
Corporate deposit rates GEL	7.4%	7.5%	-0.1 pp
Corporate deposit rates FC	1.7%	1.9%	-0.2 pp
MSME deposit yields	**0.9%**	**1.0%**	**-0.1 pp**
MSME deposit rates GEL	1.5%	1.7%	-0.2 pp
MSME deposit rates FC	0.3%	0.4%	-0.1 pp

SEGMENTS PROFITABILITY

Business Segments

The segment definitions are as follows (updated in 2019):

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

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

Income Statement by Segments

FY'19 *In thousands of GEL*	**Retail**	**MSME**	**Corporate**	**Corp.Centre**	**Total**
Interest income	582,788	299,451	356,652	197,952	1,436,843
Interest expense	(152,751)	(10,202)	(160,064)	(340,843)	(663,860)
Net gains on currency swaps	-	-	-	28,556	28,556
Net transfer pricing	(66,951)	(101,424)	31,352	137,023	-
Net interest income	**363,086**	**187,825**	**227,940**	**22,688**	**801,539**
Fee and commission income	207,258	26,271	49,338	10,564	293,431
Fee and commission expense	(88,679)	(9,081)	(7,069)	(1,312)	(106,141)
Net fee and commission income	**118,579**	**17,190**	**42,269**	**9,252**	**187,290**
Net insurance premium earned after claims and acquisition costs	-	-	-	18,510	18,510
Net income/(expense) from foreign currency operations	30,990	24,220	49,851	(25,782)	79,279
Foreign exchange translation gains less losses	-	-	-	22,188	22,188
Net losses from derivative financial instruments	(264)	-	-	(16)	(280)
Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income	-	-	-	169	169
Other operating income	9,563	1,093	2,953	5,307	18,916
Share of profit of associates	-	-	-	632	632
Other operating non-interest income and insurance profit	**40,289**	**25,313**	**52,804**	**21,008**	**139,414**
Credit loss allowance for loans to customers	(77,323)	(7,968)	3,261	-	(82,030)
Credit loss allowance for performance guarantees and credit related commitments	411	124	(2,691)	-	(2,156)
Credit loss allowance for investments in finance lease	-	-	-	582	582
Credit loss allowance for other financial assets	(3,545)	(11)	2,211	(6,753)	(8,098)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	-	-	(141)	(149)	(290)
Profit before G&A expenses and income taxes	**441,497**	**222,473**	**325,653**	**46,628**	**1,036,251**
Staff costs	(134,143)	(48,018)	(38,360)	(27,282)	(247,803)
Depreciation and amortization	(45,522)	(7,210)	(2,571)	(4,175)	(59,478)
Provision for liabilities and charges	-	-	-	(1,264)	(1,264)
Administrative and other operating expenses	(77,563)	(21,094)	(17,127)	(26,397)	(142,181)
Operating expenses	**(257,228)**	**(76,322)**	**(58,058)**	**(59,118)**	**(450,726)**
Profit/(loss) before tax	**184,269**	**146,151**	**267,595**	**(12,490)**	**585,525**
Income tax (expense)/credit	(18,101)	(14,825)	(29,048)	16,790	(45,184)
Profit for the year	**166,168**	**131,326**	**238,547**	**4,300**	**540,341**

CONSOLIDATED FINANCIAL STATEMENTS OF TBC BANK GROUP PLC

Consolidated Statement of Financial Position

in thousands of GEL	31-Dec-19	31-Dec-18
Cash and cash equivalents	1,003,583	1,166,911
Due from other banks	33,605	47,316
Mandatory cash balances with National Bank of Georgia	1,591,829	1,422,809
Loans and advances to customers	12,349,399	10,038,452
Investment securities measured at fair value through other comprehensive income	985,293	1,005,239
Bonds carried at amortized cost	1,022,684	654,203
Investments in finance leases	256,660	203,802
Investment properties	72,667	84,296
Current income tax prepayment	25,695	2,116
Deferred income tax asset	2,173	2,097
Other financial assets	133,736	167,518
Other assets	255,712	192,792
Premises and equipment	385,736	367,504
Right of use assets	59,693	-
Intangible assets	167,597	109,220
Goodwill	61,558	31,286
Investments in associates	2,654	2,432
TOTAL ASSETS	**18,410,274**	**15,497,993**
LIABILITIES		
Due to credit institutions	3,593,901	3,031,503
Customer accounts	10,049,324	9,352,142
Lease liabilities	59,898	-
Other financial liabilities	113,608	98,714
Current income tax liability	1,634	63
Debt Securities in issue	1,213,598	13,343
Deferred income tax liability	21,331	22,237
Provisions for liabilities and charges	23,128	18,767
Other liabilities	95,162	104,337
Subordinated debt	591,035	650,919
TOTAL LIABILITIES	**15,762,619**	**13,292,025**
EQUITY		
Share capital	1,682	1,650
Shares held by trust	(27,516)	-
Share premium	848,459	796,854
Retained earnings	1,953,364	1,523,879
Group re-organisation reserve	(162,167)	(162,166)
Share based payment reserve	(17,803)	(16,294)
Revaluation reserve for premises	56,374	57,240
Fair value reserve	(6,476)	8,680
Cumulative currency translation reserve	(6,850)	(6,937)
Net assets attributable to owners	**2,639,067**	**2,202,906**
Non-controlling interest	8,588	3,062
TOTAL EQUITY	**2,647,655**	**2,205,968**
TOTAL LIABILITIES AND EQUITY	**18,410,274**	**15,497,993**

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of GEL	FY'19	FY'18
Interest income	1,436,843	1,284,235
Interest expense	(663,860)	(506,213)
Net gains from currency swaps	28,556	N/A
Net interest income	**801,539**	**778,022**
Fee and commission income	293,431	235,701
Fee and commission expense	(106,141)	(78,171)
Net fee and commission income	**187,290**	**157,530**
Net insurance premiums earned	38,199	23,601
Net insurance claims incurred and agents' commissions	(19,689)	(11,326)
Net insurance premium earned after claims and acquisition costs	**18,510**	**12,275**
Net gains from trading in foreign currencies	79,279	91,678
Net gain/(losses) from foreign exchange translation	22,188	15,196
Net gains/(losses) from derivative financial instruments	(280)	173
Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	169	2
Other operating income	18,916	31,438
Share of profit of associates	632	1,154
Other operating non-interest income	**120,904**	**139,641**
Credit loss allowance for loans to customers	(82,030)	(143,723)
Credit loss allowance for investments in finance lease	582	(1,765)
Credit loss allowance for performance guarantees and credit related commitments	(2,156)	(4,056)
Credit loss allowance for other financial assets	(8,098)	(16,609)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(290)	(86)
Operating income after credit impairment losses	**1,036,251**	**921,229**
Staff costs	(247,803)	(220,354)
Depreciation and amortization	(59,478)	(45,740)
Provision for liabilities and charges	(1,264)	(4,000)
Administrative and other operating (expense)/income	(142,181)	(140,935)
Operating expenses	**(450,726)**	**(411,029)**
Profit before tax	**585,525**	**510,200**
Income tax expense	(45,184)	(72,765)
Profit for the period	**540,341**	**437,435**
Other comprehensive:		
Items that may be reclassified subsequently to profit or loss:		
Movement in fair value reserve	(15,156)	6,949
Exchange differences on translation to presentation currency	85	425
Items that will not be reclassified to profit or loss:		
Revaluation of premises and equipment	-	10,749
Income tax recorded directly in other comprehensive income	-	(2,363)
Other comprehensive (expense)/income for the period	**(15,071)**	**15,760**
Total comprehensive income for the period	**525,270**	**453,195**
Profit attributable to:		
- Shareholders of TBCG	537,895	435,080
- Non-controlling interest	2,446	2,355
Profit for the period	**540,341**	**437,435**
Total comprehensive income is attributable to:		
- Shareholders of TBCG	522,843	450,903
- Non-controlling interest	2,427	2,292
Total comprehensive income for the period	**525,270**	**453,195**

Consolidated Statements of Cash Flows

In thousands of GEL	FY'19	FY'18
Cash flows from/(used in) operating activities		
Interest received	1,360,296	1,224,606
Interest received on currency swaps	28,556	-
Interest paid	(647,427)	(501,984)
Fees and commissions received	282,715	235,508
Fees and commissions paid	(106,526)	(78,140)
Insurance premium received	76,101	54,682
Insurance claims paid	(21,787)	(15,174)
Income received from trading in foreign currencies	79,287	91,678
Other operating income received	44,248	11,407
Staff costs paid	(216,465)	(202,897)
Administrative and other operating expenses paid	(169,582)	(136,670)
Income tax paid	(70,413)	(34,918)
Cash flows from operating activities before changes in operating assets and liabilities	***639,003***	***648,098***
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	(22,009)	(343,772)
Loans and advances to customers	(2,013,577)	(1,718,446)
Investment in finance lease	(43,719)	(54,784)
Other financial assets	19,612	(35,570)
Other assets	1,577	(4,486)
Net change in operating liabilities		
Due to other banks	(1,938)	69,755
Customer accounts	272,023	1,371,675
Other financial liabilities	(8,267)	(12,136)
Other liabilities and provision for liabilities and charges	5,816	3,618
Net cash flows (used in)/from operating activities	***(1,151,479)***	***(76,048)***
Cash flows from/(used in) investing activities		
Acquisition of investment securities measured at fair value through other comprehensive income	(1,781,816)	(717,729)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	240,603	14,781
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	1,598,536	370,571
Acquisition of subsidiaries, net of cash acquired	(39,297)	809
Acquisition of bonds carried at amortised cost	(613,383)	(395,717)
Proceeds from redemption of bonds carried at amortised cost	216,871	200,658
Acquisition of premises, equipment and intangible assets	(120,333)	(89,263)
Proceeds from disposal of premises, equipment and intangible assets	13,225	813
Cash acquired	2,996	-
Proceeds from disposal of investment property	13,338	42,515
Net cash used in investing activities	***(469,260)***	***(572,562)***
Cash flows from/(used in) financing activities		
Proceeds from other borrowed funds	1,819,899	1,776,489
Redemption of other borrowed funds	(1,392,897)	(1,515,562)
Repayment of principal of lease liabilities	6,453	-
Proceeds from subordinated debt	-	255,900
Redemption of subordinated debt	(104,079)	(60,910)
Proceeds from debt securities in issue	1,176,049	(7,596)
Redemption of debt securities in issue	(14,296)	-
Dividends paid	(91,928)	(85,484)
Acquisition of non-controlling interest in subsidiary	-	-
Net cash flows from financing activities	***1,386,295***	***362,837***
Effect of exchange rate changes on cash and cash equivalents	***71,116***	***21,207***
Net decrease in cash and cash equivalents	***(163,328)***	***(264,566)***
Cash and cash equivalents at the beginning of the year	***1,166,911***	***1,431,477***
Cash and cash equivalents at the end of the year	***1,003,583***	***1,166,911***

KEY RATIOS

Average Balances

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

Key Ratios

Ratios (based on monthly averages, where applicable)	FY'19	FY'18
Profitability ratios:		
Underlying ROE[1]	22.6%	22.8%
Reported ROE[2]	22.4%	22.0%
Underlying ROA[3]	3.3%	3.3%
Reported ROA[4]	3.2%	3.2%
ROE before credit loss allowance[5]	26.3%	30.4%
Underlying Cost to Income[6]	39.5%	37.8%
Reported Cost to Income[7]	39.9%	37.8%
NIM[8]	5.6%	6.9%
Risk Adjusted NIM[9]	4.8%	5.4%
Loan Yields[10]	11.0%	12.3%
Risk Adjusted Loan Yields[11]	10.3%	10.8%
Deposit rates[12]	3.3%	3.2%
Yields on interest Earning Assets[13]	10.0%	11.4%
Cost of Funding[14]	4.7%	4.4%
Spread[15]	5.5%	7.0%
Asset quality and portfolio concentration:		
Cost of Risk[16]	0.7%	1.6%
PAR 90 to Gross Loans[17]	1.1%	1.2%
NPLs to Gross Loans[18]	2.7%	3.1%
NPLs coverage exc. collateral[19]	91.1%	102.7%
NPLs coverage with collateral[20]	194.2%	216.4%
Credit loss level to Gross Loans[21]	2.5%	3.2%
Related Party Loans to Gross Loans[22]	0.1%	0.1%
Top 10 Borrowers to Total Portfolio[23]	8.3%	10.1%
Top 20 Borrowers to Total Portfolio[24]	12.3%	14.2%
Capital optimisation:		
Net Loans to Deposits plus IFI Funding[25]	104.8%	89.9%
Net Stable Funding Ratio[26]	126.7%	129.3%*
Liquidity Coverage Ratio[27]	110.1%	113.9%
Leverage[28]	7.0x	7.0x
CET 1 CAR (Basel III)[29]	12.0%	12.4%
Regulatory Tier 1 CAR (Basel III)[30]	14.6%	12.8%
Regulatory Total 1 CAR (Basel III)[31]	19.1%	17.9%

* *Based on internal estimates*

Ratio definitions

1. Underlying return on average total equity (ROE) equals underlying net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period adjusted for the respective one-off items; annualised where applicable.
2. Reported return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period; annualised where applicable.
3. Underlying return on average total assets (ROA) equals underlying net income of the period divided by monthly average total assets for the same period; annualised where applicable.
4. Reported return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period; annualised where applicable.
5. Return on average total equity (ROE) before credit loss allowance equals net income attributable to owners excluding all credit loss allowance divided by the monthly average of total shareholders 'equity attributable to the PLC's equity holders for the same period.
6. Underlying cost to income ratio equals total underlying 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. Reported cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
8. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities excluding corporate shares, net investment in finance lease, net loans, and amounts due from credit institutions. The latter excludes all items from cash and cash equivalents, excludes EUR mandatory reserves with NBG that currently have negative interest, and includes other earning items from due from banks.
9. Risk Adjusted Net Interest Margin is NIM minus the cost of risk without one-offs and the 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 the 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. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
17. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
18. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
19. NPLs coverage ratio equals total credit loss allowance for loans to customers calculated per IFRS 9 divided by the NPL loans.
20. NPLs coverage with collateral ratio equals credit loss allowance for loans to customers per IFRS 9 plus the total collateral amount of NPL loans (excluding third party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
21. Credit loss level to gross loans equals credit loss allowance for loans to customers divided by the gross loan portfolio for the same period.
22. Related party loans to total loans equals related party loans divided by the gross loan portfolio.
23. Top 10 borrowers to total portfolio equals the total loan amount of the top 10 borrowers divided by the gross loan portfolio.
24. Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.
25. Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
26. Net stable funding ratio equals the available amount of stable funding divided by the required amount of stable funding as defined by NBG in line with Basel III guidelines.
27. Liquidity coverage ratio equals high-quality liquid assets divided by the total net cash outflow amount as defined by the NBG.
28. Leverage equals total assets to total equity.
29. Regulatory CET 1 CAR equals CET 1 capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.

30. Regulatory tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
31. Regulatory total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.

Exchange Rates

To calculate the YoY growth of the Balance Sheet items without the currency exchange rate effect, we used the US$/GEL exchange rate of 2.6766 as of 31 December 2018. As of 31 December 2019, the US$/GEL exchange rate equalled 2.8677. For P&L items growth calculations without currency effect, we used the average US$/GEL exchange rate for the following periods: FY 2019 of 2.8192, FY 2018 of 2.5345.

ANNEX 1

Reconciliation of reported IFRS consolidated figures with the underlying numbers

Item *(in thousands of GEL)*	***FY 2019***	**FY 2018**	**Description**	**Reason for exclusion from the Group's current reported performance**
Consulting fees	*(5,605)*		*Consulting fees incurred in 2Q 2019, in relation to the recent events regarding historic matters surrounding TBC Bank. For further details, please see the press release dated 21.02.2019 and the press release dated 09.01.2019.*	These costs are significant and non-recurring in nature, and therefore are not indicative of the Group's current underlying performance.
Reversal of deferred tax gain	-	(17,426)	In 2018, TBC Bank reversed the one-off deferred tax gain recognized in 2016 due to the recent amendment to the Georgian Tax Code in relation to corporate income tax. The amendment, which came into force on 12 June 2018, postponed tax relief for re-invested profit from 1 January 2019 to 1 January 2023 for financial institutions.	These costs are significant and non-recurring in nature, and therefore are not indicative of the Group's current underlying performance.

in thousands of GEL	**FY'19**	**FY'18**
Reported net interest income	**801,539**	**778,022**
Reported net fee and commission income	**187,290**	**157,530**
Reported net insurance premium earned after claims and acquisition costs	**18,510**	**12,275**
Reported other operating income	**120,904**	**139,641**
Reported operating income	**1,128,243**	**1,087,468**
Reported total credit loss allowance	**(91,992)**	**(166,239)**
Reported operating income after provisions	**1,036,251**	**921,229**
Reported operating expenses	**(450,726)**	**(411,029)**
One-off consulting fees	*5,605*	-
Underlying operating expenses	(445,121)	(411,029)
Reported profit before tax	**585,525**	**510,200**
Underlying profit before tax	591,130	510,200
Reported income tax	**(45,184)**	**(72,765)**
Effect on tax of one-off items	*(841)*	
Reversal of the one-off deferred tax gain		*17,426*
Underlying income tax	(46,025)	(55,339)
Reported net profit	**540,341**	**437,435**
Underlying net profit (APM)	545,105	454,861
Reported non-controlling interest (NCI)	**2,446**	**2,355**
Underlying NCI	2,446	2,355
Reported net profit less NCI	**537,895**	**435,080**
Underlying net profit less NCI	542,659	452,506

in thousands of GEL	FY'19	FY'18
Average reported equity attributable to the PLC's equity holders	**2,397,141**	**1,977,359**
Adjustment for one-off items on monthly average basis	*6,079*	*10,088*
Average underlying equity attributable to the PLC's equity holders	2,403,220	1,987,447
Average reported total assets	**16,792,320**	**13,623,594**
Adjustment for one-off items on monthly average basis	-	-
Average underlying total assets	16,792,320	13,623,594

	FY'19	FY'18
Reported cost to income	39.9%	37.8%
Underlying cost to income (APM)	*39.5%*	*37.8%*
Reported ROE	22.4%	22.0%
Underlying ROE (APM)	22.6%	22.8%
Reported ROA	*3.2%*	*3.2%*
Underlying ROA (APM)	3.3%	3.3%

ANNEX 2

Net gains from currency swaps

In 2019, the Group entered into swap agreements denominated in foreign currencies in order to decrease its cost of funding. As the contracts reached significant volume, the Group revisited the presentation of effects in the Statement of profit or loss. Reclassifications from other non-interest operating income to net interest income have been recorded for the first three quarters in 2019. 2018 information has not been restated due to immateriality of amounts.

in thousands of GEL	4Q'19	3Q'19	2Q'19	1Q19
Net gains from currency swaps	**9,054**	**8,355**	6,967	4,179

CHAIRMAN'S GOVERNANCE OVERVIEW

Dear shareholders,

As the Chairman of the Board, I am pleased to present our corporate governance report for 2019. Our aim is to ensure that our governance is fit for purpose and in line with best practice. We remain firmly of the view that strong governance should prevail throughout our business and that a sound corporate governance framework is vital to ensure our business functions effectively, while at the same time creating long-term, sustainable value for our shareholders and taking into account the needs of our other key stakeholders.

2019 was a challenging year for the Board. Following the departure of the former Chairman and Deputy Chairman, a number of changes were made to the boards of the Company and its main subsidiary JSC TBC Bank (the "Bank"). We have implemented a Mirror Board governance structure, with all non-executive Directors of the Board also becoming members of the Supervisory Board of the Bank. You can read the full details about the Board and Committee restructuring and composition in the Corporate Governance and Nomination Committee report on pages 143-146.

We continue to firmly believe that a successful and properly functioning Board requires the right balance of skills, including country-specific knowledge, and diversity of experience and perspectives to achieve maximum effectiveness. For this reason, composition of the Board and diversity were key areas of focus for the Board again this year. I am pleased to report that Arne Berggren, an independent non-executive Director has joined our Board and, Eric Rajendra has rejoined us as an independent non-executive Director following his recovery from a period of illness. I am also pleased to report that Arne Berggren and Eric Rajendra bring extensive banking and financial services experience, which will serve to ensure that the Board is well placed to function effectively and take opportunities which present themselves to us in the year ahead. The Board and Committee changes over the past year are set out in further detail in the Corporate Governance and Nomination Committee report on pages 143-146 .

An important part of my role as Chairman is to ensure that the Board and its individual members operate effectively and that the Board environment enables a culture of openness, debate and high-quality decision making. The Board is collectively responsible for overseeing delivery of the Group's strategy and has a significant role to play in determining that the Group's culture, values, strategy and business model are all aligned in order to create sustainable value for our shareholders and takes into account the interests of all our stakeholders. A summary of our strategy is outlined on pages 12-19 and how we impact on our stakeholders is described on pages 52-55.

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

Nikoloz Enukidze
Chairman
28 April 2020

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 2019 and the Group's approach to governance in practice, the work of the Board and its committees.

COMPLIANCE STATEMENT

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

At the date of this report, the Company has applied the principles and complied with the provisions set out in the Code issued by the Financial Reporting Council ("FRC") in July 2018 in full throughout 2019. In particular, the Board has considered the changes made to the 2018 Code and the increased focus required upon a company's purpose, culture and stakeholder engagement. The Code can be found on the FRC website www.frc.org.uk.

THE BOARD

The Board is collectively responsible for promoting the Group's purpose, culture, values and long term success strategy and the delivery of sustainable value to stakeholders by establishing and overseeing the strategic direction of the Company and its business. The directors are aware of their duties under section 172 of the Companies Act 2006 and further insight into how the Board took account of the views and interests of our stakeholders can be found on pages 52-55.

The Board is led by the Chairman and provides challenge, oversight and advice to ensure the Company's success. The Chairman ensures that there is constructive debate in the boardroom in order to create and maintain an environment where the Board remains open to different viewpoints and ideas.

The Board is 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 the website at www. tbcbankgroup.com.

During the year ended 31 December 2019, the Board considered a wide range of matters, including:

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

The principal decisions taken by the Board during 2019, and the impact that these had on various stakeholders are detailed below:

Decision:	**2020 Business Plan and Budget**
Context	The Business Plan and Budget sets the annual targets and the costs of the necessary resources to achieve these targets. It is developed in line with the overall strategy of the Group and takes into account any specific challenges faced by the business. This includes any stakeholder related considerations. The Chief Executive Officer, supported by key members of management, presents the Business Plan and Budget for the Board's challenge and approval. Key senior management responsible for the key business units attend and present their budget to the Board.
Stakeholder considerations	In reviewing the Business Plan and Budget, the Board considered the potential impact that each operation and project might have on its stakeholders (employees, local communities, government and regulators, contractors & suppliers, shareholders and customers) and the environment.

Decision:	**2020 Business Plan and Budget**
Strategic Actions Supported by the Board	The strategic actions of the Business Plan and Budget supported by the Board to generate value for stakeholders are: ▸ continued geographic expansion into other jurisdictions in the region; ▸ further system and process enhancements based on the agile system to increase efficiency and improve control; ▸ wider use of digital banking technology to benefit customers; ▸ continuing high standards of corporate governance and adherence to regulations; and ▸ approval of investment plans, generating new products and businesses that provide additional employment opportunities, enhanced customer services and supplier opportunities.
Impact of these actions on the long-term success of the Company	The Business Plan and Budget creates a balance between current operating performance and considerations that matter to all stakeholders in the short and long-term such as health & safety, environmental performance and community relations. In addition a wider range of client products will become available to customers in Georgia and other jurisdictions across the region.
Outcome	In December 2019 the Board discussed and approved the 2020 Business Plan and Budget.

Decision:	**Share buy back**
Context	Following a reduction in the share price, the Board reviewed and considered whether to take advantage of the powers given to it by shareholders to repurchase up to 10% of the company's issued share capital.
Stakeholder considerations	The Board determined that, as a result of the reduction in share price, it was to the benefit of shareholders to put into place a short term share buyback programme.
Strategic Actions Supported by the Board	The share buyback programme was implemented in order to: ▸ support the share price; and ▸ make treasury stock available to satisfy employee long term share plans.
Impact of these actions on the long-term success of the Company	The Board actioned the share purchase programme, for a period of time and purchased 144,380 shares at an aggregate value of £ 1,967,133 (which does not include trade commission). The repurchased shares were held in treasury, and then transferred to the Employee Benefit Trust.

BOARD COMMITTEES

The Board is supported by its committees (the "Committees") and delegates a broad range of responsibilities to them, while maintaining the effective links between the Committees and the Board where required. The Board has four Committees: (i) the Audit Committee; (ii) the Remuneration Committee; (iii) Corporate Governance and Nomination Committee; and (iv) the Risk Committee. The chair of each Committee reports matters of significance to the Board after each meeting. Each of the Committees is made up of independent non-executive Directors, apart from the Corporate Governance and Nominations Committee and the Remuneration Committee, where the Chairman, who was independent on appointment, is also a member.

All Committees undertake an annual review of effectiveness and a review of their terms of reference.

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

CORPORATE GOVERNANCE STRUCTURE

Board of Directors

Membership

Outside Directors	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Risk Committee
Nikoloz Enukidze		Member	Member	
Nicholas Dominic Haag (SID)	Chairperson	Member	Member	Member
Maria Luisa Cicognani	Member	Chairperson		Member
Tsira Kemularia	Member		Chairperson	Member
Arne Berggren	Member			Chairperson
Eric Rajendra		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, Nikoloz Enukidze 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, Nicholas Haag as the new 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

In accordance with the Code, the majority of the Board are independent non-executive Directors. At the date of this report, the Board is comprised of a Chairman (Nikoloz Enukidze), two executive Directors (Vakhtang Butskhrikidze and Giorgi Shagidze) and five independent non-executive Directors (Nicholas Haag (SID), Maria Luisa Cicognani, Tsira Kemularia, Arne Berggren and Eric Rajendra).

Non-executive Directors constructively challenge and scrutinise the performance of management and help develop proposals on strategy. In 2019, as mentioned previously, there were changes in composition of the Board and details of these changes are set out in the Corporate Governance and Nomination Committee report.

The Board has considered the independence of the Company's non-executive Directors as against the factors described in the Code and has determined that all non-executive Directors are independent in character and judgement.

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

Nikoloz Enukidze was considered to be independent on appointment to the Board and on taking up the role of Chairman. The Board is unanimously of the opinion that Mr Enukidze 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.

Details of the individual Directors and their biographies are set out on pages 136-139.

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 Board meetings and respective Committees meetings of which they are members, as well as scheduled away days, site visits, conference calls and email communication. Non-executive Directors consider all relevant materials prior to each meeting and commit additional time to the Company when it is undergoing a period of particularly increased activity.

BOARD AGENDA

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

The Board recognises the need to prioritise time to focus on material strategic and business matters, while ensuring monitoring and oversight of all other key matters within its remit.

The Board and Committees rely on the management to raise relevant items for approval. The processes of agenda setting and reporting to the Board are reviewed as part of the Board performance evaluation. During the Board meetings, there is also an extra day allocated for strategic sessions. This provides an opportunity for the Directors to focus exclusively on strategy and gain deeper insights by hearing from relevant business line heads within the Group, asking questions and debating matters in an informal way.

BOARD AND COMMITTEE MEETING ATTENDANCE

In 2019, the Company held 9 scheduled and 24 additional meetings. Moreover, the Chairman and the Chief Executive Officer maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

In addition, the affairs of the Company's main subsidiary, the Bank, are supervised by the Supervisory Board with the same membership as the Board. There is also an equivalent committee structure and composition of the Supervisory Board as the committee structure at the 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 together with their respective committees. However, the work of the Board, the Supervisory Board and their respective committees is carefully balanced, dividing functions according to whether they are supervising the topics that impact the Company or solely the Bank.

Attendance of meetings of the Board and the Committees in 2019 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	Risk Committee meetings eligible to attend/attended
Vakhtang Butskhrikidze (Chief Executive Officer)	40/40	0/0	0/0	0/0	0/0
Giorgi Shagidze (Chief Financial Officer)	40/40	0/0	0/0	0/0	0/0
Non-Executive Directors					
Nikoloz Enukidze (Chairman)	40/40	11/11	10/10	11/11	4/4
Mamuka Khazaradze (former Chairman)	24/23	0/0	0/0	0/0	0/0
Badri Japaridze (former Deputy Chairman)	24/23	0/0	0/0	5/5	0/0
Nicholas Dominic Haag	40/36	14/14	10/9	5/5	7/7
Maria Luisa Cicognani	40/38	14/14	10/10	0/0	7/7
Tsira Kemularia	40/38	3/3	0/0	11/11	7/7
Eric Rajendra	13/13	9/9	5/4	3/3	2/2
Arne Berggren	11/11	3/3	0/0	0/0	3/3

Attendance of meetings of the Supervisory Board and its committees in 2019 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	Risk Committee meetings eligible to attend/attended
Mamuka Khazaradze (former Chairman)	9/7	0/0	0/0	0/0	0/0
Vakhtang Butskhrikidze (Chief Executive Officer)	0/0	0/0	0/0	0/0	0/0
Giorgi Shagidze (Chief Financial Officer)	0/0	0/0	0/0	0/0	0/0
Badri Japaridze (former Deputy Chairman)	9/9	0/0	0/0	2/2	0/0
Eric Rajendra	7/7	2/2	10/10	2/2	4/4
Nikoloz Enukidze (Chairman)	56/56	10/10	8/8	8/8	15/15
Nicholas Dominic Haag	56/55	13/13	8/8	2/2	20/20
Maria Luisa Cicognani	56/53	13/13	3/3	0/0	20/20
Tsira Kemularia	56/56	13/13	8/8	8/8	20/20
Jyrki Kosleko	12/10	0/0	0/0	0/0	0/0
Arne Berggren	21/21	3/3	0/0	0/0	5/5

DIVERSITY POLICY

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

Detailed information on our diversity policy could be found in Corporate Governance and Nomination Committee report on pages 143-146.

INDUCTION AND TRAINING

A formal induction is arranged for newly appointed directors based on the individual's need, skills and experience. Typically, these included a series of meetings with the Chairman and other directors and senior executives, as well as local site visits to provide familiarity with the business. During the year, there was one new appointment to the Board and its Committees. The induction process for Arne Berggren included an on-site business introduction, followed by meetings with executives and key business unit managers and an introduction to the operations, risks, and governance environment of the Group. In addition, Arne Berggren received training on his duties as directors of a listed company including the recent changes made to the Code, at the offices of Baker McKenzie LLP, the Company's external counsel.

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

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

ANNUAL BOARD EFFECTIVENESS EVALUATION

An internally facilitated annual Board performance evaluation was conducted in 2019, following an externally evaluated review undertaken by Independent Audit Limited in 2018 (IAL). The review was carried out at the initiative and with the participation of the Company's Corporate Governance and Nomination ("CGN") Committee. Questionnaires were distributed to all Board directors for their response and comment. The results were discussed at three levels: (i) among the members of the CGN Committee; (ii) between Tsira Kemularia (as Chairman of the CGN Committee) and Nikoloz Enukidze Chairman of the Board); and (iii) among the members of the Board as a whole. Following the review the SID met with all the Board members individually to consider the Chairman's performance. The comments received were fed back to him subsequently meeting.

Board performance was deemed to be satisfactory. At its February 2020 meeting, the Board agreed an action plan for 2020 that would allow the Board to continue developing its involvement in reviewing and considering the management's strategy proposals and to take into account stakeholder considerations; and to ensure that all Board and Committee meetings remain focused and efficient. New initiatives will be introduced to support director training, and the CGN Committee will continue to review senior management succession plans in great detail.

As a result of the 2019 action plan, approved by the Board in February 2019, following the external evaluation by IAL, the Board noted that its members had spent more time considering the Group's strategy plan and investment proposals arising from it, and more focus has been made on succession planning for senior executives. In addition, information flows to both the Board and its Committees had been improved and a restructuring of Committee memberships had assisted in this.

The Company undertakes regular performance evaluations of the Board in line with the requirements of the UK Corporate Governance Code. An externally facilitated review is planned for 2021.

DIRECTORS' COMMITMENTS

The Directors are required to disclose to the Board their external appointments or other significant commitments prior to their appointment. Should these appointments change during their tenure, the Directors are required to disclose those changes and conflicts that might arise will be considered and approved by the Board.

Each non–executive Director is required to devote such time as is necessary for the effective discharge of their duties. Whilst the non-executive Directors hold external directorships or other external positions, the Board believes they still have sufficient time to devote to their duties as a Director of the Company and that the other external directorships/positions held provide the Directors with valuable expertise which enhances their ability to act as a non-executive Director of the Company. No significant changes to the commitments of the Chairman or non-executive Directors were identified during the year 2019.

RE-ELECTION OF DIRECTORS

As mentioned above, all Directors are subject to annual re-election by shareholders at the Annual General Meeting, in accordance with the Code. Biographical details of the Directors are included on pages 136-139.

REMUNERATION COMMITTEE

Information on the Remuneration Committee is included in the Directors' Remuneration report on pages 151 to 179.

ENGAGEMENT WITH STAKEHOLDERS

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

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

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

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

Details on our engagement with the stakeholders can be found on pages 52-55.

ANNUAL GENERAL MEETING

The last Annual General Meeting ("AGM") of the Company was held on 24 June 2019 at the offices of Baker McKenzie, 100 New Bridge Street, London. 82.35% of total voting rights were exercised by shareholders. All resolutions put to shareholders were passed with votes in favour ranging from 89.69% to 100.0% of the votes cast.

The 2020 AGM Notice will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on our investor relations website: www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our investor relations website www.tbcbankgroup.com.

DIRECTORS' REPORT

The Directors present their Annual Report together with the audited consolidated accounts for the year ended 31 December 2019, which can be found on pages 191-318.

The Strategic Report on pages 2 to 123 was approved by the Board on 28 April 2020 and signed on its behalf by Vakhtang Butskhrikidze, the Company's Chief Executive Officer.

The Management Report together with the Strategic Report on pages 2 to 123 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:

DIRECTORS' CONFLICTS OF INTERESTS

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

Directors have a continuing duty to notify the Chairman and Company Secretary as soon as they become aware of any potential or actual conflicts.

DIRECTORS' INDEMNITIES AND INSURANCE

The Group maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also granted indemnities to each of its Directors to the extent permitted by law. Neither the indemnity nor insurance cover provides cover in the event that a Director, officer or company secretary is proved to have acted fraudulently or dishonestly. The above referred liability insurance and indemnities were in force during the course of the financial year ended 31 December 2019 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 2019.

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.

Although neither Mamuka Khazaradze nor Badri Japaridze are directors of the Company or any other member of the Group, the Relationship Agreement continues to provide certain protections for the Group from how they and the other members of the Presumed Concerted Party Group might act with respect to the Group as shareholders or otherwise. Specifically, 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 April 2020, the Company's issued ordinary share capital comprised 55,155,896 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 26 to the consolidated financial statements on page 269 of this Annual Report.

PROFIT AND DIVIDENDS

The profit for the financial year ending 31 December 2019 attributable to the Company's shareholders, after taxation, amounts to GEL 537,895,000. The Board is not planning to recommend payment of a 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 2019, 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 2019

Shareholder	% of voting rights	# of voting rights
Mamuka Khazaradze	10.26%	5,658,048
Badri Japaridze	6.00%	3,308,616
European Bank for Reconstruction and Development	8.04%	4,436,406
Dunross &Co	6.61%	3,647,918
Schroder Investment Management	6.48%	3,571,864
JPMorgan Asset Management	6.22%	3,430,002
Creation Investments Capital Management	3.00%	1,652,388

Subsequent to the year end, JPMorgan Asset Management notified the Company in accordance with DTR5 of an indirect holding of 3,435,378 ordinary shares, representing 6.23% of the Company's issued share capital. Also, Schroders Investment Management notified the Company in accordance with DTR5 of an indirect holding of 3,004,261 ordinary shares, representing 5.45% of the Company's issued share capital and Mamuka Khazaradze notified the Company in accordance with DTR5 of an indirect holding of 4,863,048 ordinary shares, representing 8.82% of the Company's issued share capital. In addition, Dunross&Co notified the Company in accordance with DTR5 of an indirect holding of 3,894,434 ordinary shares, representing 7.06% of the Company's issued share capital. Future regulatory filings by shareholders will be available on the Group's website at www.tbcbankgroup.com and the LSE website at www.londonstockexchange.com.

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

The Companies Act 2006 and the Articles of Association determine the powers of Directors, in relation to share issues and buy backs of shares in the Company. The Directors are authorised to issue and allot shares subject to approval at a general meeting of shareholders. Such authorities were granted to the Directors by shareholders at the Annual General Meeting of the Company, held on 24 June 2019, authorising the Directors to allot ordinary shares in the capital of the Company up to an aggregate nominal value of £ 182,865.

This authority will apply until the conclusion of the 2020 AGM. Shareholders will be requested to renew these authorities at the 2020 AGM.

On 29 July 2019, the Company launched a share buy-back program and repurchased 144,380 Ordinary Shares of the Company that were held in Treasury and later transferred to TBC Bank Group PLC Employee Benefit Trust (the "EBT"). EBT will use these shares to satisfy obligations arising from the TBC Bank Group PLC Deferred Share Plan (the "Deferred Share Plan"), the TBC Bank Group PLC Long Term Incentive Plan and other share awards granted to employees.

APPOINTMENT / REPLACEMENT OF DIRECTORS AND AMENDMENT OF ARTICLES OF ASSOCIATION

The appointment and retirement of Directors is governed by the Articles of Association, the 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, Arne Berggren and Eric Rajendra were appointed to the Board as non-executive Directors in 2019 and will stand for election by the shareholders at the Annual General Meeting. Vakhtang Butskhrikidze and Giorgi Shagidze have service contracts with the Company, which came into effect on 10 August 2016 and will continue until terminated by either party to such contracts, giving the other not less than seven months written notice. Biographical details and reasons for the reappointment for the Directors are given in the Notice of AGM.

CHANGE OF CONTROL

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

EMPLOYEE DISCLOSURES

The Company's disclosures relating to the employee engagement and policies, as well as human rights, are included in the "Our Colleagues" section on pages 60 to 67 of this Annual Report.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

GOING CONCERN STATEMENT

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

VIABILITY STATEMENT

In compliance with the Code, the Directors assessed the prospects of the Group and its viability over a three-year period beginning on 1 January 2020. The Directors determined the three-year period ending on 1 January 2023 to be appropriate, as it is consistent with the Group's planning cycle, covering financial forecasts and the strategic considerations of the Group. While assessing the viability of the Group and its operations, the Directors carried out a robust and thorough assessment of the Group's risk profile, including all material existing and emerging risks that could cause a deviation in the Group's financial condition, operations and prospects from the expectations over the period of assessment. As part of their strategic planning, the Directors looked beyond this period and took into consideration, as far as possible, information from a variety of sources relating to local, regional and other, broader macro-economic, political, technological, social and environmental changes which could impact the Group's business and development. At this point, the Directors have no reason to believe that the Group will not stay viable over the longer-term. In addition, the Directors analysed the Group's ability to meet all regulatory requirements. The Directors' assessment considered all of the principal and emerging risks of the Group and the effectiveness of current and proposed mitigating actions. The key areas of focus were:

- the risk of economic and political instability and its impact on the Group's future performance;
- the risk of not meeting regulatory requirements, with a key focus on minimum capital adequacy ;
- foreign exchange rate risk, which is significant due to the high dollarisation of the Group's portfolio;
- the regulatory risk that derives from the significant regulatory changes within the last two years;
- the risk of decreasing net interest income and net interest margin as a result of new regulations, increased competition and funding structure; and
- increased reputational risk related to the Company's founders' media exposure.

In addition the directors have undertaken a detailed review of the impact of the COVID-19 virus and the Group's viability. A summary of all of the material existing and emerging risks the Group is exposed to and the mitigating actions taken by the Group are set out on pages 84 to 92.

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 and the achievement of the Group's strategic objective, and ensured that those risks were properly managed. The key focus areas were:

- the current business position and future prospects of the Group;
- the capital, funding and liquidity profile of the Group; and
- the availability and efficient use of respective human and technical resources.

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

The Directors ensure that the Group's governance structure enables adequate oversight and accountability, as well as a clear segregation of duties. The involvement of all governance levels in risk management, the clear segregation of authority, and effective communications between different entities facilitate 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 and emerging risks 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 2023, 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 2020 to 1 January 2023.

Stress testing

In 2019, the Bank, as part of its regular stress testing framework, performed an internal, enterprise-wide stress testing exercise. The purpose of the stress test was to assess the vulnerability of the Bank's capital adequacy and profitability to different macro scenarios. The Bank developed three scenarios of different severity. The stress scenarios covered certain assumptions about GEL devaluation, inflation, total GDP growth, sectoral growth, unemployment, changes in real estate and commodity prices, changes in interest rates and loan and deposit portfolio developments. The Directors consider the stress scenarios and the associated results to be appropriate to the business and its risk appetite, therefore no urgent mitigation was required. The Bank will continue to use stress testing exercise as one of the key tools in its risk management framework.

In addition, the Bank performed specific stress testing exercise related to COVID-19 pandemic by applying multiple scenarios. Current situation is highly uncertain but it is reasonable to expect that COVID-19 will have material negative effect on the credit portfolio. Therefore, in the severe stress scenario the Bank applied conservative assumptions such as economic recession, significant GEL devaluation, short term significant decrease in real estate prices in USD, increase in GEL interest rates, higher inflation, increase in current account deficit, significant decline in income from tourism, export, FDI and remittances as well as material increase in unemployment. Significant external financing is also taken into account, as well as the fact that there were no signs of overheating of the economy or the real estate sector before the distress. Also, in the severe stress scenario, the economic contraction is expected to be more severe in 2020, and the speed of recovery to the 2019 level is also expcted to be slower.

The results of the stress test shows that the Bank remains viable even within the severe stress scenario and is able to meet updated capital regulatory requirements. Please see page 86 summarizing countercyclical measures introduced by the NBG in relation to the capital adequacy requirements.

DIRECTORS' RESPONSIBILITIES

The following statement, which should be read together with the Auditors' report set out on pages 191-318, is required by the Companies Act 2006 (the "Act").

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

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

The Directors consider that in preparing the financial statements they have used appropriate accounting policies, supported by reasonable judgments and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors also believe that the financial statements have been prepared on the going concern basis. Please see further the "Going concern statement" on page 134 of this Annual Report.

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the Directors, whose names and functions are listed on pages 136 to 139 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 position and performance, business and strategy.

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

Nikoloz Enukidze
Chairman
28 April 2020

NIKOLOZ ENUKIDZE

Chairman

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.

In 2006 – 2010 Nikoloz Enukidze served as the Chairman (and prior to that as Vice-Chairman) of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank in its successful IPO on the London Stock Exchange, the first ever IPO in London from the Caucasus region. He also serves as member of the board of Yelo Bank in Azerbaijan. Prior to his roles at Bank of Georgia, Nikoloz worked at ABN AMRO Corporate Finance in Moscow and London, Concorde Capital in Kyiv and Global One Communications in Reston, Virginia.

Nikoloz Enukidze serves as the Chairman of TBC Bank Group PLC and JSC TBC Bank since 25 July 2019 and 13 August 2019 respectively. Previous to that, Nikoloz was appointed as the independent member of the Supervisory Board of JSC TBC Bank in 2013 and was Senior Independent Director of the Board from 2016 to August, 2019.

NICHOLAS DOMINIC HAAG

Senior Independent Non-Executive Director

Nicholas Haag earned an M.A. from the University of Oxford with a degree in modern studies in geography in 1980.

Mr Haag has 32 years of experience working in the financial services industry, with a significant emphasis on equity capital markets and technology. His experience includes seven years at Barclays Bank between 1980 and 1987 in various capital markets and project finance roles, including as the head of equity syndicate, Barclays de Zoete Wedd (BZW); ten years at Banque Paribas, Paribas Capital Markets between 1989 and 1999, initially as deputy head of global equity capital markets and later senior banker and head of European client coverage (exFrance); two years at ING Barings between 1999 and 2001 as managing director and global head of technology banking group; six years at ABN AMRO between 2001 and 2007 based in London as the global head of technology banking, member of Global TMT Management Committee, senior managing director and member of the Senior Credit Committee; four years with the Royal Bank of Scotland between 2008 and 2012 and RBS Hoare Govett as managing director, head of London equity capital markets and member of the Global Equities Origination Management Committee.

Since 2012, he served as a senior independent adviser to the Chairman of the management board and, from 2013 until November 2016, as a member of the supervisory board of Credit Bank of Moscow and a financial consultant specialising in capital raisings and stock exchange flotations. He also serves as an independent non-executive director of Bayport Management Limited (pan-African and Latin American consumer lender) and since 2016 as a director of AS Citadele Banka in Riga. Since 2012, he has acted as sole director of his own consulting company, Nicdom Limited.

Mr Haag was appointed to the Bank's Supervisory Board in 2013 and to the Board as an independent non-executive Director in May 2016. Nicholas Haag has the recent and relevant financial experience required by the UK Corporate Governance Code to fulfil his responsibilities as a designated financial expert on the Audit Committee of TBC Bank Group PLC. In August 2019 Mr Haag was appointed as the Senior Independent Director of the Board.

ERIC RAJENDRA

Independent Non-Executive Director

Eric Rajendra graduated from Brandeis University, earned his M.A.L.D. at The Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions. Mr Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an adjunct professor of strategy at INSEAD.

During 2005-2014, he held the position of senior advisor to the International Financial Corporation and has served as a board director or consulting advisor on selected emerging markets financial institutions where the World Bank Group has an equity interest, as well as leading strategic initiatives for the firm. His IFC portfolio included roles as Supervisory Board Director on Locko Bank (from 2006 to 2014), where he was also the founder and Chairman of the Audit and Risk Committee, Orient Express Bank (from 2010 to 2012) where he was the Chairman of the Strategy Committee, and earlier at ACLEDA Bank (a leading bank in southeast Asia with a micro-finance original focus).

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. 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 first appointed to the Bank's Supervisory Board in 2010 and to the Board as an independent non-executive Director in May 2016 where he served until his resignation on 15 March 2019 due to health reasons. He was later re-appointed on 17 September 2019, following the recovery in his health.

MARIA LUISA CICOGNANI

Independent Non-Executive Director

Maria Luisa Cicognani graduated from Bocconi University in 1987 with a degree in Business and Administration. She holds a master degree from the Int'l University of Japan in International Relations with a focus on Japanese Economy and Business.

Ms Cicognani has extensive experience in the field of banking and corporate governance. She worked at the European Bank for Reconstruction and Development (London, UK) between 1993 and 2005. Between 2005 and 2006, she was a director of Financial Institutions at Merrill Lynch and a managing director at Renaissance Capital in London and Moscow during 2006-2008. At Renaissance Capital she was responsible for managing a team that developed the FIG practice of the firm both in Africa and CIS. Ms Cicognani was supporting Renaissance Partners in origination, analysis and processing of new FIG investment opportunities and monitoring a portfolio of FIG investments in Africa.

During 2008-2014, Maria Luisa was a Managing Director at Mediobanca (London Branch). She was responsible for origination of M&A advisory and client coverage for emerging markets. She supported the M&A and Corporate Finance Teams in advising Italian clients that were interested in expanding outside of Italy or identifying foreign investors. During 2014-2016, she served as a non-executive member of the board at Azimut Global Counseling Srl (Italy) and Azimut International Holding SA (Luxemburg).

Ms Cicognani served as an NED at Arafa Holding (Egypt) and became a board observer at Baird Group (UK), a subsidiary of Arafa Holding (listed on Cairo Stock Exchange). She is currently Chairperson of Möbius Investment Trust listed on the London Stock Exchange since October 2018.

Ms Cicognani was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018.

TSIRA KEMULARIA

Independent Non-Executive Director

Tsira Kemularia graduated from the Louisiana State University with a degree in International Trade and Finance & Economics in 1999. Ms Kemularia has 20 years of international experience in financial services and risk management.

From 1999 to 2005, she held various market risk management roles both In Dynegy Inc. in USA and UK and at Shell International Trading & Shipping Ltd (STASCO) in London. From 2005 to 2008, she was Manager, M&A and Commercial Finance, in Group Treasury and Corporate Finance, at Shell International. From 2008 to 2011, she served as a Commercial Finance Manager, M&A in Group Treasury & Corporate finance, at Shell Exploration and Production Services (B.V) in Moscow, RF. Thereafter, she served as Finance Manager and a Country Controller at Shell Western Supply and Trading LTD in Barbados, West Indies from 2011 to 2016. From 2016 to 2019, Ms Kemularia was the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London and currently she manages Internal Audit for Shell International Trading and Supply businesses globally.

From 2006 to 2010, Ms Kemularia was a board member of the British- Georgian Society. In 2011, she joined the board of Shell Western Supply and Trading Ltd. From 2016, she also serves as a company nominated Trustee of the British Gas General Partner Ltd and British Gas Trustee Solutions Ltd. Tsira Kemularia is a member of the Institute of Directors in London, UK, and is currently pursuing chartered directorship.

Ms Kemularia was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC, is a member of the Supervisory Board of JSC TBC Bank in September 2018 and is a Chairwoman of the Governance and the Nominations Committee.

ARNE BERGGREN

Independent Non-Executive Director

Mr Berggren has studied at a number of renowned academic institutions such as the Swedish Institute of Management, New York University Graduate School of Business, University of Geneva, University of Amsterdam and the University of Uppsala.

Arne Berggren has in various ways been involved in ownership issues, reconstructions and sales of companies and banks in Sweden and abroad during more than 25 years. Private and public employers as well as international organizations have engaged him as an advisor, CEO or in other similar positions.

Arne Berggren currently serves as a member of the board of Bank of Cyprus, where he is the Chairman of the risk committee and a member of the audit committee. He also works at Piraeus Bank, where he is chairing the nomination and remuneration committees and is a member of the risk- audit and strategy committees.

Prior to his current roles, Mr Berggren served as a board member of Turkish asset management company, LBT Varlik Yonetim and Slovenian bank asset management company, DUBT Ltd. He also has held a number of senior leadership and advisory roles at prominent financial intuitions including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority.

Mr Berggren was appointed to the Bank's Supervisory Board in July 2019 and to the Board as an independent non-executive Director in August 2019.

VAKHTANG BUTSKHRIKIDZE

CEO

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees.

Mr Butskhrikidze was appointed as Chief Executive Officer of the Company in May 2016. He also served as a member of the Supervisory Board from September 2016 till April 2018. Mr Butskhrikidze is also a member of the supervisory board of the Association of Banks of Georgia and is a Chairman of the financial committee of the Business Association of Georgia. Since 2016, Mr Butskhrikidze has been a member of the Visa Business Council for Central & Eastern Europe, Middle East and Africa (CEMEA).

In his earlier career, Mr Butskhrikidze acted as a 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. In March 2019 Mr Butskhrikidze won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government.

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

Following structural changes to the composition of the management board in January 2020, Giorgi Shagidze assumed some functions of COO and when the Uzbek subsidiary starts operations he will serve as the Chairman of that subsidiary's Supervisory Board.

Giorgi Shagidze became deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Bank's Management Board in 2010.

Mr Shagidze was appointed as a Chief Financial Officer of the Company in May 2016. He 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 occupying 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.

GEORGE TKHELIDZE

Deputy CEO, CORPORATE AND INVESTMENT BANKING

George joined TBC Bank in 2014 as Deputy CEO in charge of Risk Management. Following acquisition of Bank Republic and creation of Corporate and Investment Banking (CIB) unit at the Bank in November 2016, George overtook the responsibility for the CIB. George has more than 15 years of experience in financial services.

Prior to joining TBC Bank, George worked for Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. From September 2009 he was an Associate Director in Barclays Debt Finance and Corporate 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).

NINO MASURASHVILI

Deputy CEO, RETAIL BANKING

Following David Chkonia's resignation, Nino Masurashvili has been appointed as the new Chief Risk Officer of TBC Bank on January 24, 2020.

Nino joined TBC Bank in 2000 as a manager in the planning and control department and became head of that department in 2002.

Between 2004 and 2005, she acted as head of the sales department and retail bank coordinator. Nino was appointed as deputy CEO, retail and SME banking in 2006. Between 2006 and 2008, Nino was the Chairman of the supervisory board of UFC. During 2011-2015 she also held a position of a member of the supervisory board of Bank Constanta until its full merger with TBC Bank. During 2011- 2016, Nino has been a member of the supervisory board of TBC Kredit.

In her earlier career, she held the positions of credit account manager, credit officer, financial analyst (financial department) and head of the financial analysis and forecasting department at JSC TbilCom Bank between 1995 and 2000. Between 1998 and 2000, she also held the position of accountant at the Barents Group.

Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.

NIKOLOZ KURDIANI

Deputy CEO, MSME BANKING AND MARKETING

Following to structural changes to the composition of the management board in January 2020, Nikoloz Kurdiani assumed responsibilities for payments ecosystems.

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.

TORNIKE GOGICHAISHVILI

Deputy CEO, CHIEF OPERATING OFFICER

Tornike Gogichaishvili has been appointed to lead retail banking business of TBC Bank on January 24, 2020.

Tornike joined TBC Bank in 2018 as Chief Operating Officer and deputy CEO following 20 years of financial services and operations management experience.

Prior to joining TBC, he has served as a Deputy CEO, Chief Operation Officer at Bank of Georgia since 2016. Between 2010 and 2016 Tornike served as director of operations' department at Bank of Georgia. He also served as head of international banking at Bank of Georgia Group. Between 2008-2010 Tornike held the position of CFO at BG Bank Ukraine (the subsidiary of Bank of Georgia).

Between 2006 and 2008 he held the position of CEO at Insurance Company Aldagi. He also served as chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004.

Tornike graduated from the Faculty of Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

DAVID CHKONIA

Deputy CEO, Chief Risk Officer

David Chkonia stepped down from the Management Board of TBC Bank on January 24, 2020, at the end of his contractual term in order to pursue other career opportunities.

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.

CHAIRMAN'S LETTER

Dear shareholders,

As the new Chairperson of the Corporate Governance and Nomination Committee (the "Committee"), I am pleased to present the Committee's report to shareholders. 2019 was a challenging year for TBC and saw changes in both the structure and composition of the boards of TBC Bank Group PLC ("TBC PLC") and JSC TBC Bank (the "Bank"). The Committee is satisfied that throughout this period of change it led the process successfully. Following the decision of the former Chairman and Deputy Chairman to step down from the supervisory board of the Bank (the "Supervisory Board") and the board of directors of TBC PLC (the "Board") and the subsequent appointment of Nikoloz Enukidze as the new Chairman, the Board has reviewed the governance structure of TBC PLC and the Bank , taking into consideration the feedback from shareholders, IFI partners and other key stakeholders. Taking into account all feedback, as well as its experience of the benefits in having the same individuals in non-executive roles for both TBC PLC and the Bank, the Board has introduced a "Mirror Board" governance structure whereby:

- all non-executive members of the Board are also members of the Supervisory Board;
- the Chairman of TBC PLC also serves as the Chairman of the Bank; and
- the Senior Independent Director ("SID") of TBC PLC is also the SID of the Bank.

As a result of the introduction of the Mirror Board governance structure, the following changes were also made: Nikoloz Enukidze, the current Chairman of the Board has been elected as the Chairman of the Supervisory Board; Nicholas Domenic Haag, the current SID of TBC PLC has been appointed as the SID of the Bank; and Arne Berggren has joined the Board as an independent non-executive Director. At the same time, the Supervisory Board of the Bank accepted the resignation of Jyrki Koskelo from his role as the Chairman of the Supervisory Board with immediate effect.

We consider that these changes will maximise efficiencies in the management and supervision of the Group's business and will add stability to the Group's governance. The Board's structure is consistent with the requirements of the UK Corporate Governance Code, including with respect to the independence of its Chairman and having a majority of independent non-executive Directors on the Board.

The Committee will continue to keep under review the structure, size and composition of the Board and its committees including the balance of skills, diversity, knowledge and experience and will make appropriate recommendations for changes to the Board.

In 2019, the Committee initiated and supervised an internal performance evaluation of the Board and its committees. The outcome was reviewed by the Board and an action plan agreed for 2020.

Tsira Kemularia
Chairman of Corporate Governance
and Nomination Committee
28 April 2020

MEMBERS OF THE COMMITTEE

As at 28 April 2020, the Committee is composed of three independent non-executive Directors, Tsira Kemularia, (Chairperson), Nicholas Haag, and Eric Rajendra; as well as Nikoloz Enukidze the non-executive Chairman of the Board.

During 2019, Tsira Kemularia was appointed as Chairperson of the committee. Nicholas Haag, having been appointed as Senior Independent Director became a member of the Committee. Eric Rajendra having stepped down as a director on 15 March 2019 due to ill health, was reappointed as a director following a recovery in his health, and re-joined the Committee. For a short period of time Nikoloz Enukidze chaired the Committee prior to Tsira Kemularia taking over on a permanent basis, when he subsequently became Chairman of the Board in August 2019. The Board believes that the Group complies with the 2018 UK Corporate Governance Code and that all the Committee members are independent.

ATTENDANCE AT COMMITTEE MEETINGS

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

The attendance of members at the Committee meetings during the year is set out on pages 128-129.

COMMITTEE EFFECTIVENESS

In October 2019, the Committee conducted an annual Effectiveness Self-Review, coordinated by the Company Secretary, and using an extensive and customised questionnaire which drew on international best practice surveys of a similar nature. Both the Committee and the Board concluded that the former is constituted properly, operates effectively and carries out all its responsibilities as set out in its Terms of Reference. Going forward the Committee intends to focus more closely on succession planning issues, along with improved reporting to the Committee on key issues. The Chairman of the Committee is working closely with the Company Secretary to set future agendas and all these improvements are being implemented.

COMMITTEE ROLE AND RESPONSIBILITIES

The Committee's role and responsibilities are set out in its terms of reference, available on the Group's website: www.tbcbankgroup.com. The Committee's Terms of Reference were updated and approved by the Board in February 2020. Minor changes were recommended by the Company Secretary, with input from the Company's lawyers, in order to bring the Terms of Reference up to date to reflect recent developments in the UK Corporate Governance Code. This review will be undertaken on an annual basis.

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

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

- advising the Board periodically with respect to significant developments in the law and practice of corporate governance;
- approving changes to corporate governance guidelines, monitoring the Group's compliance with such guidelines and applicable legal and regulatory requirements and recommending to the Supervisory Board such changes or additional action as it deems necessary;
- 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 the annual Effectiveness Self-Review of this Committee); and
- reviewing the structures and procedures of the Board and its relationship with management to ensure it can function independently.

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

- regularly reviewing the structure, size and composition of the Board, including evaluating the current balance of skills, experience, independence and knowledge on the Board, including considering diversity and gender balance;
- identifying suitable candidates from a wide range of backgrounds, with use of open advertising and services of external advisers;
- considering and making recommendations to the Board on the composition of the Board;
- advising the Board on succession planning for the roles of Chairman, Senior Independent Director, Chief Executive Officer and for all other Board appointments;
- in conjunction with human resources, setting diversity objectives and strategies for the Company as a whole and monitoring the impact and outcome of diversity initiatives;
- considering and making recommendations, as necessary, on the removal and resignation of Board members;
- assisting the Chairman of the Board and the senior independent director with the implementation of an annual evaluation process to assess the overall and individual performance and effectiveness of the Board and its committees;
- making recommendations to the Board on succession planning for the Board over the longer term

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Following discussions with the Bank's regulator in Georgia after the departure of the Founder shareholder directors (Mamuka Khazaradze and Badri Japaridze), the Committee agreed to consult with the Company's minority shareholders to identify two suitable candidates to be appointed to the Board. In light of these circumstances, the Committee decided not to appoint a search consultancy, and consulted with the IFIs and minority shareholders to identify a suitable pool of candidates. Following this process and after review of a number of candidates, to ensure that a suitable candidate was identified that met the Company's skills and expertise requirement, the Committee made a recommendation to appoint Arne Berggren to the Board. The Board subsequently approved his appointment as an independent non-executive Director. Biographical details of Arne Berggren are set out on page 138.

Following a review of skills available to the Board, the Committee has been asked by the Board to undertake a search to recruit an additional non-executive Director who can bring additional experience to the Board in the Fintech and digital banking areas. In light of the request from the Bank's Georgian regulator described above, the Committee has again engaged with its shareholders, and explored its own wide range of contacts, in order to identify suitable candidates. This exercise is currently underway.

DIVERSITY

The Committee recognises the importance of ensuring that there is a broad diversity within the Group inclusive of, but not limited to, gender, ethnicity and business experience, while continuing to recommend all appointments based on merit against objective criteria in the context of the skills and experience required. The Committee notes the recommendations of the Hampton Alexander review to improve gender diversity and is pleased to report that two female directors serve on the Board. In addition, the Committee notes that there are a number of talented women in key positions, who report directly to the CEO and other members of the management board within the Group. As at 31 December 2019, 14% of Group's top management and 35% of Group's middle management roles were performed by females. Moreover, 65% of employees across the Group's entire workforce were female. In a review of the CEO-1 level succession plan, presented at the request of the Committee, the Committee were pleased to note the high number of female middle management who will in time be able to succeed at a more senior level.The Committee will continue to strive to further improve gender diversity going forward at both the Board and management levels. Regarding ethnic diversity, the Board has taken account of the recommendations of the "Report into the Ethnic Diversity of UK Boards", made by the Parker Review Committee and the need to build a balanced Board, whilst remaining mindful of the regional nature of the business.

THE COMMITTEE'S WORK IN 2019

In 2019, the Committee led an extensive process of restructuring the Board and its committees. In addition, it has also remained focused on succession planning, diversity matters and an assessment of effectiveness of the Board and its committees.

Composition of Board and its committees

Following the resignation of the former Chairman and Deputy Chairman in February 2019, the Committee helped advise the Board on a revised Mirror Board structure for the Group, whereby all independent non-executive Directors of TBC PLC were also members of the Supervisory Board. As a result of these changes the Committee made the following recommendations to the Board that:

- Nikoloz Enukidze be appointed as Chairman;
- Nicholas Haag be appointed as Senior Independent director;
- Eric Rajendra be re-appointed as an independent non-executive Director; and
- Arne Berggren be appointed as an independent non executive Director.

In addition following the Board appointments noted above, the Committee undertook a full review of committee membership, and made several recommendations to the Board which were adopted and are reported in full in the individual committee reports.

Succession

The Committee recognises that people are the driving force in sustaining the Group's business, and succession planning contributes to the delivery of the Group's strategy, by ensuring there is the necessary mix of skills and experience in both the current and future senior management teams. The Committee also reviews individuals identified as potential successors to the Group's executive board members. The Committee considers succession planning for the non-executive roles based on a clear understanding of the full range of skills currently available to it and those required to achieve successful delivery of its strategy. As part of the succession planning process, the Committee also consider gender balance and diversity. In addition, the Group is implementing an executive development program, which includes a clear roadmap to enhance both the knowledge and personal strengths of all potential candidates for senior management roles, including increasing their exposure to the Board. This will ensure that future leadership needs are met with an appropriate and diverse balance of skills and experience.

Designated non-executive Director and staff engagement

Tsira Kemularia is the designated independent non-executive Director, responsible for workforce engagement and enabling communication between the Board and the Group's workforce. During 2019, in her role as Staff Ambassador, she held three face-to-face meetings with representative groups of staff where a wide range of topics were discussed. She has also visited several major branches and operational hubs in Georgia. The outcome of these discussions have been fed back to both the Committee and the Board.

The meetings held under this initiative were both constructive and open. Employees shared their opinion and thoughts on a variety of topics including: the Company's mission and vision; linking the Company's mission to business objectives; talent acquisition and resourcing; coaching opportunities for senior leadership; the need for more delegation of day-to-day decisions to appropriate levels of management; and career development.

The Staff Ambassador will continue meetings different groups of staff in 2020; allowing more diversity of discussion topics and opinions.

The Management Board of the Bank, supported by the Human Capital Department has developed a detailed action plan to give more clarity to the staff on the Group's strategic vision and initiatives. This plan envisages a range of activities for 2020, including, town hall meetings, where the strategy, mission and vision will be shared with the staff. Allowing more linking of business objectives to the strategy, through Quarterly Business Reviews, supported by videos and online briefings focussed on the Company's goals.

The Agile programme, being undertaken across part of the organization, has allowed greater delegation to key staff, increasing decision making and improving employee empowerment. The increased use of personal development plans within the Group's staff performance management system is a key part of career and personal development.

Corporate governance and independence
The Committee oversaw the continued developments of the Group's corporate governance framework and reviews of its compliance with the UK Corporate Governance Code requirements, independence of non-executive Directors and re-election of non-executive Directors as well as their suitability to continue in office. The Committee is satisfied with Company's compliance with the UK Corporate Governance Code on these matters.

Board performance evaluation
As required by the UK Corporate Governance Code, in 2019 an internally facilitated Board performance evaluation was undertaken by the Company and conducted by the Company Secretary, following the externally facilitated review undertaken by Independent Audit in 2018. The Committee considered the form of questionnaire to be issued to the Board and oversaw the process of the review. The 2019 review was undertaken by means of a written questionnaire, with anonymous ratings and responses considered by the individual committees and the Board.

The outcome of the review and the action plan are described on pages 129 to 130. The Committee will monitor implementation of the proposed action plan in 2020. The Company will appoint an independent evaluator to assist in the performance evaluation process every three years.

LOOKING FORWARD TO 2020

In the coming year, the Committee's workload will include overseeing the implementation of the improvements recommended by the performance evaluation of the Board and its committees. The Committee will continue to monitor the Group's succession planning process to ensure that the next generation of senior management and key roles in middle management are in place. It will also conclude the recruitment of a further independent non-executive Director. In addition, the Committee will continue to review the Group's overall governance structure.

RISK COMMITTEE REPORT

Dear shareholders,

As Chairman of the Risk Committee, I am pleased to present the Risk Committee report for the year ending 31 December 2019. This is my first year reporting as Chairman of the Risk Committee as I was appointed on 24 September 2019.

I am looking forward to working with the Risk Committee to further develop and improve the Group's risk management practices.

Throughout 2019, the Risk Committee continued to take a proactive approach to risk management by closely monitoring and discussing the internal and external challenges the Group faces. Along with regular updates regarding the Group's risk profile, risk management practices and results, the Committee focused on several other issues, namely:

- Leading the review and response to the inspection by the NBG as well as related actions by the Georgian Office of Public Prosecution in relation to certain transactions that took place in 2007 and 2008. In addition, the Risk Committee closely monitored the subsequent enhancements made by the Bank to relevant internal control systems;
- Important new regulations, including the full version of the NBG's responsible lending standards;
- Detailed analysis of the Bank's liquidity and capital position, and the respective capital and funding strategy;
- Enhancing the Bank's operational risk management; and
- Review and approval of the revised version of the Risk Committee terms of reference, in line with the requirements of the UK corporate code.

The Risk Committee has also reviewed the analyses that have been made on the potential impact of COVID-19 pandemic on the Bank's capital adequacy and liquidity position.

In January 2020, Nino Masurashvili, Deputy CEO, who was previously in charge of the development of TBC Bank's retail banking operations, was appointed as the new Chief Risk Officer after the departure of the previous Chief Risk Officer at the end of his contractual term to pursue other career opportunities. The Risk Committee carefully considered Nino Masurashvili's appointment as Chief Risk Officer and recommended it to the Board. With her appointment, the Group's Risk function will be further strengthened as Nino leverages both her detailed knowledge of the Group's business and the skills that brought significant success in her previous role.

Arne Berggren
Chairman of Risk Committee
28 April 2020

COMMITTEE RESPONSIBILITIES

The Risk Committee'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, together with implementation of the highest standards of business ethics and compliance with all of the legal requirements to which the Group is subject.

The Risk Committee 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 internal control framework. In addition, it determines the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives.

The Risk Committee advises the Board on strategic transactions focusing on risk aspects and implications for the risk appetite and tolerance of the Group.

The Risk Committee reviews and approves the statement concerning internal risk management and the Group's viability statement included in this annual report. It ensures robust assessment of the emerging and principal risks faced by the Group, including those that would threaten the business model, future performance, solvency and liquidity.

The Risk Committee 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 behavior. The Risk Committee supports the fostering of an ethical culture within the Group, based on the principles of honesty, integrity, fairness and transparency. The Risk Committee's Terms of Reference are available on the Group's website: www.tbcbankgroup.com.

COMMITTEE MEMBERS AND MEETINGS

As of 2 April 2020, the Risk Committee consists of four independent, non-executive Directors: Arne Berggren (Chairman), Nicholas Haag, Maria Luisa Cicognani and Tsira Kemularia. Biographies of the Risk Committee members can be found on pages 136 to 138.

Arne Berggren joined the Board in August 2019 as an independent Non-Executive Director. In September Arne was appointed as the Chairman of the Risk Committee. Nikoloz Enukidze served as the Chairman of the Risk Committee until September 2019, when he left this position and was appointed as the Chairman of the Board. The Risk Committee meets in person on a quarterly basis. At each meeting, members review a thorough report on the quarter's risk management results as well as updates on compliance and other areas within its remit. The Chief Executive Officer, CRO, head of compliance and key members of the Group's risk and compliance teams normally attend the meetings. Additional sessions are held remotely, if needed. Members' attendance at the Risk Committee's meetings during the year, at the Company and the Bank levels, are set out in the Directors' Governance statement on pages 128-129.

RISK COMMITTEE ACTIVITIES DURING 2019

In 2019, the Risk Committee continued to concentrate on its key responsibilities of monitoring the Group's risk management processes, promoting progress in risk management tools and techniques, and implementing mitigation actions against prevailing risks.

Moreover, in February 2020, the Risk Committee's Terms of Reference were updated and approved. Minor changes were recommended by the Company Secretary, with input from the company's lawyers, in order to bring the terms of reference up to date to reflect recent developments in the UK Corporate Governance Code and better to align our mission with the Terms of Reference for other committees. This document is available on TBC's website at www.tbcbankgroup.com.

Risk appetite

The Risk Committee received and reviewed the risk appetite compliance reports at each of its quarterly meetings, during which the Committee's members discussed the Group's risk profile and respective outlook with the management. Over the course of 2019, the Risk Committee carried out a further review of the updates in risk appetite metrics and limits proposed by the CRO. Key updates made were in relation to the capital adequacy, liquidity and funding metrics, which were mainly driven by regulatory changes and further optimization of the capital structure of the Bank.

In addition, certain temporary changes were applied to the Bank's risk appetite metrics concerning the capital adequacy. These changes were driven by the measures introduced by the NBG as a consequence of the COVID-19 pandemic. The Rrisk Committee has also reviewed the Bank's growth prospects and growth appetite.

Credit risk

The Risk Committee reviewed the performance of the Group's credit portfolio at each meeting during 2019. The Risk Committee was presented with a comprehensive risk report covering the structure and performance of the Group's portfolio across business segments, products and economic sectors. Additionally, the portfolio FX share and concentration levels were actively monitored. At the beginning of 2019, the NBG introduced the full version of the responsible lending regulation. It defined income verification techniques, introduced caps on payment-to-income (PTI) and loan-to-value (LTV) ratios and the maximum maturity of retail loans; stricter thresholds are applied to loans denominated in foreign currency. The Risk Committee actively monitored the prudent implementation of the regulation as well as the impact of the regulation on the Bank's growth and portfolio quality trends. In addition, as part of assessing compliance with the regulatory ratios, the Risk Committee discussed the changes to regulatory concentration ratios.

In close co-ordination with the NBG, the Bank created an extra regulatory loan loss provision buffer to prepare for the potential impact of the COVID-19 pandemic on the Georgian economy. As of 31 March 2020, TBC Bank booked additional provisions in accordance with local standards in amount of c.3.1% of the loan book.

Operational risk

The Operational Risk department performed its annual Risk and Control Self-Assessment (RCSA). The RCSA covered the most significant business processes and identified areas for further improvement. The Risk Committee actively monitored the process.

The Operational Risk department conducted a comprehensive consulting project with the involvement of an external advisory company to further enhance and adopt leading and innovative models of operational risk management practices.

Financial risks

The Risk Committee closely re-examined the Group's financial risk positions on a regular basis, including an assessment of the Bank's risks associated with liquidity, FX, banking book interest rates and counterparties.

In the first quarter of 2019, the Bank experienced a higher volatility of deposit flows. The decrease was primarily driven by retail deposit reductions (mostly in January and February) prior to the settlement of the NBG investigation, but it also reflected the effects of seasonality. The Risk Committee extensively monitored the deposit flows and analysed the various options to meet the funding requirements. In addition, the Risk Committee reviewed detailed assumptions as well as the results of the liquidity stress test performed by the risk team.

Moreover, as part of assessing compliance with the approved risk appetite limits, the Risk Committee addressed the NBG's updated regulations on the changes to interest rates for FX mandatory reserves and the changes to FX mandatory reserve requirements. In addition, from October 2019 the Bank's foreign currency mandatory reserve was fully categorized as a high quality liquid asset (HQLA) for regulatory LCR calculation purposes, which had a positive effect on the LCR ratio.

Additionally, in September 2019, for long-term liquidity risk management purposes the NBG introduced the Basel III-based Net Stable Funding Ratio (NSFR), to which the NBG applies supplementary assumptions within its discretion. Certain changes to the Group's risk appetite were applied as a result of the regulatory change.

Moreover, the committee discussed the potential countercyclical measures, that if necessary, will be implemented by the NBG in relation to liquidity requirements amid COVID-19 pandemic:

- Decreasing LCR limits;
- Decreasing mandatory reserve requirements in foreign currency;
- Updating criteria for security or repo pledging to support GEL liquidity.

Capital management
The Risk Committee continued to closely monitor the Bank's capital standing as well as compliance with all regulatory ratios under different macroeconomic scenarios. In 2019, the GEL was volatile having the negative impact on the Bank's capital adequacy. The committee analysed capital projections within the context of the deteriorating of currency rates.

During meetings, the Risk Committee examined the new NBG initiatives that impact the Bank's capital adequacy as well as the expected changes to minimum capital requirements. The key changes were: (i) an update of the mandatory reserve requirements for attracted funds in foreign currency; (ii) amendments to the proposed timeline for the incorporation of HHI and net GRAPE buffer requirements for Tier 1 and CET 1 capital; and (iii) changes applied to the criteria for classifying exposures in residential real estate class assets.

Certain changes to the capital adequacy risk appetite metrics were discussed and introduced, mainly driven by the optimisation of the Bank's capital structure after the issuance of the Bank's US$ 125 million AT1 instrument.

In addition, committee members extensively discussed the internal stress test methodology, stress scenarios and their impact on the Bank's capital adequacy and non-performing loan ratios.

Furthermore, the Risk Committee analysed in detail the latest GRAPE letter that the Bank received from the NBG. All commercial banks in Georgia receive GRAPE letters as part of the NBG's general supervisory risk assessment program. The letter summarises the key findings the NBG used to determine the appropriate level for its net GRAPE buffer.[1]

Amid COVID-19 pandemic, the NBG implemented certain countercyclical measures in relation to capital adequacy requirements:

- Postponing the phasing in of concentration risk and the net GRAPE (General Risk Assessment Program) buffer capital requirements on CET1 capital, planned in March 2020;
- Allowing banks to use the conservation buffer and 2/3 of currency induced credit risk (CICR) buffer;
- Leaving possibility of releasing all the remaining pillar 2 buffers (remaining 1/3 CICR, concentration risk and Net Grape buffers) in case of necessity.

During the time the Bank utilizes conservation and Pillar 2 buffers, it is restricted to make any form of capital distribution.

The risk committee has reviewed various stress tests and anaysed the implications of these changes on the Bank's capital adequacy position.

Compliance
Throughout the year the Risk Committee received regular information on significant pieces of legislation that were introduced during the year. The Risk Committee considered and discussed several Group policies, including the Group's Compliance Regulation and Whistleblowing Policy. The key areas of focus for 2019 were: embedding the new Code of Ethics; addressing external adviser recommendations on Conflict of Interest Risk Management and Anti Money Laundering Risk Management; scrutinising the Bank's AML risk profile; and enhancing compliance training. The Risk Committee closely examined the Group's related parties list and transaction tracker for the purposes of the UK Listing Rules and Disclosure Guidance and Transparency Rules, as well as related party transactions for NBG purposes. Together with regulatory matters, the Risk Committee discussed other compliance topics in detail in each quarterly meeting.

NBG inspection related to past transactions
As reported in the strategic report, the Bank was subject to an inspection by the NBG during late 2018 and 2019, in relation to certain transactions that the founders of the Bank undertook in 2007 and 2008 (see also page 106). The Risk Committee was actively involved in the oversight of the inspection, and led the response of the directors to the NBG report, both currently and in relation to future actions that might be required to prevent any recurrence. The Risk Committee advised the Board on remedial actions to be taken in connection with the NBG report. In particular, the Risk Committee oversaw the directors' actions taken in relation to the situation, including reviewing documentation and coordinating plans and remedial actions in relation to corporate governance, current and future related party controls, and controls over identifying and managing any potential conflicts of interest with regard to the Bank's lending practices. This is complementary to the Bank's remedial actions agreed with the NBG (more details are given on page 106).

Furthermore, the Bank, with the assistance of external advisers, undertook a review of the Bank's relevant internal controls systems. Although these reviews did not

1 The net GRAPE buffer is a pillar II capital add-on determined through the supervisory process for any material risks not covered by Pillar I and other Pillar II capital buffers defined under the NBG capital adequacy framework

identify any material deficiencies in the Bank's existing internal controls and compliance systems, they did make certain recommendations for further technical improvements for the Bank. The Risk Committee closely monitored the whole review process, extensively discussed the recommendations and monitored progress in the execution of recommendations.

THE COMMITTEE'S EFFECTIVENESS REVIEW

The Board and the Risk Committee members conduct a review of the Risk Committee's effectiveness every year. In 2019, the Risk Committee was found to be effective in overseeing the Group's risk management, compliance activities and ethical standards.

LOOKING AHEAD TO 2020

Going forward, the Risk Committee will continue to focus on its key responsibilities: assessing quarterly risk results and compliance with the Bank's risk appetite, providing sign-off on transactions with the largest exposures, and facilitating progress in risk management tools and techniques. Moreover, the committee will continue to closely monitor the COVID-19 pandemic developments and its implications on the Bank's portfolio quality, operations and financial conditions including profitability, capital adequacy, liquidity and funding positions.

The Risk Committee will continue closely to monitor the impact that recent and upcoming regulatory changes may have on the Bank's financial standing and the respective implications for risk management processes. In addition, close attention will be paid to overseeing the Group's international expansion activities to ensure that the risks are managed properly across the Group. The Risk Committee will continue to focus on the proper management of risks that may arise from further digitalization of the Bank's services.

CHAIRMAN'S STATEMENT

Dear shareholders,

As Chairman of the Board Remuneration Committee (the "Remuneration Committee"), I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2019.

The Committee continues to ensure that the Remuneration Policy is closely aligned with the strategic priorities of the Group (as defined below), provides fair rewards and meets appropriate regulatory requirements and best practice standards as well as takes into consideration the views of all stakeholders. The Remuneration Committee reviews annually both executive and non-executive Directors' compensation and benchmarks them to ensure that they are aligned with best market practice. If any material change is required, the Remuneration Committee intends to consult with shareholders before any new proposal is presented for approval at the annual general meeting.

The Director's Remuneration Policy was approved at the 2018 AGM and has applied since 1 January 2019. The full policy is given in the 2017 Annual Report, which is available at our website at www.tbcbankgroup.com. In setting the Directors' Remuneration Policy, the Remuneration Committee engaged with shareholders and external independent, consultants to ensure that the remuneration structure was appropriate, whilst at the same time allowing us to attract and retain the best talent.

Principles of Remuneration

The following principles have been considered when determining executive Directors' remuneration:

- **clarity and simplicity** - the Remuneration Committee strives to ensure that performance measures are clear and straight-forward. Executive Directors' performance against their KPIs (both financial and non-financial) and the relative weightings thereof have been disclosed for 2019. To increase transparency we have also disclosed the KPIs and relative weightings for 2020;
- **risk** - the Remuneration Committee has the discretion to reduce an executive Director's variable remuneration if specific KPIs have not been met and every element of executive Directors' variable compensation is subject to the relevant malus and clawback provisions. Malus and clawback apply for up to 3 years after the deferral period ends (for deferred awards) or settlement (for conditional shares under the LTIP). Triggers include, material misstatement, material downturn in financial performance and misconduct that causes serious reputational harm. Further, the Remuneration Committee has the discretion under the LTIP and deferred annual bonus to reduce awards if it considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified[1].
- **predictability** - the maximum possible value of the executive Directors' remuneration has been detailed in the Remuneration Report at section 2.2 below and in the Remuneration Policy;
- **proportionality/alignment with culture** - the Remuneration Committee strives to ensure that performance measures are aligned with the corporate culture of the Group to foster the right behavior and deliver remuneration packages that are proportionate in the circumstances, by measuring executive Directors' remuneration against a mix of financial, non-financial and personal KPIs. Further, by deferring a large proportion of executive Directors' salary into shares, this intrinsically aligns the executive Directors' pay to the long-term success of the Group and fosters a culture of sustainable long-term growth.

Form of Remuneration

The executive Directors' remuneration for 2019 was comprised of:

- fixed compensation consisting of both cash-based and share-based payments;
- annual bonus based on the level of achievement of one-year key performance indicators (KPIs) and consisting of share-based payments only;
- Long term incentive plan (LTIP) based on the level of achievement of performance measures over 3 year period (2019-2021) and also consisting of share-based payments only; and
- Pensions and taxable benefits.

The share-based payments in relation to the fixed compensation and the annual bonuses are subject to 2-year continued employment condition and holding period. The employment and holding conditions are lifted

1 Further details of the malus and clawback provisions for the LTIP and deferred annual bonus are provided in section 10

on a phased basis as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from award date.

Share-based payments in relation to LTIP are subject to 2-year holding period (changing to 3 year holding period for new grants, please see below) and continued employment requirement once they are delivered. Shares granted under the LTIP, therefore, are subject to a 5 year (6 year under new grant) vesting and holding period. This approach ensures that the executive Directors' interests are closely aligned with the Group's long-term strategy and shareholders' interests.

2019 Executive Directors' KPI and Performance

The Group recorded strong financial results in 2019. The net profit increased by 23.5% year on year (YoY) and reached GEL 540.3 million, while return on equity amounted to 22.4% up by 0.4 pp YoY. The growth in net profit was supported by an increase in net fee and commission income and net interest income. Because of the recent National Bank of Georgia's regulation limiting lending to high risk customers, the net interest margin decreased by 1.3 pp year-on-year and stood at 5.6% in 2019 and 5.3% in the fourth quarter of 2019. By the end of 2019, the net interest margin has been fully rebased to the new level reflecting the new rules and going forward we expect it to stabilize at the 2019 fourth quarter level. The growth in net profits was also strongly supported by a decrease in credit loss allowance, which was driven by improved performance across all segments. As a result, our cost of risk stood at 0.7% in 2019 compared to 1.6% in 2018. In 2019, our operating expenses increased by 9.7% year-on-year, resulting in a cost-to-income of 39.9%, up by 2.1 pp year-on-year. This increase was mainly related to investments in our new ecosystems as well as into the Group international expansion.

We also made strong progress towards our new strategic objectives, which included the launch of the first customer focused digital ecosystems in Georgia, expansion of our operations in Uzbekistan, the roll-out to certain departments of our successful agile transformation and important investment in human capital. In parallel, we continued to maintain our leadership position in digital capabilities and customer experience. The management team has been working to fulfill these strategic targets and achieved in general the objectives we set in the KPIs. Core banking and the launching of Space in Uzbekistan were achieved although with a slight delay on schedule. However, the Remuneration Committee considered the targets as met for the reasons set out in notes to the table in section 2.2. More information is given in business model and strategy section on pages 12-19.

The Remuneration Committee has thoroughly assessed the executive Directors' performance against corporate financial and non-financial targets as well as personal targets set at the beginning of the year and concluded that their performance for 2019 was meeting expectations. The detailed disclosure of KPIs and performance assessment is given in section 2 of the Remuneration Report.

As a result, the annual bonus awarded to the CEO and CFO represented 69% and 66% of the maximum opportunity in 2019 respectively.

The Remuneration Committee reviewed in detail the basis for awarding the proposed annual bonus level given the decline in share price during the year and the different reasons influencing such decline. In particular it took into account the fact that around 85% of the executive Directors' total compensation is in the form of share based payments and that total shareholders return (TSR) is included as LTIP performance measure with a 40% weighting ensuring that executive Directors' benefits are closely aligned with shareholders' interest. Considering the strong financial performance of the Group and its achievements with new initiatives, which continue to successfully implement the agreed strategy, the Remuneration Committee determined that it was not appropriate to reduce the annual bonus level below that which had been determined in accordance with the fulfilment of the performance targets set out in section 2.2.

The assessment of executive Directors' performance in 2019 against LTIP performance measures will be conducted in 2022 based on the results achieved during the performance period 2019-2021 and will be included in the executive Directors' 2021 remuneration payable in 2022. The detailed information about LTIP performance measures and targets is given in section 2.3.

In March 2020, the Remuneration Committee considered whether any of the events set out in the Malus or Clawback provisions had occurred. It was satisfied that in 2019 none of the trigger events occurred and so the Remuneration Committee has not used its powers under the Policy to reduce or claw back any Share Awards.

The Remuneration Committee considered that the Policy approved at the 2018 AGM was duly applied in 2019 and continues to fulfill its objectives regarding the compensation quantum and structure to deliver results that are in the best interests of the shareholders and the Group.

Non-Executive Remuneration

The non-executive Directors' remuneration is in the form of monthly fixed cash payments and is based on best practice against comparable FTSE 250 financial companies and other regional peers' board membership fees. Non-executive Directors do not receive any form of variable remuneration from the Group.

During 2019, the Chairman and Deputy Chairman of the Board resigned and as a result the Board has undergone a restructuring. As part of this restructuring, the role of the Deputy Chairman has been abolished and the fees for the remaining non-executive Directors (including the new Chairman) have been amended several times during the year to also comply with the principles of the NBG's new Corporate Governance Code for Commercial Banks. To assist the Remuneration Committee determine the appropriate fees for the non-executive Directors, the Remuneration Committee has completed an externally moderated benchmarking exercise against its peer bank and FTSE 250 companies performed by Deloitte corporate governance team which was retained as advisor.

As a result, the Remuneration Committee decreased the Chairman's fees from US$ 950,000 on 1st January 2019 to US$ 338,000 starting from 25 September 2019 (more information is given in section 2.6) and no fees were paid to former Chairman and Deputy Chairman for the months following their resignations. Committee Chairmanship and membership fees have also decreased (from $28,000 to $12,000 and $11,000 to $6,000 respectively). The Remuneration Committee's decision to increase individual non-executive Directors' (excluding Chairman) fees for board membership from $84,000 to $130,000 while reducing committees' fees has been done within the non-executive Directors' compensation policy approved at the 2018 AGM. All-in-all the total average non-executive Director fees, inclusive of board membership in both the PLC and the JSC and committee fees, increased by 15% compared to 2018. The rebalancing of the fee structure within the 2018 AGM approved limits reflects a number of operational challenges which the non-executive board members are facing. The increased complexity of business and the different regulatory environments where the Group operates, the implementation of the international expansion, the growth of customer focused ecosystems in Georgia and also in our foreign operations have required substantial additional time commitment from the Board which has been estimated at around 17% in 2019 compared to 2018. After the changes were implemented, the overall 2019 annual costs for non-executive Directors' compensation reduced by 39% compared to 2018, considering that until the resignation of the former Chairman and Deputy Chairman the previous level of fees were paid. Further details of the changes can be found in sections 9 and 12.

Changes to the Policy

The National Bank of Georgia (NBG), the regulator of JSC TBC Bank, has introduced a new Corporate Governance Code for Commercial Banks. This includes certain requirements in relation to executive remuneration that comes into force from 2020. Therefore, the Remuneration Committee is preparing changes to the remuneration of top management and executive Directors in relation to FY 2020 in order to meet the new regulatory requirements. These changes are summarized below:

1. extend the holding period under the LTIP from 2 years to 3 years, so that starting from 2020, LTIP awards will have a 3-year vesting period, which will be followed by a 3-year holding period;
2. change the expected remuneration in such a way that the portion of the expected annual bonus as a percentage of total variable remuneration, is decreased from 45% to 40% for the CFO and from 46% to 40% for the CEO, while the expected portion of LTIP as a percentage of total variable compensation is increased from 55% to 60% for CFO and from 54% to 60% for CEO.

These changes will align even more closely the executive Directors' interests to those of the shareholders and, as they remain within the maximum levels approved by shareholders in 2018 under the current remuneration policy, they will not require additional shareholders' approval.

In addition, following Board restructuring, as mentioned above and more fully described in the Corporate Governance and Nomination Committee Report on pages 143-146 and as noted above, we have revised the remuneration policy for the non-executive Directors as follows:

- The remuneration of the Chairman was reduced, while the remuneration of the Deputy Chairman was eliminated given that such position has not been maintained;
- The remuneration of the other non-executive members was changed to reflect the results of the benchmarking exercise with peer banks and against overall FTSE 250 companies, as well as the requirements of NBG's new Corporate Governance Code for Commercial Banks. The Remuneration Committee also took into the account the increased complexity of business related to international expansion and building of customer focused ecosystems as well as increased time commitment needed to oversee these new initiatives as mentioned above.

The full details are presented in section 12. All changes made to the remuneration for the non-executive Directors are within the Policy approved by shareholders at the 2018 AGM.

Looking ahead

As the business of the Group continues to evolve and expand with new products and in new markets beyond Georgia it remains of paramount importance that we maintain a competitive Remuneration Policy to attract the best talent and support our employees to acquire and strengthen their required skills to achieve our goals. We will continue to actively monitor trends in the market and assess the Group remuneration competitiveness. If any change will be required we will actively engage with shareholders and all stakeholders to achieve the best results and align all interests. I would like to thank all the members of the Remuneration Committee for their support and work during the year as well as the members of the Board who have provided always their sound feed-back to the Remuneration Committee. A fair and competitive Remuneration Policy remains at the core of giving the right incentives to the most important assets the Group has: its employees.

In light of the on-going COVID-19 pandemic, the Remuneration Committee will continue to closely monitor developments and consider if necessary adjustments to maintain alignment between performance and executive pay. As the medium and long term effects of the current events remain highly uncertain the Remuneration Committee will continuously review both the quantitative and the qualitative factors which are components of the year-end executive performance assessment.

Given the on-going COVID-19 pandemic, the executive Directors and top management of JSC TBC Bank have voluntarily decided to waive all variable compensation (usually representing majority of total compensation) in relation to 2020 (i.e. annual bonus in relation to 2020 year to be awarded in February 2021) and LTIP grants for 2020 year.

I would like to thank our shareholders for their continued support. The alignment of compensation with our shareholders' interest remains an important objective for the Remuneration Committee and our work will continue to adapt to changing markets. I will be available at the Company's upcoming Annual General Meeting to answer any questions in relation to this Remuneration Report and our Remuneration Policy.

Maria Luisa Cicognani
Chairman of the Remuneration Committee
28 April 2020

1. REMUNERATION COMMITTEE

The Company's Remuneration Committee is responsible for establishing and overseeing the Group's Remuneration Policy principles and considering and approving remuneration arrangements of executive Directors. Full details of the Remuneration Committee's responsibilities are set out in the Remuneration Committee terms of reference, which are available on our website at www.tbcbankgroup.com. New terms of reference for both the PLC and the JSC were reviewed and approved on 19 February 2020.

The Remuneration Committee membership is comprised of solely independent non-executive Directors and the Chairman of the Board (whom was independent on appointment) from a wide variety of skills and backgrounds to provide the best input. The members of the Remuneration Committee are: Maria Luisa Cicognani (Chairman), Nikoloz Enukidze, Eric Rajendra and Nicholas Haag. The meetings of the Remuneration Committee are however always open to other non-executive Directors who wish to participate.

The attendance of members at the Remuneration Committee meetings during the year at the Company and the Bank levels are set out in the Directors' Governance Statement on pages 124-130.

1.1 Advisors 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. TBC Bank undertook a review of non-executive Directors' (NEDs) fees in early 2020 using benchmarking data provided by Deloitte. The externally conducted benchmarking exercise was required to objectively compare the changes in the non-executive Directors' remuneration policy with market practice and ensure that the non-executive board members are compensated for their time commitment and responsibilities in an ever increasing complex operational and regulatory environment in UK, Georgia and abroad. Further details of the benchmarking exercise are presented in section 2.6.

Deloitte was selected as a result of a tender among a short list of three companies, all with internationally recognized governance and compensation practices and track record in similar assignments. The amount of fees for the benchmarking advice provided by Deloitte was GBP 25,000, net of taxes. The fees were charged on a time and materials basis, which was capped at the amount mentioned above.

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

Deloitte also provided other services during the year to the Group, including advice on tax, IFRS 9, accounting treatment and IT security. The provision of these services is in line with best governance practice.

1.2 Statement of voting at Annual General Meeting

The current Remuneration Policy was presented and approved at the 2018 AGM by 99.95% of the votes cast. Last year's Remuneration Report was presented and approved at the AGM on 24 June 2019. 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	41,393,441	96.84%	1,352,797	3.16%	42,746,238	77.92%	2,647,877

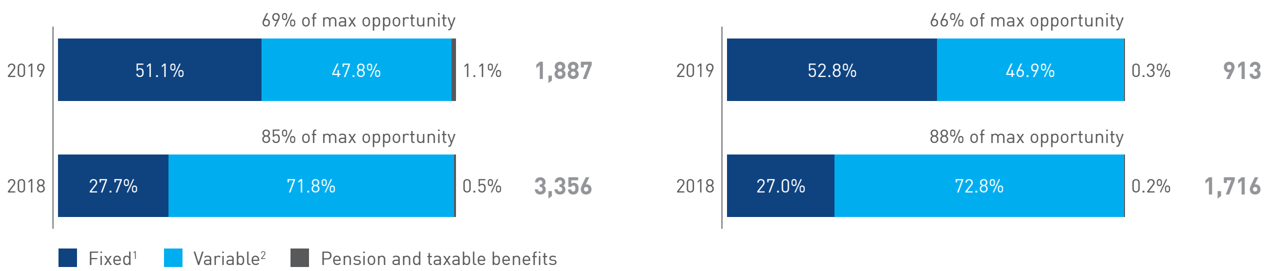
2. SINGLE TOTAL FIGURE OF REMUNERATION

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 (including TBC Bank Group PLC and JSC TBC Bank, defined as the "Group" or "TBCG") for the financial years ended 31 December 2019 and 31 December 2018.

2.1 Single total figure for executive Directors (audited)

VAKHTANG BUTSKHRIKIDZE
CHIEF EXECUTIVE OFFICER - US$'000

GIORGI SHAGIDZE
CHIEF FINANCIAL OFFICER - US$'000



Notes to chart:

1. Fixed remuneration includes cash salary and deferred share salary.
2. Variable remuneration includes deferred share bonus award but not the LTIP, which was approved at the 2018 AGM. The first awards made under the LTIP were granted in 2019 and are subject to a three year performance period.

	Vakhtang Butskhrikidze		Giorgi Shagidze	
	2019 US$'000[4]	2018 US$'000	2019 US$'000[4]	2018 US$'000
Salary including:	964	929	482	464
Cash salary[1]	*454*	*454*	*227*	*227*
Deferred share salary	*510*	*475*	*255*	*237*
Taxable benefits (gross amount)	21	18	3	2
Deferred share bonus award[2]	902	2,409	428	1,250
Pension	-	-	-	-
Total remuneration[3]	**1,887**	**3,356**	**913**	**1,716**

Notes to table:

1. The precise figure of cash salary amounted to US$ 453,994 for CEO and US$ 227,004 for CFO.
2. The decrease of deferred share bonus in 2019 as compared to 2018, is mainly due to the rebalancing of the variable remuneration component and moving certain part of the annual bonus to LTIP according to the new policy effective from 1 January 2019. A full explanation of the basis of the 2019 deferred share bonus awards is given at section 2.2.
3. Directors did not receive any other items in the nature of remuneration than those disclosed in the table.
4. The first LTIP award has been granted in 2019, but has not yet vested and so it is not included in this table to date. More details are given in section 2.3.

<table>
<tr><th></th><th></th><th colspan="2">Description</th></tr>
<tr><td rowspan="4">Fixed</td><td>Cash Salary</td><td colspan="2">Base salary paid in year to executive directors.
No additional fees were paid to executive directors.</td></tr>
<tr><td rowspan="3">Deferred share salary</td><td colspan="2">Deferred share salary comprised of TBCG shares granted in respect of service in the relevant year.</td></tr>
<tr><td>2019</td><td>2018</td></tr>
<tr><td>The number of TBCG shares awarded as deferred share salary under the new remuneration policy, effective from 1 January 2019, is linked to the base salary and its level is fixed at the maximum amount of US$510,000 for Mr. Vakhtang Butskhrikidze and US$ 255,000 for Mr. Giorgi Shagidze.

Deferred shares in relation to 2019 were awarded on 19 February 2020 and its level was determined at 24,072 TBCG shares for Mr. Vakhtang Butskhrikidze and 12,135 TBCG shares for Mr. Giorgi Shagidze.</td><td>The number of shares awarded as deferred share salary under the old remuneration policy, which expired on 31 December 2018, was linked to the base salary and its level was 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 2018 were awarded on 21 March 2019. Deferred share salaries are subject to a condition of continuous employment for 3 years and malus and clawback provisions.</td></tr>
</table>

<table>
<tr>
<td>Fixed</td>
<td>Deferred share salary</td>
<td>Deferred share salaries are subject to a condition of continuous employment for 2 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

The 2019 award has been valued using the average share price for the period of 9-18 February 2020 (GBP 12.93 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.87 for GEL/US$ and of 3.72 for GEL/GBP over the same period) and grossed up for directors' income tax and national insurance contribution on share awards paid by the Company.</td>
<td>The continuous employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, a further 10%, on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.

The 2018 award has been valued using the closing market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.68 for GEL/US$ and 3.55 for GEL/GBP on the same date) and grossed up for directors' income tax and national insurance contribution on share awards paid by the Company.</td>
</tr>
<tr>
<td rowspan="2">Variable</td>
<td rowspan="2">Deferred share bonus</td>
<td colspan="2">A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year[1].</td>
</tr>
<tr>
<td>2019

The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

Deferred shares in relation to 2019 were awarded on 19 February 2020 and its level was determined at 42,571 TBCG shares for Mr. Vakhtang Butskhrikidze and 20,355 TBCG shares for Mr. Giorgi Shagidze.

The 2019 award has been valued using the average share price for the period of 9-18 February 2020 (GBP 12.93 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.87 for GEL/US$ and of 3.72 for GEL/GBP over the same period) and grossed up for directors' income tax and national insurance contribution 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.</td>
<td>2018

The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.

Deferred shares in relation to 2018 were awarded on 21 March 2019 and its level was determined at 89,421 TBCG shares for Mr. Vakhtang Butskhrikidze and 46,674 TBCG shares for Mr. Giorgi Shagidze.

The 2018 award has been valued using the closing market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.68 for GEL/US$ and 3.55 for GEL/GBP on the same date) and grossed up for directors' income tax and national insurance contribution 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 the 2018 Annual Report.</td>
</tr>
<tr>
<td rowspan="2">Pension and benefits</td>
<td>Taxable benefits</td>
<td colspan="2">Taxable benefits comprise medical insurance, and in the case of our CEO, security allowances.</td>
</tr>
<tr>
<td>Pension</td>
<td colspan="2">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. Both CEO and CFO opted out the state pension scheme which came into force starting from January 2019 in Georgia.</td>
</tr>
</table>

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

The 2019 deferred share bonus awards made to executive Directors reflect the Remuneration Committee's assessment of the extent to which corporate financial, non-financial and personal KPIs were achieved. Such objectives were set by the Remuneration Committee and agreed by the Board at the beginning of the year.

1 Given that the first LTIP award was granted in 2019 and is subject to a three year performance period, no money or other assets were received or receivable by the executive directors in 2019 or 2018 (as applicable)

The compensation is structured by reference to a set of stretch targets for each of the KPIs that is reviewed by the Remuneration Committee and approved by the Board. Each KPI has three thresholds: minimum, on target and maximum and is evaluated as follows:

- if the achievement is below minimum level, the evaluation is 0;
- if the achievement is at minimum level, the evaluation is 60%;
- if the achievement is on target, evaluation is 100%;
- the achievement at maximum means evaluation at 140%.

The final evaluation score for the executive Director is made up of the weighted sum of the scores of all KPIs. As a result, the evaluation of the executive Director is capped at 140%. If all KPIs are achieved on target, then the executive Director will receive 100% of the target bonus. The maximum bonus will be 140% of his target bonus.

While one KPI can be achieved at maximum level, achieving maximum level across all KPIs is extremely difficult and to date it has never been achieved by any executive Director. Therefore, the maximum bonus has never been paid. The Remuneration Committee will continue to monitor and implement challenging goals for its executives on an annual basis.

The below table illustrates the performance measures set for Mr. Butskhrikidze in respect of 2019, as well as his performance against them. The selected financial performance measures are vital for the long-term financial sustainability of the Group and are also closely monitored by investors. Non-financial measures including strategic HR, agile transformation, international expansion and customer experience are closely linked to our strategic priorities as described in our business model and strategy section.

	Performance measure	Weighting[10]%	Minimum (60%)	Target (100%)	Maximum (140%)	KPI evaluation
Corporate Financial measures 50%	ROE[1]	16%	18.25%-20.28%	20.28%-21.40%	>21.40% 22.4%	140%
	NIM[2]	12%	5.18%-5.63% 5.6%	5.63%-5.80%	>5.80%	60%
	Cost of risk[3]	10%	1.2%-1.08%	1.08%-0.95%	<0.95% 0.7%	140%
	Cost to income[4]	12%	41.68%-40.30%	40.30%-39.03% 39.9%	<39.03%	100%
Corporate Non-Financial measures 40%	**Strategic HR[5]**	**10%**				
	Agile (number of employees trained)	2%	300-400	400-600 545	>600	100%
	School of technology (number of IT professionals recruited)	2%	40-55 25	55-80	>80	0%
	Data analytics (number of employees trained)	2%	300-350	350-500	>500 509	140%
	Learning and development program for certain departments (number of employees trained)	2%	35-50	50-90 80	>90	100%
	Voice of the internal customer (score)	2%	2.10-2.25 1.93	2.25-2.35	>2.35	0%
	Agile transformation[6]	**12%**				
	Increase employee happiness from the current level (by certain percentage)	3%	13%-18% 16%	13%-18%	>25%	60%
	Improve FTE productivity (by certain percentage)	3%	10%-15% 10%	15%-20%	>20%	60%
	Improve time-to-market and release frequency (increase X times)	3%	x1.1-x1.5	x1.5-x2	>x2 >x2[11]	140%

Corporate Non-Financial measures 40%	Improve organizational agility score (by certain percentage)	3%	13%-18%	18%-25%	>25	0%
			4.3%			
	International expansion[7]	**8%**				
	1. Uzbekistan	4%				
	Revenue generation for Payme - target of UZS 17,153 K	2%	95%-98%	98%-103%	>103%	140%
					157%	
	Deployment of core banking & Space launch	2%	Dec 2019	Nov-Sep 2019	Earlier than Sep 2019	100%
			Dec			
	2. Azerbaijan	4%				
	Loan portfolio growth – target of AZN 212 mln	2%	90%-95%	95%-105%	>105%	0%
			-2.7%			
	Deposit portfolio growth – target of AZN 156 mln	2%	90%-95%	95%-105%	>105%	0%
			57.5%			
	Customer experience[8]	**10%**				
	"The Best Service Company in Georgia" (Retail)	5%	Negative Gap with N1 >=-5% <=0%	Positive Gap with N2 >0%<=10%	Gap with #2>10%	100%
				2.7%		
	Number of status clients	5%	56.000-59.000	59.000-64.000	>64.000	140%
					84.973	
Personal KPIs 10%	Leadership[9]	10%		A		100%
	Total Corporate KPI-s fulfillment	**90%**				**87%**
	Total Personal KPI-s fulfillment	**10%**				**10%**
	Total	**100%**				**97%**

Notes to chart:

1. ROE target was increased from above 21.1% in 2018 to above 21.4% in 2019.
2. The net interest margin (NIM) has been rebased due to National Bank of Georgia's (NBG's) responsible lending regulation, which was introduced from the beginning of 2019. This regulation limits the JSC TBC Bank's ability to disburse loans to higher yield, higher risk customers by imposing loan to value and payment to income limits for individuals' loans and introducing additional requirements for income verification. As a result, the maximum NIM target has been decreased from above 6.7% in 2018 to above 5.8% in 2019.
3. Cost of risk ratio (CoR) has also been rebased due to the NBG's responsible lending regulation as mentioned above, resulting in the shift of the retail loan portfolio mix towards mortgages, which represent lower risk products. As a result, the maximum CoR target has been made more aggressive from below 1.6% in 2018 to below 0.95% in 2019.
4. The maximum target of cost to income ratio (C/I) has been increased due to the following factors:
   - the NBG's responsible lending regulation as mentioned above, which was expected to result in decrease in net interest income and therefore decrease in C/I ratio.
   - the rapid expansion of the Group and building of digital ecosystems, as well as in international initiatives, which results in increased expenses for future development.

   As a result, the maximum C/I target increased from below 37.4% in 2018 to below 39.03% in 2019. However, on a standalone basis, the bank's C/I ratio improved by 0.3 percentage points YoY and amounted to 35.9% (for this ratio calculation purposes, all relevant group recurring costs are allocated to the Bank).
5. In line with our strategic priorities, we have identified key competences that need to be developed within JSC TBC Bank and have introduced relevant trainings and learning programs along with their KPIs in this regard. In addition, to ensure that the front office staff receives maximum support from the back offices, the Bank has introduced an initiative of the "voice of the internal customer". Under this initiative, front office staff assess HR's support level via evaluating the quality of HR service in recruiting substitute staff in front-office, based on internal pre-determined questionnaire. This KPI is measured on a scale of 0-3, with 3 meaning the best quality.
6. The importance of agile transformation is explained in our strategy section on pages 12-19. Based on the best practice shared by the consultants that TBC has been working with in Agile implementation, the selected KPIs are used to measure agile implementation efficiency. Improved FTE productivity and time-to-market and release frequency are direct results of a good agile programme. In addition, employee happiness and improved organizational agility score are additional important benefits of the cultural change. TBC has agreed to embark on ambitious targets across all these impact areas and agreed to set appropriate KPIs for each of them. Each KPI has a weighting of 3%:

- FTE productivity implies that the same amount of work is conducted with less workforce;
- Time-to-market measures the time it takes for the product to be launched from the idea origination date to the release date, while release frequency measures how many times the systems are renewed within the given period of time.
- Organizational agility score is measured based on internal predefined survey, which is based on the best practice examples;
- Employee happiness is measured based on internal predefined survey, which is based on the best practice example prepared by external consultants. The Remuneration Committee assessed that this KPI was satisfied at 60%.

Agile transformation has involved 471 employees during 2019.

7. The rationale for our international expansion plans is described in our strategy section on pages 12-19. The selected financial measures are based on management accounts.
Core banking implementation was completed in December 2019. Although the target date was September 2019, as the executive Directors had substantially achieved their targets by year-end, the Remuneration Committee assessed the satisfaction of this KPI (which carried a weighting of 2%) at 100%. In exercising its discretion, the Remuneration Committee considered the successful launch of consumer finance in Uzbekistan and the fact that the delay in completing this KPI was due to a delay in the local regulatory licensing process which was outside of the executive Directors' control.
8. In line with our aspiration to be the best service provider in Georgia, two measures were evaluated:
   - to conduct survey among mass retail customers to identify "Best Service Company in Georgia in Retail" in the following industries: banking, telecom, insurance and pharmacy, based on surveys conducted by independent research company IPM in December 2019
   - to be the number one in affluent banking in terms of number of clients.
9. Leadership skills are assessed by the Board and were regarded to be achieved "at target" level. Given the increasing complexities of the regulatory and operational environments, the Board, under the leadership of the Remuneration Committee, reviewed the CEO leadership performance taking into account the following parameters: self-leadership, people leadership, organizational leadership and cultural leadership. In 2019, it was the first time such assessment was conducted within this new framework. In 2019, the CEO effectively led the Group across a number of challenges, including the developments around TBC Bank related to the historic transactions and its potential impact on banks operational level. CEO, with his respective teams, has managed to stabilize the bank very quickly and ensured that the business performed as usual. Finally, in such challenging year, under his leadership, the Group recorded very strong financial and operational performance in Georgia and abroad.
10. In order to better align CEO's KPIs with Group strategic priorities and the challenges he was facing in 2019 and which initiated in 2018, we have slightly reduced the weightings of the financial measures from 56% in 2018 to 50% in 2019, while the non-financial measures were enhanced to cover strategic HR, customer satisfaction, agile transformation and international expansion ambitions with corresponding weighting of 40% in 2019 versus 34% in 2018. In 2020 the weightings of the financial measures will be raised to 70% as the overall strategic plan is now much more defined and in order to increase the management's focus on monetizing the Group's strategic initiatives for the benefit of the shareholders.
11. Release frequency: 4-10 times improvement for in-house systems, 1.5-2 times improvement for vendor systems, time-to-market: 2-3 times improvement for majority of systems.

As a result, during 2019, the Remuneration Committee therefore considered Mr Butskhrikidze's performance as good and determined the overall value of the deferred share bonus award of US$ 901,934 (being the net value awarded of US$ 714,178 grossed up for directors' income tax and national insurance contribution on deferred bonus share awards). The actual deferred share bonus represented 69% of the maximum annual bonus, which could have been achieved if all the performance measures had been met.

The below table illustrates the performance measures set for Mr. Shagidze in respect of 2019, as well as his performance against them. The selected financial performance measures are vital for the long-term financial health of the Group and are also closely monitored by investors. Non-financial measures including HR and customer experience are closely linked to our strategic priorities as described in our business model and strategy section, while TBCG PLC share price performance against peer bank measures our relative performance against the closest competitor. The personal KPIs represent the areas of the major focus for CFO due to its significant impact on the overall performance of the business.

	Performance measure	**Weighting[12]%**	**Minimum (60%)**	**Target (100%)**	**Maximum (140%)**	**KPI evaluation**
Corporate Financial measures 37%	ROE[1]	11%	18.25%-20.28%	20.28%-21.40%	>21.40%	140%
					22.4%	
	NIM[2]	10%	5.18%-5.63%	5.63%-5.80%	>5.80%	60%
			5.6%			
	Cost of risk[3]	8%	1.2%-1.08%	1.08%-0.95%	<0.95%	140%
					0.7%	
	Cost to income[4]	8%	41.68%-40.30%	40.30%-39.03%	<39.03%	100%
				39.9%		
Corporate Non-Financial measures 33%	**Strategic HR[5]**	**8%**				
	Agile (number of employees trained)	1.6%	300-400	400-600	>600	100%
				545		
	School of technology (number of IT professionals recruited)	1.6%	40-55	55-80	>80	0%
			25			
	Data analytics (number of employees trained)	1.6%	300-350	350-500	>500	140%
					509	

Corporate Non-Financial measures 33%	Learning and development program for certain departments (number of employees trained)	1.6%	35-50	50-90	>90	100%
				80		
	Voice of the internal customer (score)	1.6%	2.10-2.25	2.25-2.35	>2.35	0%
			1.93			
	Agile transformation[6]	**8%**				
	Increase employee happiness from the current level (by certain percentage)	2%	13%-18%	18%-25%	>25%	60%
			16%			
	Improve FTE productivity (by certain percentage)	2%	10%-15%	15%-20%	>20%	60%
			10%			
	Improve time-to-market and release frequency (increase X times)	2%	x1.1-x1.5	x1.5-x2	>x2	140%
					>x2[13]	
	Improve organizational agility score (by certain percentage)	2%	13%-18%	18%-25%	>25	0%
			4.3%			
	International expansion[7]	**9%**				
	1. Uzbekistan	5%				
	Revenue generation for Payme - target of UZS 17,153 K	2.5%	95%-98%	98%-103%	>103%	140%
					157%	
	Deployment of core banking & Space launch	2.5%	Dec 2019	Nov-Sep 2019	Earlier than Sep 2019	100%
			Dec			
	2. Azerbaijan	4%				
	Loan portfolio growth – target of AZN 212 mln	2%	90%-95%	95%-105%	>105%	0%
			-2.7%			
	Deposit portfolio growth – target of AZN 156 mln	2%	90%-95%	95%-105%	>105%	0%
			57.5%			
	Customer experience[8]	**8%**				
	"The Best Service Company in Georgia" (Retail)	4%	Negative Gap with N1 >=-5% <=0%	Positive Gap with N2 >0%<=10%	Gap with #2>10%	100%
				2.7%		
	Number of status clients	4%	56,000-59,000	59,000-64,000	>64,000	140%
					84,973	
Personal KPIs 30%	**Financial:**	**16%**				
	Treasury[9]:	8%				
	Treasury FX	4%	95% -98% of the budget	98% -103% of the budget	> 103% of the budget	100%
				102		
	Treasury Liquidity	4%	95% -98% of the budget	98% -103% of the budget	> 103% of the budget	140%
					108%	
	International expansion - Uzbekistan	8%	Same target as mentioned above in corporate KPIs			120%
	Non-financial:	**14%**				
	IR[10]	8%	-10-0%	0-10%	>10%	0%
			-18%[14]			
	Leadership[11]	6%		A		100%
	Total Corporate KPI-s fulfillment	**70%**				67%
	Total Personal KPI-s fulfillment	**30%**				25%
	Total	**100%**				92%

Notes to table:

1. ROE target was increased from above 21.1% in 2018 to above 21.4% in 2019.
2. The net interest margin (NIM) has been rebased due to National Bank of Georgia's (NBG's) responsible lending regulation, which was introduced from the beginning of 2019. This regulation limits the JSC TBC Bank's ability to disburse loans to higher yield, higher risk customers by imposing loan to value and payment to income limits for individuals' loans and introducing additional requirements for income verification. As a result, the maximum NIM target has been decreased from above 6.7% in 2018 to above 5.8% in 2019.
3. Cost of risk ratio (CoR) has also been rebased due to the NBG's responsible lending regulation as mentioned above, resulting in the shift of the retail loan portfolio mix towards mortgages, which represent lower risk products. As a result, the maximum CoR target has been made more aggressive from below 1.6% in 2018 to below 0.95% in 2019.
4. The maximum target of cost to income ratio (C/I) has been increased due to the following factors:
    - the NBG's responsible lending regulation as mentioned above, which was expected to result in decrease in net interest income and therefore decrease in C/I ratio.
    - the rapid expansion of the Group and building of digital ecosystems, as well as in international initiatives, which results in increased expenses for future development.

    As a result, the maximum C/I target increased from below 37.4% in 2018 to below 39.03% in 2019. However, on a standalone basis, the bank's C/I ratio improved by 0.3 percentage points YoY and amounted to 35.9% (for this ratio calculation purposes, all relevant group recurring costs are allocated to the Bank).
5. In line with our strategic priorities, we have identified key competences that need to be developed within JSC TBC Bank and have introduced relevant trainings and learning programmes along with their KPIs in this regard. In addition, to ensure that the front office staff receives maximum support from the back offices, the Bank has introduced an initiative of the "voice of the internal customer". Under this initiative, front office staff assess HR's support level via evaluating the quality of HR service in recruiting substitute staff in front-office, based on internal pre-determined questionnaire. This KPI is measured on a scale of 0-3, with 3 meaning the best quality.
6. The importance of agile transformation is explained in our strategy section on pages 12-19. Based on the best practice shared by the consultants that TBC has been working with in Agile implementation, the selected KPIs are used to measure agile implementation efficiency. Improved FTE productivity and time-to-market and release frequency are direct results of a good agile programme. In addition, employee happiness and improved organizational agility score are additional important benefits of the cultural change. TBC has agreed to embark on ambitious targets across all these impact areas and agreed to set appropriate KPIs for each of them. Each KPI has a weighting of 2%:
    - FTE productivity implies that the same amount of work is conducted with less workforce;
    - Time-to-market measures the time it takes for the product to be launched from the idea origination date to the release date, while release frequency measures how many times the systems are renewed within the given period of time.
    - Organizational agility score is measured based on internal predefined survey, which is based on the best practice examples;
    - Employee happiness is measured based on internal predefined survey, which is based on the best practice example prepared by external consultants. The Remuneration Committee assessed that this KPI was satisfied at 60%.

    Agile transformation has involved 471 employees during 2019.
7. The rationale for our international expansion plans is described in our strategy section on pages 12-19 The selected financial measures are based on management accounts.

    Core banking implementation was completed in December 2019. Although the target date was September 2019, as the executive Directors had substantially achieved their targets, the Remuneration Committee assessed the satisfaction of this KPI (which carried a weighting of 2.5%) at 100%. In exercising its discretion, the Remuneration Committee considered the successful launch of consumer finance in Uzbekistan and the fact that the delay in completing this KPI was due to a delay in the licensing process which was outside of the executive Directors' control.
8. In line with our aspiration to be the best service provider in Georgia, two measures were evaluated:
    - to conduct survey among mass retail customers to identify "Best Service Company in Georgia in Retail" in the following industries: banking, telecom, insurance and pharmacy, based on surveys conducted by independent research company IPM in December 2019
    - to be the number one in affluent banking in terms of number of clients.
9. The figures are based on the bank's IFRS standalone numbers and envisages meeting certain level of income from foreign exchange operations and liquidity management.
10. 2019 Q4 average share price multiple of TBCG PLC compared with that of the peer bank.
11. CFO's leadership skills were assessed based on the following parameters: self-leadership, people leadership, organizational leadership and cultural leadership. In addition to his daily functions, in 2019, the CFO successfully led the Uzbekistan project across a number of challenges, which resulted in obtaining the pre-licence for starting banking operations in Uzbekistan as well launching consumer finance operations and acquisition of the leading payment company, Payme. In parallel, the CFO successfully led the senior and AT1 bonds issuance project, which has been completed successfully.
12. In order to better align CFO's KPIs with Group strategic priorities, we have reduced the weightings of the personal measures from 38% in 2018 to 30% in 2019, while the non-financial measures were enhanced to cover strategic HR, customer satisfaction, agile transformation and international expansion ambitions with corresponding weighting of 33% in 2019 versus 26% in 2018. In 2020 the weightings of the financial measures will be raised to 54% in order to increase the management's focus on monetizing the Group's strategic initiatives for the benefit of the shareholders.
13. Release frequency: 4-10 times improvement of in-house systems, 1.5-2 times improvement of vendor systems, time-to-market: 2-3 times improvement of majority of systems.

14. The Remuneration Committee and the board have assessed IR function and CFO's role as excellent in the difficult year taking into the account the increased focus and need to be closer to the shareholders and other stakeholders. The Remuneration Committee did not use its discretion to increase the KPI given the significant drop in the share price, even though this decrease was outside management control.

The Remuneration Committee also considered Mr Shagidze's performance as good and determined the overall value of the deferred share bonus award of US$ 427,721 (being the net value awarded of US$ 341,481 grossed up for directors' income tax and national insurance contribution on deferred bonus share awards). The actual deferred share bonus represented 66% of the maximum annual bonus, which could have been achieved if all the performance measures have been met.

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

2.3 LTIP award granted in 2019 (audited)

Awards granted in 2019 under the LTIP further align executives with the long-term success of the Group. Awards granted in 2019 will be subject to a 3 year performance period and will be delivered in 2022.

Performance conditions and targets together with corresponding weightings for CEO and CFO for LTIP awards granted in 2019 in respect of performance period 2019-2021 are as follows:

	KPI weight	Below Target 60%	Target (inclusive) 100%	Above Target (140%)
Total shareholder return (TSR) for a period of 3 years (2019-2021)	40%	15-17%	17-20%	Above 20%
Average ROE for 3 years (2019-2021)	40%	15-18%	18-21%	Above 21%
Loan market share at the end of 2021	20%	34-36%	36-40%	Above 40%

In the view of the Remuneration Committee the ROE target of above 21% is challenging given the pressure on net interest margin due to responsible lending regulation introduced from 1st January 2019, which limits the bank's ability to lend money to higher yield retail customers and subsequently negatively affects the Group's operating income. Further, the Group's planned investments into ecosystems and its international expansion initiatives (as explained in more details on pages 12-19 of the strategic report) were also expected to squeeze the ROE over the LTIP vesting period and these were taken into account when setting the target. In addition, given the expected decrease in cost of equity due to overall improvement in the risk profile of the country related to the continued development and expected decrease in the refinance rate, the Remuneration Committee considered that the ROE of above 21% would be challenging to reach and would equally be attractive for the investment opportunity. Equally, the Remuneration Committee determined that the market share of above 40% was also appropriately challenging on the back of maintaining high profitability of ROE above 21% since the intensified competition in the market puts pressure on loan yields. The Remuneration Committee considers that these targets strike the right balance between wanting to foster and achieved long-term growth and success of the Company and to reward exceptional performance.

The 2019 awards are scheduled to be released in 2022 and the maximum value of the award has been calculated by reference to the share price of GBP 14.92 (10 days average price for the period of 22 February -3 March 2019, that is the average price for the 10 days after the preliminary results for the full year 2018 have been released on 21 February 2019, based on data published on Bloomberg platform), converted into US$ using average the cross rate of the official exchange rates published by the NBG of 2.67 for GEL/US$ and of 3.51 for GEL/GBP over the same period. Accordingly, the maximum number of shares would be 79,217 for CEO and 39,609 for CFO. Please see section 10 for more information.

2.4 Further details of fixed and discretionary deferred share compensation granted during 2019 (audited)

The following table sets out further details of the share awards granted to Mr Butskhrikidze and Mr. Shagidze in 2019.

	Date of award	Award type	Face value % of base salary)[1]	Face value	Percentage of award receivable if minimum performance achieved	Basis of which award was made	Performance measures	End of performance period	End of the vesting/ holding period
Vakhtang Butskhrikidze	21 March 2019	Fixed: Deferred share salary	Not applicable	US$ 474,700	Not applicable	As described in section 2.1 above	None	31 Dec 2018. Subject to continued employment condition until 21 March 2022.	21 March 2021. The holding period for 50% of the shares is lifted on 21 March 2020[2]
	21 March 2019	Discretionary: deferred share bonus	250%	US$ 2,408,813	Not applicable	As described in section 2.1 above	See section 2.2 of 2018 Remuneration Report	31 Dec 2018. Subject to continued employment condition until 21 March 2022.	21 March 2021. The holding period for 50% of the shares is lifted on 21 March 2020[2]
	3 March 2019	LTIP	161%	US$ 1,554,240	44% of the face value of the awards	The maximum value under the policy	See section 2.3	31 Dec 2021	1Q 2024 (after expiry of two year holding period)
Giorgi Shagidze	21 March 2019	Fixed: Deferred share salary	Not applicable	US$ 236,048	Not applicable	As described in section 2.1 above	None	31 Dec 2018. Subject to continued employment condition until 21 March 2022.	21 March 2021. The holding period for 50% of the shares is lifted on 21 March 2020[2]
	21 March 2019	Discretionary: deferred share bonus	259%	US$ 1,250,408	Not applicable	As described in section 2.1 above	See section 2.2 of 2018 Remuneration Report	31 Dec 2018. Subject to continued employment condition until 21 March 2022.	21 March 2022. The holding period for 50% of the shares is lifted on 21 March 2020
	3 March 2019	LTIP	161%	US$ 777,120	44% of the face value of the awards	The maximum value under the policy	See section 2.3	31 Dec 2021	1Q 2024 (after expiry of two year holding period)

Notes to table:

1. For the purpose of this calculation, the base salary paid in 2019 used.
2. The deferred share salary/bonus subject to a two year continued employment and holding period, lifted on a phased basis: 50% on first anniversary of grant and 50% on second anniversary of grant.
3. The share price of the deferred share salary and deferred bonus is based on closing market value of share price on 21 March 2019. Plaser refer to table 2.1 for more details.

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

The table below sets out the change in salary, benefits and bonus of the CEO compared with that of the wider employee population between 2018 and 2019:

	Chief Executive	All employees
Salary[1]	3.8%[2]	-0.4%
Cash bonus	0%	10.2%
Taxable benefits	13.7%	6.3%
Pension-related benefits[3]	0%	100%
Deferred share bonus award[4]	-62.6%	-87.7%
Total remuneration	**-43.8%**	**5.8%**

Notes to table:

1. This includes cash and fixed 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 fixed deferred share salary is related to the change in the policy, whereas the amount of deferred shares are calculated by reference to cash amount rather than a fixed number of shares as per old policy.
3. Starting from 1st January 2019, the Georgian government introduced the mandatory pension scheme. Under this scheme, 2% of the employee fixed salary is to be contributed by the JSC to a national pension fund. CEO has opted out of this scheme, therefore no contributions have been paid by the Company in relation to this remuneration.
4. The actual number of shares awarded to CEO as part of deferred shares bonus decreased from 89,421 shares in 2018 to 42,571 in 2019. The decrease of deferred share bonus in 2019 as compared to 2018, is mainly due to the rebalancing of the variable remuneration component and moving certain part of the annual bonus to LTIP according to the new policy effective from 1 January 2019. Also, there was a decrease in share price as well. More details are given in section 2.1. The total number of shares granted to all qualifying employees excluding the CEO decreased due to a decrease in the number of shares granted to top management (excluding CEO) by around 53% YoY mainly due to the new remuneration policy as described above, while the number of shares granted to other qualifying employees decreased by around 14% YoY mainly due to increase in the share price for the purpose of share based bonuses accruals effective from January 2019. (Expense is accrued based on grant date share price, which was fixed at GBP 14.88, whilst grant date share price of old scheme was USD 11.00. GEL/USD exchange rate at grant date was fixed at 2.2399 in old scheme, while in new schemes currency exchange rate is not fixed).

2.6 Single total figure for non-executive Directors (audited)

The table below sets out the remuneration earned by each non-executive Director for the years ended 31 December 2018 and 31 December 2019. The independent non-executive Directors are remunerated based on the number of committees they serve on and chair.

Director	Year	Fees US$'000	Taxablebenefits[6] US$'000	**Total Remuneration[7] US$'000**
Mamuka Khazaradze[1]	**2019**	**382**	**12**	**394**
	2018	950	37	987
Badri Japaridze[1]	**2019**	**328**	**8**	**336**
	2018	800	33	833
Nikoloz Enukidze[2]	**2019**	**248**	**0**	**248**
	2018	166	0	166
Nicholas Haag	**2019**	**157**	**0**	**157**
	2018	135	0	135
Eric Rajendra[3]	**2019**	**68**	**0**	**68**
	2018	154	0	154
Maria Luisa Cicognani	**2019**	**149**	**0**	**149**
	2018	38	0	38
Tsira Kemularia	**2019**	**144**	**0**	**144**
	2018	33	0	33
Arne Berggren[4]	**2019**	**51**	**0**	**51**
	2018	0	0	0
Stefano Marsaglia[5]	**2019**	**0**	**0**	**0**
	2018	95	0	95
Stephan Wilcke[5]	**2019**	**0**	**0**	**0**
	2018	83	0	83
Total amounts	**2019**	**1,527**	**20**	**1,547**
	2018	2,454	70	2,524

Notes to table:

1. Mamuka Khazaradze and Badri Japaridze stepped down from their respective positions of Chairman and Deputy Chairman of the Board on 25 July 2019
2. Nikoloz Enukidze was appointed to serve as the Chairman of the Board on 25 July 2019 following the resignation of Mamuka Khazaradze.
3. Eric Rajendra was re-appointed as Independent non-executive Director on 17 September 2019 following his resignation on 15 March 2019 due to health reasons. He was appointed as a member of JSC TBC Bank Supervisory Board on 9 October 2019.
4. Arne Berggren joined the Board as an independent non-executive Director on 13 August 2019 and was appointed as a member of JSC TBC Bank Supervisory Board on 18 July 2019.
5. Stefano Marsaglia and Stephan Wilcke resigned from the Board in September 2018 and were replaced by Maria Luisa Cicognani and Tsira Kemularia respectively.
6. Taxable benefits comprise medical insurance, car, and security allowance. From 1st January 2019, as a result of pension reform, the state pension scheme was introduced in Georgia, which required TBCG to pay into the pension scheme for Georgian resident directors (including non-executive Directors). Individuals above 40 years are allowed to leave the scheme before a certain date. Mamuka Khazaradze was planning to opt out of this scheme but failed to do so before the set deadline. The total pension contribution paid by TBCG during 2019 was GEL 12,415 and will be recovered in the first half of 2020. Badri Japaridze opted out the scheme and the full amount paid by TBCG (GEL 9,988) was recovered in 2019.
7. Non-executive Directors have not received any other payments from the Group in 2019 and 2018.

The table below shows the detailed breakdown of annual fees paid to non-executive Directors in 2019 and 2018 in relation to different roles paid from both TBC Bank Group PLC and JSC TBC Bank:

	Fees paid starting from 25.09.2019 US$'000*	Fees paid from 25.07.2019-25.09.2019 US$'000*	Fees paid from 4.04.2019-25.07.2019 US$'000*	Fees paid before 4.04.2019 US$'000[1]*	Fees paid in 2018 US$'000[1]
Chairman	338	320	450	950	950
Deputy Chairman	0	0	400	800	800
Non-executive Director (other than Chairman and Deputy Chairman)	130	130	130	84	84
Senior independent director	15	15	15	20	20
Committee Chairmanship	12	12	12	28	28
Committee membership	6	6	6	11	11
Employee engagement designated independent board member role	3	3	3	0	0

Notes to the table:

1. Before 4 April 2019, all board members received the same remuneration for the roles listed above except for Eric Rajendra who received the following fees: board membership- US$ 94,533, committee Chairmanship-US$ 27,206, committee membership-US$ 10,882. This was caused by differences in tax treatment between jurisdictions, as TBC Bank wished non-executive Directors to receive similar net pay regardless of the tax system applicable to them.

* These amounts reflect the annual rate that applies, or would have applied, from the date set out for that financial year.

During 2019, the Chairman and Deputy Chairman of the Board resigned and as a result the Board has undergone a restructuring. As part of this restructuring, the role of the Deputy Chairman has been abolished and the fees for the remaining non-executive Directors (including the new Chairman) have been amended several times during the year to also comply with the principles of the National Bank of Georgia's (NBG's) new Corporate Governance Code for Commercial Banks. To assist the Remuneration Committee determine the appropriate fees for the non-executive Directors, the Remuneration Committee has completed an externally moderated benchmarking exercise against its peer bank and FTSE 250 companies performed by Deloitte corporate governance team which was retained as advisor. As a result, the Remuneration Committee decreased the Chairman's fees from US$ 950,000 on 1st January 2019 to US$ 338,000 starting from 25 September 2019 and no fees were paid to former Chairman and Deputy Chairman for the months following their resignations. Committee Chairmanship and membership fees have also decreased (from $28,000 to $12,000 and $11,000 to $6,000 respectively). The Remuneration Committee's decision to increase individual non-executive Directors (excluding Chairman) fees for board membership from $84,000 to $130,000 while reducing Committees' fees has been done within the non-executive Directors' compensation policy approved at the 2018 AGM. All-in-all the total average non-executive Director fees, inclusive of board membership in both the PLC and the JSC and committee fees, increased by 15% compared to 2018. The rebalancing of the fee structure within the 2018 AGM approved limits reflects a number of operational challenges which the non-executive board members are facing. The increased complexity of business and the different regulatory environments where the Group operates, the implementation of the international expansion, the growth of customer focused ecosystems in Georgia and also in our foreign operations have required substantial additional time commitment from the Board which has been estimated at around 17% in 2019 compared to 2018. However, after the changes implemented, the overall 2019 annual costs for non-executive Directors' compensation reduced by 39% compared to 2018, considering that until the resignation of the former Chairman and Deputy Chairman the previous level of fees were paid. Further details of the changes can be found in sections 9 and 12.

The table below shows the new fee levels of the "ordinary board member", which for these purposes is someone whom chairs one committee and is a member of two committees.

	Board membership	Committee membership	Committee Chairmanship
Roles	1	2	1
Annual fees in thousands US$ per Role	130	6	12
Annual fees in thousands US$ per combined responsibility	130	12	12
Total Annual Fee in thousands US$			**154**

Therefore the Board has decided not to make any adjustments to NED compensation, but will keep the matter under review, particularly given the time commitment required by the TBC's governance structure necessitating non-executives to sit on two different Boards with different responsibilities and time commitments.

The table below shows the expected remuneration for the non-executive Directors in 2020 (unaudited).

Non-executive Directors' expected fees in 2020 for both TBC PLC and JSC TBC Bank Boards	Fees US$'000
Nikoloz Enukidze	350
Nicholas Haag	175
Eric Rajendra	142
Maria Luisa Cicognani	154
Tsira Kemularia	157
Arne Berggren	148
Total amounts	**1,126**

The above table shows the total fees to be paid to non-Executive directors in 2020 in relation to different roles that they hold including chairman position, committee membership and chairmanship, senior independent director and employee engagement designated independent board member roles.

3. REMUNERATION OF THE TOP MANAGEMENT OF JSC TBC BANK

The table below summarizes the total remuneration earned by the senior managers of the JSC TBC Bank for the financial years ended 31 December 2019 and 31 December 2018, except for the CEO and CFO (as their remuneration information is disclosed in section 2 of this Report).

Director [1]	Year	Base salary US$'000	Deferred share salary US$'000	Taxable benefits US$'000	Deferred share bonus award US$'000[2]	Total remuneration US$'000[3]
Total for the top managers excluding CEO and CFO	**2019**	**1,160**	**1,479**	**26**	**2,221**	**4,886**
	2018	1,490	1,666	15	5,887	9,058
Per Top manager excluding CEO and CFO (average per 6 members)	**2019**	**232**	**296**	**5**	**444**	**977**
	2018	248	278	2	981	1,510

Notes to the table:

1. In 2019, in addition to CEO and CFO, the top management of JSC TBC Bank was comprised of 5 individuals: Head of Retail Banking, Head of Corporate and Investment Banking, Head of MSME Banking, Chief Risk Officer, Chief Operating Officer. In 2018, the top management also included the position of First Deputy CEO, a position which was eliminated in the beginning of 2019.
2. The decrease of deferred share bonus in 2019 as compared to 2018, is mainly due to the rebalancing of the variable remuneration component and moving certain part of the annual bonus to LTIP according to the new policy effective from 1 January 2019.
3. The first LTIP award has been granted in 2019, but has not yet vested as it is subject to a three year performance period. Thus, it is not included in this table.

<table>
<tr><th></th><th></th><th colspan="2">Description</th></tr>
<tr><td rowspan="5">Fixed</td><td>Cash Salary</td><td colspan="2">Base salary paid in year to executive directors.
No additional fees were paid to executive directors.</td></tr>
<tr><td rowspan="4">Deferred share salary</td><td colspan="2">Deferred share salary comprises of TBCG shares granted in respect of service in the relevant year.</td></tr>
<tr><td>2019</td><td>2018</td></tr>
<tr><td>The number of TBCG shares awarded as deferred share salary under the new remuneration policy, effective from 1 January 2019, is linked to the base salary.

Deferred shares in relation to 2019 were awarded on 19 February 2020. Deferred share salaries are subject to a 2 year holding period and malus and clawback provisions. The holding condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

The 2019 award has been valued using the average share price for the period of 9-18 February 2020 (GBP 12.93 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.87 for GEL/US$ and of 3.72 for GEL/GBP over the same period) and grossed up for directors' income tax and national insurance contribution on share awards paid by the Company.</td><td>The number of shares awarded as deferred share salary under the old remuneration policy, which expired on 31 December 2018, was linked to the base salary.

Deferred shares in relation to 2018 were awarded on 21 March 2019. Deferred share salaries are subject to a condition of continuous employment for 3 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, a further 10%, on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.

The 2018 award has been valued using the closing market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.68 for GEL/US$ and 3.55 for GEL/GBP on the same date) and grossed up for directors' income tax and national insurance contribution on share awards paid by the Company</td></tr>
<tr><td colspan="2"></td></tr>
<tr><td rowspan="3">Variable</td><td rowspan="3">Deferred share bonus</td><td colspan="2">A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year.</td></tr>
<tr><td>2019</td><td>2018</td></tr>
<tr><td>The award is 100% deferred and is subject to a 2 year holding period and malus and clawback provisions. The holding condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

Deferred shares in relation to 2019 were awarded on 19 February 2020.

The 2019 award has been valued using the average share price for the period of 9-18 February 2020 (GBP 12.93 converted into US$ using the cross rate of the official exchange rates published by the of 2.87 for GEL/US$ and of 3.72 for GEL/GBP over the same period) and grossed up for directors' income tax and national insurance contribution on share awards paid by the Company.</td><td>The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. The continued employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.

Deferred shares in relation to 2018 were awarded on 21 March 2019.

The 2018 award has been valued using the closing market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.68 for GEL/ US$ and 3.55 for GEL/GBP on the same date) and grossed up for directors' income tax and national insurance contribution on share awards paid by the Company.</td></tr>
<tr><td>Benefits</td><td>Taxable benefits</td><td colspan="2">Taxable benefits comprise medical insurance and pension contributions in relation to mandatory state pension scheme effective from 1st January 2019 in cases where directors are not allowed to opt out of the scheme due to their age.</td></tr>
</table>

4. PAYMENTS TO PAST DIRECTORS (AUDITED)

There were no payments made to past directors relating to 2019.

5. PAYMENTS FOR LOSS OF OFFICE (AUDITED)

There were no payments made in relation to loss of office in 2019.

6. STATEMENT OF DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

The application of our remuneration structure naturally results in our executive Directors holding a significant number of shares that are subject to continued employment conditions. In addition, as described in section 10 below, the Company has implemented a new Minimum Shareholding Requirement for executive Directors. Both executive Directors have met the Minimum Shareholding Requirement. Deferred shares paid in relation to salary and annual bonus are subject to continuous employment and malus and clawback requirements but are not subject to any further performance conditions.

The following table sets out a summary of each director's shareholdings and share interests in the Company as at 31 December 2019. Although not a Company requirement, some non-executive Directors have chosen to become shareholders.

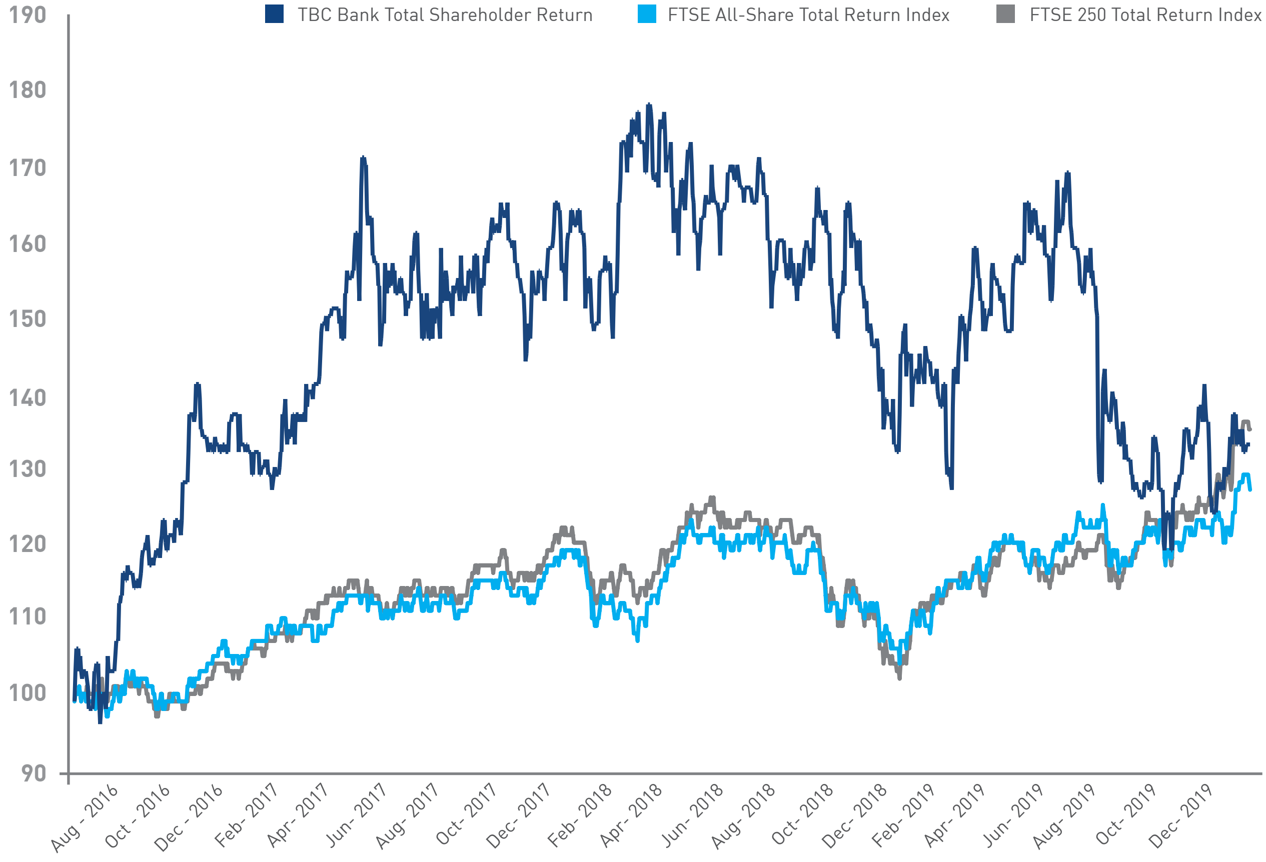
	Number of shares held not subject to the continued employment requirements and/or performance conditions[1]	Number of shares held subject to the continued employment requirements[2]	Number of shares held subject to the performance conditions[3]	Total interests in shares
Mamuka Khazaradze	5,658,048	0	0	5,658,048
Badri Japaridze	3,308,616	0	0	3,308,616
Vakhtang Butskhrikidze[4] (Executive Director)	805,367	292,502	79,217	1,177,086
Giorgi Shagidze[4] (Executive Director)	110,157	146,916	39,609	296,682
Nikoloz Enukidze	10,000	0	0	10,000
Nicholas Haag	0	0	0	0
Eric Rajendra	0	0	0	0
Maria Luisa Cicognani	0	0	0	0
Tsira Kemularia	0	0	0	0
Arne Berggren	0	0	0	0

Notes to table:

1. This figure includes all shares held which are no longer subject to any conditions or transfer restrictions.
2. This figure includes shares that are still subject to conditions, including transfer restrictions, a continuous employment condition and malus and clawback provision. 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. This figure includes awards granted, but not vested, under the LTIP that are subject to performance conditions. Details of these interest are described at section 2.1 and 2.3.
4. On 19 February 2020, the Company granted deferred shares to Mr Butskhrikidze and Mr. Shagidze, in respect of the year ended 31 December 2019, as part of their fixed salary and as the annual bonus. Mr Butskhrikidze has been granted 66,642 shares and Mr. Shagidze has been granted 32,490 shares. These shares are subject to two years continued employment and malus and clawback provisions. The continued employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary form the award date. In addition, during the first quarter 2020, CEO and CFO sold 85,000 and 23,000 shares respectively. These have not been included in the above table. All figures in the table reflect the position as at 31 December 2019. As at 28 April 2020, Mr Butskhrikidze held 251,757 shares and Mr. Shagidze held 125,123 shares that were subject to continued employment conditions. Both the CEO and CFO have met the Shareholding Requirement - as explained in more detail on page 172. As of 31 December 2019, the total value of shareholdings for CEO and CFO respectively stood at 1940% and 908% of their respective base salaries. The values are calculated based on GBP 13.0 share price as of 31 December 2019 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.87 for GEL/US$ and of 3.76 for GEL/GBP for the same date. Except for the ones described above, no other changes have taken place since the end of 2019 till 28 April 2020.

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 2019, 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]
2019	**1,887**	**69%**
2018	3,356	85%
2017	4,084	88%

Notes to table:

1. Total remuneration includes fixed cash salary, deferred share salary, deferred share bonus award and taxable benefits as described in section 2.1, but excludes LITP, which was awarded in 2019 but not yet vested. More details about LTIP is given in section 2.3.
2. For further details of the deferred share bonus please refer to section 2.2 above.

8. RELATIVE IMPORTANCE OF SPEND ON PAY

The following table illustrates the difference in spend on pay for all employees of the Group and the difference in dividend paid to the shareholders between 2019 and 2018. Dividends paid to shareholders in 2019 for the year ended 31 December 2018 increased by 6% as compared to dividends paid to shareholders in 2018 for the year ended 31 December 2017.

8. RELATIVE IMPORTANCE OF SPEND ON PAY CONTINUED

	Year ended 31 December 2019	Year ended 31 December 2018	% change
Total spend on pay[1] (US$'000)	87,900	86,942	1%
Dividends paid to shareholders[2] (US$'000)	38,145	36,156	6%

Notes to table:

1. Total spend on pay includes total staff costs per Group's IFRS consolidated financial statements and is converted into US$ using average US$/GEL exchange rate of 2.82 for 2019 and of 2.53 for 2018 respectively.
2. Dividend paid to shareholders are gross amounts converted into US$ using official exchange rate prevailing at the date of payment of the dividends, GEL 2.85 and GEL 2.46 for 2019 and 2018 respectively. The dividend amount includes both cash and scrip dividend.

9. POLICY IMPLEMENTATION IN 2020

Remuneration policy for executive Directors

The Remuneration Policy was developed with support of external consultants and KPMG and was approved by the shareholders on 21 May 2018 at the 2018 Annual General Meeting (AGM). The Policy is applicable starting from 1 January 2019 until the end of 2021.

The National Bank of Georgia (NBG), the regulator of JSC TBC Bank, has introduced a new Corporate Governance Code for Commercial Banks. This includes certain requirements in relation to executives' remuneration that comes into force from 2020. Therefore, the Remuneration Committee will adopt the required modifications to the remuneration of the top management and executive Directors in relation to FY 2020 in order to meet the new regulatory requirements. These changes are summarized below:

1. extend the holding period under the LTIP from 2 years to 3 years, so that starting from 2020, LTIP awards will have a 3-year vesting period, which will be followed by a 3-year holding period;
2. change the expected remuneration in such a way that the portion of the expected annual bonus as a percentage of total variable remuneration, is decreased from 45% to 40% for the CFO and from 46% to 40% for the CEO, while the expected portion of LTIP as a percentage of total variable compensation is increased from 55% to 60% for CFO and from 54% to 60% for CEO.

These changes will even more align executive Directors' interests to those of the shareholders. These changes remain within the maximum levels of compensation approved by shareholders under the current remuneration policy and, therefore, they will not require additional shareholders' approval.

Given the on-going COVID-19 pandemic, the executive Directors and top management of JSC TBC Bank have voluntarily decided to waive all variable compensation (usually representing majority of total compensation) in relation to 2020 (i.e. annual bonus in relation to 2020 year to be awarded in February 2021) and LTIP grants for 2020 year.

Non-executive Director compensation

See section 2.6 and further details below on changes to the non-executive Directors' compensation. These are in line with the Policy approved by shareholders at the 2018 AGM.

To confirm adherence to best market practice, the Board undertook an externally performed benchmarking exercise regarding the compensation of its non-executive Directors including the Chairman. This exercise was performed by Deloitte, as advisor to the Board, which was selected as described in section 1.1. The benchmarking was performed taking into account two peer groups, which consist of a primary peer group of UK and Irish financial service firms and similar financial services firms operating in the Central and Eastern Europe region, as well as a secondary peer group consisting of the FTSE 250 as a whole and FTSE 250 financial services firms. The work of the advisors presented challenges both in terms of gathering data, because of the availability of public disclosure by the peer banks in the Central and Eastern Europe region, and identifying suitable peers with similar governance structure (i.e., double boards and committees under a "mirror board" framework), geographic remit, size, performance and regulatory regimes. In addition the "mirror board" structure which requires the Group non-executives to work under two different regulatory environments (UK LSE listed companies and Georgia Banks Corporate Governance Code) was a feature that has limited presence within the peer groups. Albeit these challenges, the exercise concluded that the Chairman fee is below the lower quartile against the UK and Irish financial services firms. The non-executive Director single figure amount, as presented in the table on page 165, is 93% of the cap approved by shareholders in 2018 and the total fee policy for the non-executive Directors is within the market competitive range when compared with certain of its closest peers in the UK and Irish financial services company peer group (i.e. those companies operating in multiple jurisdictions and/or with non executives sitting on different Boards of the same group fulfilling different roles).

Statement of implementation

In 2020, the Remuneration Committee intends to continue to provide remuneration in accordance with the Policy as set out in the tables below and as approved by shareholders at the 2018 AGM. Fees and salaries may be adjusted but in all cases will not exceed the maximum levels stated in the relevant Policy, as approved by shareholders at the 2018 AGM. New targets will be set for the deferred share bonus awards. The appropriate level of awards (including awards granted under the LTIP) to be granted in 2020 will be assessed by the Remuneration Committee but in all cases they will remain within the maximum levels stated in the relevant Policy table as approved by shareholders at the 2018 AGM.

From January 2020 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 levels stated in the Policy approved by shareholders at the 2018 AGM. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy. For 2020, the base salary has been set the same as it was in 2019, that is US$ 963,994 for CEO and US$ 482,004 for CFO.
Annual bonus	**Performance measures and weightings:** Performance measures for 2020 are summarized below: • Corporate financial KPIs that are comprised of return on equity, cost to income, net interest margin, gap with peer bank in Retail, Micro & SME loans, revenue from ecosystems. • Corporate non-financial KPIs that relate to strategic HR and customer experience. • Personal KPIs include leadership skills in the case of the CEO and in the case of the CFO, include financial KPIs comprising of treasury operations targets and targets related to international expansion in Uzbekistan and non-financial targets including leadership skills and IR function specific KPIs. The corresponding weightings[1] for 2020 are set as follows: (see table below) **Performance targets:** Specific performance targets are considered commercially sensitive as they may give our competitors information about our budget and strategy. The targets will be disclosed in the Group's 2020 annual report.
Long term incentive plan (LTIP)	Performance conditions and targets together with corresponding weightings for CEO and CFO for 2020-2022 are as follows: (see table below)

	CEO	CFO
Corporate financial measures	**70%**	**54%**
Corporate non-financial measures	**20%**	**16%**
Personal KPIs	**10%**	**30%**
Financial	0%	16%
Non-financial	10%	14%
Total	**100%**	**100%**

	KPI weight	Below target	On target	Above target
Total shareholder return (TSR) for a period of 3 years (2020-2022)	40%	15-17%	17-20%	Above 20%
Average ROE for 3 years (2020-2022)	40%	15-18%	18-21%	Above 21%
Loan market share at the end of 2022	20%	34-36%	36-40%	Above 40%

Non-Executive Directors

Fees	The fees paid to the non-executive directors will be within the Policy approved by shareholders at the 2018 AGM. The Remuneration Committee has decided to revise the compensation for the non-executive directors starting from 25 September 2019 as follows: • Chairman's remuneration was decreased from US$ 950,000 to US$ 338,000[2] • Deputy Chairman's remuneration was eliminated[2] • Non-executive director's remuneration was increased from US$ 84,000 to US$ 130,000 • Senior Independent Director remuneration was decreased from US$ 20,000 to US$ 15,000 • Committee Chairmanship remuneration was decreased from US$ 28,000 to US$ 12,000 • Committee membership remuneration was decreased from US$ 11,000 to US$ 6,000 • Employee engagement designated independent member role remuneration was set at US$ 3,000 The full details are given in section 12

Notes to table:

1. the weightings of the financial measures have been increased substantially for CEO and CFO in 2020 compared to 2019 in order to increase the management's focus on monetizing the Group's strategic initiatives started in the previous years for the benefit of the shareholders.
2. The remuneration of the Chairman and Deputy Chairman were revised to reflect the new board structure following the resignation of the founders, Mamuka Khazaradze and Badri Japaridze on 25 July 2019

10. DIRECTORS' REMUNERATION POLICY

This section describes the new Remuneration Policy for executive Directors, which came into force on 1 January 2019 and will apply for 3 years until the end of 2021. This Policy was approved on 21 May 2018 at the 2018 AGM meeting.

The full Policy is given in 2017 Annual Report, which is available at our website at www.tbcbankgroup.com.

The summary of the Policy is given in section 10.1.

Under the existing policy, the total executive Directors' remuneration at target and maximum performance is below the one under the previous policy as illustrated in the 2017 Annual Report on page 137.

As disclosed in last year's Remuneration Report, in 2019 we made the following amendments to the Policy in relation to shareholding requirements:

Shareholder guidelines

Executive Directors naturally build up a significant holding of shares in the Company over time. In order to encourage this and set a standard position, the Company has introduced a minimum shareholding requirement of 200% base salary (the "Minimum Shareholding Requirement"). There is no set time during which the Minimum Shareholding Requirement must be met, but until it is met, executive Directors are expected to hold shares acquired under this Policy. Any deferred shares will count towards the Minimum Shareholding Requirement on a net of tax basis.

Once the Minimum Shareholding Requirement has been met, the executive Directors must maintain the Minimum Shareholding Requirement for the duration of their employment with the Group. Unless otherwise agreed by the Remuneration Committee, the Minimum Shareholding Requirement will also apply for two years post-employment at a level equal to the lower of:

- 50% of the Minimum Shareholding Requirement immediately prior to departure; or
- the executive Director's actual shareholding on departure.

Deferred shares paid in relation to salary and annual bonus and any vested awards from the LTIP shall count towards the Minimum Shareholding Requirement. Unvested awards from the LTIP will not be counted.

Both of the executive Directors have met the Minimum Shareholding Requirement.

Committee discretion

The Policy gives discretion to the Remuneration Committee to override the formulaic outcomes of the performance assessment in relation to annual bonus and LTIP. Further, the Remuneration Committee also has the discretion, any time after an award has been granted under the LTIP and deferred annual bonus, to reduce (including to zero) an award if the Remuneration Committee considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified.

10.1 Summary of Remuneration policy for Chief Executive Director and Chief Financial Director

Approved by the shareholders on 21 May 2018 at the 2018 Annual General Meeting (AGM). The Policy is applicable starting from 1 January 2019 until the end of 2021.

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Fixed Pay				
Base Salary – in the form of cash and deferred shares	Salaries are determined based on market practice and provide each executive director with a competitive fixed income to efficiently retain and reward the director, based upon each director's roles and responsibilities within the Group and relative skills and experience. Cash salary The cash part of the salary is aimed to provide fixed cash remuneration to reflect the complexity of the Group.	Both the cash and deferred share salaries are paid in part under the executive director's service contract with JSC TBC Bank and in part under his service contract with TBCG PLC, to reflect the executive director's duties to each of them. 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.	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.	Not performance based.

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	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. Whilst the shares remain subject to the continued employment condition, the shares are registered in the trustees name as nominee for the participants. The participants are entitled to receive dividends and have voting rights from the delivery date.	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 malus during the holding period and clawback at any time before the third anniversary of the end of the holding period. If at any time after making the deferred compensation the award holder deliberately misleads the Group in relation to financial performance, there is a material misstatement in the financial results of the Group, the award holder's unit suffers a material downturn in its financial performance caused by the award holder, there is misconduct on the part of the award holder that causes material harm to the Group's reputation, there is misconduct on the part of the award holder that causes failure of the risk management resulting in a material loss to the Group or, in relation to unvested awards, the Board Committee (or if relevant the CEO) considers that the underlying financial performance of the Company or the performance of any individual award holder during the holding period is such that the number of shares cannot be justified, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).	The number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date. However, the maximum value is fixed by reference to a cash amount on that date. 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 value is fixed by reference to a cash amount on that date. The Company 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 executive directors do not receive any additional salary from other Group entities. Salaries are reviewed and may be adjusted annually by the Remuneration Committee based on the available market data on compensation among a peer group sample selected by the Remuneration Committee. The Remuneration Committee must ensure that the total reward potentially available is not excessive from the standpoint of relevant employment data. Any changes to salaries must be recommended by the Remuneration Committee and approved by the Board.	Not performance based.

1 The proposed structure of paying income tax for the executives is due to the Georgian tax code, which requires a company to pay income tax on any benefit paid to the executives (and does not allow for alternative arrangements). However, the numbers disclosed here include such income tax estimates

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Variable Pay				
Annual bonus in the form of deferred shares	To provide a strong motivational tool to achieve the annual KPIs and to provide rewards to the extent those KPIs are achieved. The annual KPIs are chosen to align our executive directors' interests with the short terms strategic objectives of the Group. The annual bonus is paid as to the extent that the annual KPIs have been met. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition the shares are registered in the trustees name as the nominee for the participants and the participants are entitled to receive dividends.	KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year (see more detail at 10.3(b) of the full Remuneration Policy in the 2017 Annual Report). 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 malus during the holding period and clawback at any time before the third anniversary of the end of the holding period. If at any time after making the award, the award holder deliberately misleads the Group in relation to the financial performance, there is a material misstatement in the financial results, the award holder's unit suffers a material downturn in its financial performance caused by the award holder, there is misconduct on the part of the award holder that causes material harm to the Group's reputation, there is misconduct on the part of the award holder that causes failure of the risk management resulting in a material loss to the Group or, in relation to awards, the Board Committee (or if relevant the CEO) considers that the underlying financial performance of the Company or the performance of any individual award holder during the holding period is such that the number of shares cannot be justified, 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 Remuneration Committee decision date. However, the maximum is fixed by reference to a cash amount on the date. 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 Remuneration Committee decision date. However, the maximum is fixed by reference to a cash amount on that date. The bank pays income tax[1] and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.	The KPIs consist of corporate and individual performance measures. Corporate KPIs include financial measures, and non-financial measures with long term focus. Individual performance measures may include individual strategic objectives which vary per person. The performance period is one year. The Remuneration Committee may decide to make no awards where KPIs have not been met.

1 The proposed structure of paying income tax for the executives is due to the Georgian tax code, which requires a company to pay income tax on any benefit paid to the executives (and does not allow for alternative arrangements). However, the numbers disclosed here include such income tax estimates

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Long Term Incentive Plan (LTIP)	To provide a strong motivational tool to achieve long-term performance conditions and to provide rewards to the extent those performance conditions are achieved[2]. Performance conditions are chosen to align our executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet performance conditions over the 3 year performance period. Shares are usually delivered during the first quarter of the fourth year (i.e. the year after the performance period ends) and the exact date is determined by the Remuneration Committee. Once shares are delivered, they remain subject to a 2 year holding period and continued employment requirement. 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 and are measured over a period of 3 years. (See more detail at 10.3(c) of the full Remuneration Policy in the 2017 Annual Report). The Remuneration Committee determines the size 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 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 malus at any time before the award vests and clawback for a three years after the shares are delivered (for conditional share award). If at any time after making the award the award holder deliberately misleads the Group in relation to the financial performance, there is a material misstatement (or material error) in the financial statements of the Group, the award holder's unit suffers a material downturn in its financial performance caused by the award holder, there is misconduct on the part of the award holder that causes material harm to the Company's or the Bank's reputation or there is misconduct on the part of the award holder that causes failure of the risk management resulting in a material loss to the Group, 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. Further, the Remuneration Committee also has the discretion, any time after an award has been granted, to reduce (including to zero) an award if the Remuneration Committee considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified. 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 LTIP will be administered by the Remuneration Committee.	The maximum value of the award for the Chief Executive Director in any given year, under the LTIP to be awarded is US$ 1,554,240 (161% of base salary). The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results are published for the financial year preceding the year of grant. (For example, awards granted in 2019, will use the average share price of the 10 days following publication of the 2018 accounts, in 2019). The maximum value of the award for the Chief Financial Officer in any given year, under the LTIP to be awarded is US$ 777,120 (161% of base salary). The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results are published for the financial year preceding the year of grant. The Company pays income tax[3] 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. The performance period is three year.

2 This element has been added to the Remuneration Policy, in addition to the annual bonus plan, to further extend the long term outlook of the Policy and align executive remuneration to long-term success of the Group

3 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 here include such income tax estimates

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Pension	To assist our employees in providing for their retirement and to maintain a market competitive benefits package to attract and retain executive directors.	The Group may introduce a defined contribution pension scheme taking into account any pension reform or practice in Georgia. The operation of the pension would be considered by the Remuneration Committee fairly and reasonably and with regard to best market practice If introduced, there will be no provision for the clawback or withholding of pension payments.	The maximum employer contribution will not exceed 3% of annual salary.	Not performance based.
Benefits	Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high caliber talent.	Benefits available to executive directors consist of insurance (such as medical, life and disability insurance), physical examinations, tax gross ups[1], directors' and officers' liability insurance, a car service, personal security arrangements and assistance with filling out tax returns, where required. Executive directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts. A tax equalization 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.

11. REMUNERATION THROUGHOUT THE GROUP

Remuneration of other top management members of JSC TBC Bank is similar to that of the executive members of the Company. Other senior and middle management across the Group including material risk takers, employees who are part of the agile structure, as well as some other key employees receive their entire salary in cash and are also eligible to cash and share bonus variable compensation. The share bonuses granted are subject to 3 years of continued employment condition and holding period gradually lifting the conditions. The long-term incentive plan applies only to top management.

All other employees within the Group receive cash salaries and may be eligible to receive cash bonuses. Executive Director and employee pay is reviewed and determined through the application 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 participate in the mandatory state pension scheme effective from 1 January 2019. According to the scheme, the company pays 2% of the employee's total remuneration as pension contribution to the State.

1 According to Georgian tax code, the company is responsible for paying income tax for the participants. As about 95% of the remuneration of CEO and CFO is subject to Georgian tax regulations, the Company pays respective taxes on the relevant portion

12. POLICY TABLE: NON-EXECUTIVE DIRECTORS

In the same way as the executives, the non-executive Directors receive their compensation both from the Company and the main subsidiary, JSC TBC Bank, proportionate to the time spent working on the respective entity's Boards and committees. Starting from 25 September 2019, the compensation for the non-executive Directors is presented in the below table and is in line with the Policy approved by shareholders at the 2018 AGM valid until the end of 2021. The Deputy Chairman's position has been eliminated in 2019 as a result of the board restructuring as described in the Corporate Governance and Nomination Committee Report on pages 143-146, therefore no payments will be made in relation to this position going forward.

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity as approved in 2018 AGM
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, the Group's remuneration policy reflects the importance and unique role he/she fulfills 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$ 338,000 ▸ The annual fees for acting as a non-executive director (other than for Chairman) are US$ 130,000 ▸ The annual fees for acting as Senior Independent Director, in addition to the fees received for acting as a non-executive Director are US$ 15,000 ▸ The annual fees for relevant committee memberships per committee are US$ 6,000 ▸ The annual fees for committee Chairman positions per committee are US$ 12,000 ▸ The annual fees for employee engagement designated independent board member role are US$ 3,000 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.

Component	Purpose and Link to Strategy	Operation	Maximum Opportunity as approved in 2018 AGM
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).	The policy is framed by the nature of the expenses that the Remuneration Committee is willing to provide to non-executive Directors. The maximum amount payable depends on the cost of providing such expenses in the location at which the non-executive director is based. Shareholders should note that the cost of providing comparable expenses in different jurisdictions may vary widely.

12.1 Non-executive Directors

Since non-executive Directors are not employees, they do not receive compensation or benefits. The non-executive Directors are not eligible for performance-based share awards. 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 which is renewed and reviewed on an annual basis.

13. THE MAXIMUM REMUNERATION RECEIVABLE FOR EXECUTIVE DIRECTORS IN CASE OF SHARE PRICE APPRECIATION OF 50% UNDER LTIP

The maximum remuneration receivable for CEO and CFO in case of share price appreciation of 50% during the relevant performance period under LTIP would be US$ 2,331,360 and US$ 1,165,680 respectively. The calculation is based on the number of share granted to CEO and CFO under LTIP of 79,217 and 39,609 respectively using the average share price (GBP 14.92 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.67 for GEL/US$ and of 3.51 for GEL/GBP over the same period) during the 10-day period after the preliminary annual results of 2018 were issued on 21 February 2019.

14. SERVICE CONTRACTS

The service contracts of Vakhtang Butskhrikidze and Giorgi Shagidze who serve as CEO and CFO respectively and the letters of appointment of each non-executive Director are kept at TBC Bank head office at the following address: 7 Marjanishvili Street, Tbilisi, 0102, Georgia.

The details about the appointment of directors is given in Drectors' Report on page 133.

15. CONSIDERATION OF EMPLOYMENT CONDITIONS WITHIN THE GROUP AND OF EMPLOYEE ENGAGEMENT

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 analyzing the overall policy and level of 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.

The Company recognises the importance of employee engagement in setting remuneration for the executive Directors, NEDs and senior management. To this end, in 2019, the Board appointed Tsira Kemularia as the designated non-executive Director to enhance the dialogue between the workforce and the Board and to further strength employee engagement on the topic of executive remuneration. For more information about Tsira Kemularia's appointment, please see nomination report.

16. CONSIDERATION OF SHAREHOLDER ENGAGEMENT

Shareholders and their representative bodies have played an active role in developing the Remuneration Policy approved at the 2018 AGM. The Remuneration Committee remains committed to ensuring an ongoing dialogue with shareholders and will actively engage with shareholders and all stakeholders with respect to any changes to the Policy to achieve the best results and align the interests of all.

17. 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.

Dear shareholders,

I am pleased to present the Audit Committee Report for the Group.

Nicholas Haag
Chairman of the Audit Committee
28 April 2020

SIGNIFICANT ISSUES FOR AUDIT COMMITTEE IN 2019

- Internal and external (Big 4 firm) inspection of the historic transactions investigated by the NBG, case coordinated by the Audit Committee - events established;
- Engagement with regulator (National Bank of Georgia) and other stakeholders on the case - matter settled with regulator;
- Supervised "lessons learned" analysis from historic case and policy refinements implemented;
- Review of terms of reference for Committee and appropriate interface between Audit, Risk and other committees - clarified and simplified;
- Review of a range of IT issues and optimisation of Internal Audit coverage of IT and Cybersecurity risks - decided on co-sourcing solution with Big 4 provider;
- Project "Internal Audit 3.0" to optimise function - on track;
- Commissioning of first External Quality Assessment of Internal Audit function - compliant status confirmed by Big 4 specialist;
- Consideration of audit and control implications around expansion of Group into new geographies and business lines e.g. Uzbekistan, ecosystems, insurance - continuing focus with Management and discussed with internal and external auditors;
- Implications for controls and the financial reporting of Group's broad, agile and data-centric change agenda - discussed with Management and internal and external auditors;
- Supervision of accounting judgements around macroeconomic forecasts under multiple economic scenarios in light of regional instability and local volatility (e.g. currency) and uncertainty factors;
- Transition to new senior engagement partner at external auditor (PwC) - executed smoothly;
- A review of cultural and behavioural standards and procedures within the Group undertaken by Internal Audit- completed with recommendations for incremental improvements being implemented;

COMMITTEE STRUCTURE, ROLE AND STATEMENTS MADE

The Audit Committees of the Bank and Company (together the "AC" or the "Committee") remain primarily responsible for overseeing the financial reporting process including the appointment of external auditors and the implementation of appropriate accounting policies and practices ensuring the integrity, accuracy and full disclosure of the Group's financial condition and helping the Board to assess the 'going concern' status of the Company and to make its Viability Statement. Committee members have considered the accounting treatment adopted by Management. We have given the Board of the Company our view that it is appropriate to adopt the going concern basis of accounting in the preparation of our financial statements. PwC's conclusions on going concern are set out on page 195. We reached this decision in conjunction with detailed input from Management and the Risk Committee regarding capital adequacy projections for the Group.

The Committee reviews relevant content in the Annual Report, preliminary and interim statements as well as other financial releases. We check the clarity and completeness of disclosures and ensure that these are properly set in context. We also supervise the Bank's systems of internal control in relation to financial reporting and certain operational risks including supporting internal investigations into any identified control weaknesses or fraud events. We evaluate Management's competence in all these areas ensuring that they take necessary corrective steps in a timely manner to address any vulnerabilities. Review of financial statements remains a core role of the Committee but it also validates wider information related to the Group's financial data which is included in strategic reports and corporate governance statements.

The Committee, together with the Risk Committee, represent an important governance 'cluster'. Over the course of 2019, the Committee continued to coordinate closely with other committees of the board. In respect of risk assessment, upon the appointment of a new Chairman of the Risk Committee, we jointly reviewed the interface between the Committee and the Risk Committee. There was some useful internal debate about the optimal committee to supervise issues in relation to IT and, in particular, cybersecurity, which is an ever more important focus for the entire Board. Historically there was some overlap and duplication of this area between committees and it was decided that the Risk Committee should be unambiguously responsible for it given the obvious wider risk implications. The Committee will however continue to support Risk Committee in this objective and will ensure that Internal Audit devotes sufficient attention to these potential vulnerabilities. Likewise the Committee worked with the Remuneration Committee to confirm that there are no false incentives which could weaken controls or might introduce management bias for example in terms of expected credit losses in the loan portfolio and provisioning and valuations.

The Committee bases its activities on information available at the time of its discussions. Such information is typically provided by Management. The Committee is satisfied that it receives sufficient, reliable and timely information from Management and from our internal and external auditors. Management takes the initiative in supplying financial information rather than waiting to be asked although the Committee frequently does request additional data or fact-checked evidence and this is provided in a thorough and prompt fashion. The lines of communication with Management are open with constructive, candid and continual dialogue taking place throughout the year. We note and appreciate that in our view Management have typically displayed a pattern of professional caution and conservatism when drafting financial statements. The Committee draws on sufficient administrative resources and benefited in 2019 from the reinforcement of the Board secretariat and valuable input from the outsourced Company Secretary in aligning our work with FTSE350 best practice.

We continue to pay attention to all annual reviews by the UK Financial Reporting Council (FRC) regarding interpretation of the Code and Accounting Standards and seek to apply these refinements to the Group, as is demonstrated in this report.

We are increasingly conscious of our legal and social obligations to protect not only shareholders with the transparency and clarity of our financial reporting, but the interests of all stakeholders. This is reflected also in the Group's Section 172(1) reporting set out on pages 52 to 55. This report has been designed with all stakeholders, including potential shareholders, lenders, suppliers and customers in mind.

COMMITTEE COMPOSITION, COMPETENCE AND INDEPENDENCE

The Committee of the Group comprises four non-executive Directors. We welcomed Arne Berggren who joined the Committee soon after his election to the Supervisory Board in July and Board in August 2019. Mr. Berggren was appointed to the Committee, following his appointment to the Board, on the recommendation of the Corporate Governance & Nominations Committee (the "CGN Committee"). He underwent an extensive induction programme, including in areas pertaining to audit. Mr. Berggren has worked in executive and non-executive capacities for a wide range of national, international, governmental and private sector organisations and has experience on the audit committee of other London Stock Exchange listed banks. In accordance with UK governance standards, Nika Enukidze was required to step down from the Committee upon being appointed Chairman of the Bank in August 2019 and Company in July 2019.

Nicholas Haag was appointed Senior Independent Director of the Group in August 2019 and remains Chairman of the Audit Committee. The fact that Arne Berggren chairs the Risk Committee creates an additional synergy between these key committees. Mr. Haag sits on all Committees which gives him useful insights also in his capacity as Chairman of the Committee. The membership of the Committee has reduced from 5 to 4 during the year but we would hope that the planned new member of the Board and the Supervisory Board will join the Committee during the first half of 2020. The Chairman would like to express his thanks to Eric Rajendra who served on the Committee in the first half of 2019 (and over many prior years) and I am delighted that he is able to rejoin the Board following his recovery from a period of illness.

The Committee welcomes the continued development of the mirror boards structure between the Bank and Company as this greatly simplifies the ability of the Committee to fulfil its responsibilities across jurisdictions bearing in mind that the vast majority of the Group's activities are concentrated in Georgia and given the challenge otherwise of coordinating disparate supervisory functions for external and internal audit and control between London and Tbilisi.

All non-executive Directors have been deemed as independent under the Code applicable to companies listed on the premium segment of the London Stock Exchange. In addition, members of the Committee continue to satisfy the director independence criteria as defined by the Georgian Law of Banks. We are confident that all members continue to exercise fully independent judgement in all matters related to the Committee's activities.

All members of the Committee (see biographies on pages 136-139) are financially literate, have an understanding of corporate financial matters and possess a detailed understanding of the financial services sector, with backgrounds primarily in banking in the EU and/or in emerging and frontier markets over multiple continents. We bring a collective view to the attention of the Board and in 2019 there were no material areas of disagreement ("disconnection") between members of the Committee or between the AC and the Board. We are fortunate in having added Tsira Kemularia to the Committee last year (2018) as she brings wider perspective from the non-banking industry. She has assumed a senior internal audit position at Royal Dutch Shell, the largest company in Europe by revenue, which brings us additional valuable experience in leading-edge financial controls. Most members of the Committee have served on or chaired other banks' audit and risk committees which gives them the commercial and financial experience to guide and challenge Management and internal and external auditors. The fact that we still have a Georgian national (Ms. Kemularia) on the Committee delivers further local context and insight without jeopardizing independence.

The Board has confirmed that the Committee has recent and relevant expertise to operate effectively and it calls upon expert external resources as and when required. Only one member of the Committee has a substantially full time executive role in another organisation, all other members spend their time on other supervisory type boards and all have sufficient time to devote to their responsibilities towards the Group. Appropriate training is available to members of the Committee and recent training has focused on Board-wide governance optimisation including AML topics which obviously touch on financial controls. The intention is to undertake more specific externally-facilitated training for the Committee in 2020 with a focus on technical and governance-related market developments in accounting and financial control.

We continue to review, with our CGN Committee, suitable medium-term succession plans for Committee membership. Our priority as before would be to select a future member with a technical background in the audit industry but recognise that the Board also has other priorities in terms of skills sought from future incoming directors especially in the area of IT and digital banking and we regard accumulating expertise in these areas as also critical to safeguarding the quality of control functions within the Group.

ATTENDANCE AT COMMITTEE

The attendance levels at the Company's Audit Committee meeting over 2019 was 100%. The majority of meetings took place in London and were either physical in-person or telephonic meetings, in the latter case with most attendees participating from locations in the UK, where 3 of the 4 Committee members reside. Attendance for the Bank's Committee meetings was also 100%. As with 2018, a high proportion of these meetings were held in Georgia as the Committee continues to maintain a deep level of interaction with a range of on-the-ground staff, especially in internal audit, finance and control roles and this is most practically undertaken by hosting meetings in the Bank's home country.

For the table regarding the composition and formal meeting attendance for the Audit Committees of the Company and the Bank in 2019 please refer to the pages 128-129.

COMMITTEE MEETING FORMAT AND FREQUENCY OF MEETINGS

In the course of 2019, there were 14 formal meetings of the Committee and 12 for the Bank's audit committee. The minutes for the Bank's meetings were shared with the NBG. In addition, members of the Committee are in telephone or email contact with each other on various matters relating to Committee work on an almost weekly basis. 2019 was an especially busy year for the Committee given the extra and often complex work involved in the review of historic events related to alleged impropriety by the founders of the Bank and reporting on these to the wider Board. The attendances of members at the Audit Committee meetings during 2019 are set out in the Directors' Governance statement on pages 124-130.

At each formal meeting, the Committee met with senior members of Management, and Internal and External Audit. We have a standing invitation for the CEO, CFO and CRO to attend our meetings and their attendance and contributions were gratifyingly high. Our External Auditors, PwC, are invited to participate in and contribute to meetings on all topics where there is not a direct conflict of interest (for example when discussing reappointment of the auditors, their performance, independence or fees).

The Committee met at least twice in or around each quarter of 2019, broadly in sync with our quarterly financial reporting cycle. At least one such quarterly meeting coincided with the timing of Board meetings of the Group, with the Committee meeting prior to the Board so we could formally present our summary findings to the latter. Such reports sometimes highlighted scope for process improvement and invited responses from Management which led to follow-up actions, formally minuted by the Board.

AUDIT COMMITTEE EFFECTIVENESS

The Committee's Terms of Reference were reviewed in November 2019 and the update version was approved in February 2020. Minor changes were recommended by the Company Secretary, with input from the Company's lawyers, in order to bring the charter up to date to reflect recent developments in the Code and align better our mission with the Terms of References for other committees. This document is available on the Company's website at: https://tbcbankgroup.com/about-us/governance/committees/. The Audit Committee Policy of the Bank was reviewed and approved by the Supervisory Board of the Bank in February 2020.

In November, the Committee conducted an annual Audit Committee Evaluation (formally known as the annual Effectiveness Self-Review) coordinated by the Company Secretary and using an extensive and customised questionnaire drawing on international best practice surveys. In addition the whole Board included in its wider Self-Assessment certain questions relating to the efficacy of the Committee amongst other committees. Both the 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. Nevertheless, we see scope for further improvement especially in the division of oversight activity with the Risk Committee and the greater formalisation of an annual work plan for the Committee. Overall, the intention is to elevate to every meeting the most relevant systemic and strategic issues facing the Group. The Chairman of the

Committee is working with the Company Secretary in setting future agendas and all these improvements are being implemented.

QUALITY OF FINANCIAL STATEMENTS

The Committee remains as focused as ever on ensuring the integrity of our financial releases and internal records. As noted above, the Committee pre-vets all audited and unaudited financial releases (including notes thereto), before making recommendations to the Board to approve such releases. The Committee holds formal discussions with the Management Board and, in particular, the CEO and CFO (and his Finance team), about each of these releases, typically with a multi-stage drafting, review and approval process. We also monitor the financial data published on the Company's website to ensure its accuracy and clarity, and maintain communication channels with the Group's Investor Relations Department.

We have reviewed, with our Finance, Risk and Internal Audit teams, all data and narrative comments and concluded that the Annual Report and full year financial statements taken as a whole give a complete, true, fair, balanced and understandable view of the Company's financial position and are consistent with the Committee's understanding of the facts and provide the information necessary for shareholders and other stakeholders to assess the financial condition of the Group.

We have, as always, assessed the reasonableness and appropriateness of all critical estimates and judgements in applying accounting policies for which the management are responsible. In the multiple planning meetings held between the Committee and PwC, we focused on a number of areas of greatest risk and PwC convincingly articulated their response and testing strategies. This work was addressed with appropriate resources, including the necessary specialists. We are satisfied, following challenge and discussion with PwC and with input from external consultants, that the markets and models to which valuations are marked have liquidity and transaction profiles that are adequate and sufficiently robust. We also believe that all off balance sheet and contingent liabilities have been identified and disclosed in sufficient detail.

The Committee is conscious of the recommendations of European authorities and the FRC as regards improving the reporting of alternate performance measures ("APMs"). We track carefully what APMs the Company uses in its financial reporting and apply guidelines in this regard from the European Securities and Markets Authority ("ESMA"). The Company discloses a limited number of APMs such as underlying cost to income ratio, risk-adjusted net interest margins and various other return metrics. We consider that most of these are in common usage, consistently used in context and meaningful additions to our reporting designed to clarify our financial position and do not detract in any way from our core IFRS numbers. As the Group expands into wider financial services (such as insurance) and exciting new geographies and growth areas (such as ecosystems), we are conscious of the incremental reporting risks and the need to supply meaningful and validated financial metrics.

The Committee also carefully reviews minor changes that the Group make over time in the definition of its operating segments and is satisfied that meaningful like-for-like comparisons can be made.

The Committee recognises that the Company is a premium listed company on the London Stock Exchange and the largest financial services company in the Georgian market. Our business is overwhelmingly tied to the performance of the Georgian economy. In 2019 Georgia delivered a strong real GDP growth of 5.1% as published by National Statistics Office of Georgia, an improvement on the prior year's already very respectable growth trajectory of 4.8%. Forecasts for 2020 growth will be profoundly impacted by the global outbreak of COVID-19. The national and international economic outlook is unfortunately very unpredictable and locally Georgia will hold important parliamentary elections in October 2020 which may lead to some additional volatility in anticipation of the outcome of the vote. The Committee and the Risk Committee closely track relevant economic data for 'warning signs' that may trigger a more elevated level of risk to the Group which will require extra diligence by the Committee to ensure realistic levels of prudence in relation to our financial reporting and caution as to monitoring the efficacy of our internal controls. The Committee and the Risk Committee reviews previous periods of economic or political instability and factors this experience into our collective judgements of, for example, suitable provisioning levels.

We note with satisfaction, but not complacency, that ISS's ESG Governance Quality 2019 scorecard gave the Company a top decile score (1 out of 10) for our Audit and Risk Oversight, a score which aggregates a wide range of different sub-categories.

COMMENT ON INVESTIGATIVE CASE INVOLVING TBC BANK FOUNDERS

The Bank was subject to an inspection by the NBG during late 2018 and into 2019, in relation to certain transactions that the founders of the Bank undertook in 2007 and 2008 (see also page 106).

In February, the Bank reached an agreement with the NBG settling its inspection and, while there are ongoing prosecutions against the founders of the Bank, they have stepped down from all their positions at the Bank and the Group. The Committee, as is customary with companies in these circumstances, was involved over several months of 2019 in comprehensively investigating, with the assistance of a specialist Big 4 firm, the historic events that predated any members of the Committee's joining the Supervisory Board, reinforcing our independent judgement of these events. This included reviewing all relevant surviving historic internal documents and reviewing internal and external potential witnesses.

In light of the above inspection and prosecutions, the Committee took steps to consider thoroughly any implications for the current or historic audits. These matters were discussed with PwC. Nothing was identified that led us to consider re-stating any elements of past audits.

As part of our ongoing commitment to good governance, much work has been done by the CGN Committee and other committees on bedding down best practices related to validating the Group's internal controls. This work was given added urgency by the above investigative cases. We engaged another one of the Big 4 accountancy firms to check related party lending and anti-money laundering procedures in the Bank (see page 106). The Committee draws comfort from this work which demonstrated that our internal controls in these crucial areas continue to meet international best practice, with only minor additional refinements needed and now being implemented. In addition, throughout 2019, various committees of the Bank, including the Committee, were involved in assessing cultural and behavioural attitudes in the Bank and we asked Internal Audit to lead a workstream on this to check that appropriate 'values' were reflected in policies and practices across the organisation (see below). While the prevailing levels of training and behaviour were found to be adequate, we identified areas where improvements could be made and, working with the wider Board and Management, these are being systematically implemented with IA now routinely incorporating a cultural assessment in its regular audit ratings.

EXTERNAL AUDIT TEAM, COORDINATION AND PLANNING

The Committee makes recommendations on the appointment (or potentially removal) and compensation of the External Auditors and seeks to maximize the value of the external audit relationship. We assess and approve audit scope and frequency, make recommendations to auditors on areas for particular focus and receive and review key external audit planning and progress reports.

The Committee of the Company held audit planning meetings with PwC in 4Q 2019. The Committee had the opportunity (without participation of Management) to highlight areas it wished the External Auditor to focus on, flagging relevant concerns and trends and discussing the appropriate audit response. As noted, the Committee has a policy of regular quarterly face to face discussions with PwC as part of our formal meeting agendas. In addition, the Chairman and sometimes other members of the Committee had a number of more informal (i.e. not minuted) meetings with PwC. PwC often shared with us experiences of best practice across their full international audit spectrum and this provided both parties with the opportunity for open dialogue. As noted, the Chairman and majority of Committee members are based in the UK and enjoy ready access to the external audit team there. Given the exceptional regulatory circumstances of 2019, the interaction between the Chairman of the Committee and PwC was even more intense than in past years.

Due to the holding company structure of the Group, both the London and Tbilisi practices of PwC are fully involved in the external audit process for the Group. PwC Georgia is part of PwC's Central and Eastern Europe network firm. In the opinion of the Committee, this 'double coverage' works well and provides some extra reassurance to us in terms of scrutiny. There is one unambiguous "group engagement partner" and senior statutory auditor, Allan McGrath, who is fully aware of his overall responsibility and ultimate sign-off duties. Allan is new to TBC audit team having replaced Jeremy Foster, who retired from PwC at the end of 2019. The cooperation and communication between the two practices seems to be well coordinated with a common audit methodology and draws, as required, on wider international subject matter experts of the firm, for example in insurance. The London team coordinates the entire audit for the Company with audit instructions issued by London and systems in place for the monitoring of PwC Tbilisi's work by PwC London both by means of in-person visits and remotely.

We welcome Allan McGrath and note his deep experience in auditing UK-registered financial services companies at FTSE350 level. We are pleased to note that Allan has already immersed himself comprehensively in the TBC audit and has swiftly familiarised himself with the Group and with the Georgian macroeconomic environment. He brings a fresh pair of eyes and challenge to the Group's audit. We are pleased that, by way of continuity, Agnieszka Accordi remains PwC's engagement leader for the Bank's audit and she has continued to develop a deep understanding of the Bank and its audit issues as well as bringing to us the benefit of her experience from other geographic markets including Poland where she is based. Other members of the audit team in both London and Tbilisi remain very largely unchanged and we have good access to Lasha Janelidze, the managing partner in PwC's expanding Georgian practice. Agnieszka Accordi has been in post since 2017 and we anticipate that she will rotate (as per FRC rules for EU PIEs on Key Audit Partners rotation) after the 2021 year end audit.

The Chairman of the Committee would like to take this opportunity to thank Jeremy Foster, who had been engagement leader for PwC since the creation of our PLC holding company in 2016, for his contribution. We wish him well in his retirement.

The audit coverage levels and underlying audit materiality levels have been discussed and agreed with PwC.

EXTERNAL AUDIT AND AUDIT COMMITTEE AREAS OF FOCUS

Key Audit Matters

As a Committee, we engage in substantive dialogue with PwC on Key Audit Matters, to understand the nature of each of these and the auditors' basis for their determination. From discussions with PwC we understand that they did not identify any "elevated" audit risks. We regard that "Significant" risks both for the Group and Bank remain management override of controls and expected credit loss provisions for impairment of loans and guarantees. The former is a priority risk factor on all audit engagements, especially in a banking context, since management is responsible for the design and operation of systems to prevent and detect fraud and thus in a unique position to manipulate accounting records.

Areas of Judgement

Other risks in terms of areas of judgement that PwC has focused on included accruals for litigation and claims, collateral values supporting our loan book, net realisable value of repossessed collateral, fair value of securities and derivatives, share based payments and impairment of goodwill as well as IFRS 9 model back testing, results of tax inspections of the bank and assessment of business combinations from the acquisitions made during 2019.

Loan Provisions

In terms of loan provisions, we have discussed with PwC the current provisioning methodology used by the Bank, the reasonableness of the assumptions and individual, mostly corporate, loan exposures on the non-performing and 'watch' lists and 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 discussed with PwC model governance controls, model performance monitoring and post-model adjustments with a review of model back testing. In addition, another Big 4 audit firm was involved in improving macroeconomic models required for IFRS 9.

Collectively-Assessed Loans

The Committee, benefiting from work streams led by the Risk Committee, 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. We have not observed any trend deterioration other than in the higher-yielding non-mortgage consumer loan portfolio which was fully anticipated as part of the lending business model. We continue to look for signs of any deterioration in loan vintages of different loan categories, especially in the consumer lending space, and so far there have been no adverse signals.

Stability of the Local Lari Currency

Clearly, one of the biggest factors impacting and also reflecting the Georgian economy is the stability of the local Lari currency. We monitor the possible impact of Lari volatility on expected credit losses. The Lari has been prone to periods of volatility again in 2019, partly due to seasonal factors, and depreciated against the US dollar over the year by 7% having rallied strongly towards year end from lows recorded in the autumn. Given the still highly dollarised nature of the Georgian economy and the Bank's loan book, we scrutinised Management's judgements as to the continuing creditworthiness of those of our clients (retail and corporate) without matching dollar sources of income. The Committee, in reviewing provisioning levels, has sought and received detailed data on such currency mismatches and the Risk Committee has performed a deep-dive into this risk issue. We note that, in previous periods of national currency volatility, our assumptions regarding the impact of this on the quality of our loan book have proven reassuringly cautious on a back-tested basis. We note that the welcome "larization" policy of the Georgian government has and will continue to diminish the credit and financial reporting risk arising.

Accounting Standards

Where new accounting standards are adopted, we engage proactively with Management and auditors on the implementation process including the transition impact and whether the plan provides sufficient time and resources to develop well-reasoned judgements. Since the beginning of 2019, the Company has adopted the new IFRS16 accounting model to recognise assets and liabilities for all leases beyond a 12 months lease term. The Group recognised a 'right of use' asset of GEL61 million against a corresponding lease liability on 1 January 2019. The main impact was an increase in depreciation expense by GEL 13.3 million and increase in interest expense by GEL 2.7 million. The Committee discussed this matter with the CFO and with PwC and is satisfied that this is a suitable implementation of the new standard.

Eurobonds

In 2019 upon issuing two debut Eurobonds, the Bank became, for the first time, an EU Public Interest Entity ("PIE") following its debt listings on the Dublin Stock Exchange. This necessitated a long form style audit report but in essence is more a change of governance than of audit procedures.

EXTERNAL AUDIT QUALITY, TENDER ASSESSMENT AND REAPPOINTMENT

As noted earlier, the Committee is responsible for the assessment of the performance, objectivity and independence of the External Auditor and the delivery of a quality audit. Each year the 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 relevant remuneration and terms of engagement. This consideration has gained our focus since the UK implementation of the EU Audit Regulations for Public Interest Entities. Given the incorporation of the Company and associated premium listing on the London Stock Exchange in 2016, the audit rotation rules permitted the 10-year "audit clock" for the mandatory tendering of the Group audit to be re-set to start in that year, obviating any requirement for a mandatory audit tender in the foreseeable future.

Nevertheless, PwC have been the Group's external auditor since 2008 and 2016 for JSC TBC Bank and TBC Bank Group PLC respectively. In 2018, the Committee held extensive discussions on the merits and demerits of putting the Group's audit out for tender. Consequently, the Committee, reporting to the Board, embarked on a series of discussions during the year with three other major international accounting firms and conducted a benchmarking exercise in respect of the potential appetite, skillset and likely fees proposed by other firms were they to take over our audit. We concluded then that a superior offering at more competitive fees was not yet on offer. In particular, we regret that other Big 4, or indeed smaller audit firms, are not yet well-resourced in the Georgian market although there is an encouraging trend in this direction.

The Committee carried out a formal External Auditor Assessment Review for 2019 which confirmed our view that PwC continue to perform satisfactorily.

In 2018, we held a series of relationship meetings with PwC in both London and Tbilisi to discuss potential improvements in terms of their commitment to the Group especially of resources from their wide international network of subject matter experts as well as their fee charging metrics. As a Committee, and with the concurrence of the Board, we concluded that we had reached a satisfactory understanding with PwC both as to level of fees to be charged in 2019 and the resource base. The commitments made by PwC in 2018 to meeting our deadlines and delivering wider resources to the audit have been honored. In addition, we updated our review of comparative audit costs inside and outside Georgia and concluded that PwC remain broadly competitive.

As a Committee, we wish to experience PwC's performance under their new engagement leader, who brings fresh perspective to the audit (which mitigates any risk of overfamiliarity) before we consider again the ongoing audit relationship and whether to re-launch a process. We will review again in 2020 the case for and against a formal audit tender and will take a decision based on the Committee's and the Board's continuing satisfaction with the audit quality and value offered by our incumbent auditor.

We have also taken into consideration the current reputation issues impacting all Big 4 audit firms and concluded that there are no grounds in this respect to challenge the reappointment of PwC given that their reputation is no more or less under scrutiny than that of their peers. We follow the FRC's Audit Quality Review inspection results. We have also taken account of the quality of PwC's communications/responsiveness, industry expertise and knowledge of the Group and countries in which we operate as well as our judgement of their professional skepticism and project management skills. We have assessed their internal quality control procedures and indicators and reviewed their annual transparency report.

We are following closely the extensive debate and multiple commissioned official reports (such as Kingman, Brydon, CMA and BEIS) concerning audit quality and competition. All of these reports have made valuable recommendations but so far there is no clear consensus or legislation arising as to best practice or how to address the perceived "audit expectations gap". We await with interest further clarification and indeed any impact of Brexit given potential changes to EU rules in relation to audit. We support in principle the idea of a 3 year statement of a company's audit and assurance policy and allowing shareholders an advisory vote on this.

In our view, as formally confirmed in a Committee meeting resolution in February 2020, PwC continue to offer an independent, professional and cost-effective service that has not have brought to bear an appropriate degree of professional skepticism. Any potential threats to auditor objectivity (overfamiliarity, self-review and so on) are, we believe, contained by existing safeguards and the introduction of a new lead engagement partner for the Company's audit. We reached this decision on the basis of PwC's openness to challenge, our perception of their proper independence from Management and absence of any material prior year financial restatements. We remain satisfied that PwC have a robust process for maintaining independence and monitoring such compliance in accordance with the FRC's 2017 Ethical Standards and the 2019 International Ethics Standards Board for Accountants (IESBA) to which Georgian law also refers.

Given all the above considerations, it is our belief that the Company has complied for the financial year under review, and to the date of this report, 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 and governance of tenders for the appointment of the external auditors and the scrutiny of a policy on the provision of non-audit services (see below).

EXTERNAL AUDITOR FEES AND PROVISION OF NON-AUDIT SERVICES

Policy for provision of non-audit services by the external auditor is approved and available for the Group. As defined by the policy all non-audit services must be approved in advance by the Committee following recommendation by the Group Chief Financial Officer.Overall the Group spent US$4.0 million on work done by various accounting-based professional services firms over the year.

In 2019 the Group paid PwC fees of approximately US$1.1 million of which c. $0.7 million was in respect of audit services, of which over half was for the Bank's audit. The US$0.7 million included audit fees for subsidiaries of both the Bank and PLC, notably TBC Leasing and TBC Insurance. Most of the remaining balance of the US$1.1 million was paid in respect of work (review of Q1 financials and prospectus as well as comfort letters) done in relation to our issuance of senior and subordinated bonds during the year, where there were natural synergies relating to the audit work conducted and some market timing imperatives. We benchmarked PwC's fees against other similar services previously performed or provided to other players. Other fees paid to PwC were minor in nature, involving for example certification of financial covenants and again linked to the audit role. Given the unexpected issues relating to the issuance of bonds, fees in total paid to PwC for non audit services totaled US$0.415 million over the year which represented 53% of the average paid to the firm for the Group audit services over the preceding 3 years, this figure being still well within the 70% cap as required by the Group policy on non-audit services. In the prior year ratio was 1%.

All 4 major UK audit firms have announced that they broadly support a ban applicable to FTSE350 (typically from 2020) on UK auditors selling consultancy and other non-audit related services to their audit clients. The Chairman of PwC UK has confirmed that this is the case for PwC applicable from January 2020. To set PwC's fees in context, total non-audit fees paid to other accountancy-based firms, not only the Big 4, amounted to c. US$1.9 million over 2019. We have a policy of deliberately sharing business between firms in order to provide diversification, promote competition and build relationships. In 2019, we allocated work to 8 different accounting-based firms and took a conscious decision to reach out beyond the Big 4. The largest single non-audit spend in 2019 was in respect of work done externally to verify certain facts pertinent to the above-mentioned historic case relating to the Bank's founders.

EXTERNAL AUDITOR INDEPENDENCE

The Committee is rigorous in ensuring (with a written policy existing) that all non-audit assignments to our External Auditor do not jeopardise the latter's proper independence of judgement. Essentially, all such engagements, without exception or derogation, were first recommended by the CFO and pre-cleared with the Committee. We only used PwC for non-audit (and of course non-prohibited) services where there was either a clear synergy with their audit role (i.e. an immediate 'by product' of the audit process), where required by legislation or where they offered superior competence or materially better commercial terms. We have a system in place for precisely tracking procurement and tendering for all non-audit fees however small. As noted, we have already agreed to minimise all non-audit work contracted with our External Auditor who from 2020 will typically be self-excluding themselves from such tenders.

PwC have confirmed in writing (in their annual 'independence letter') both their independence and that no 'blacklisted' prohibited non-audit services were provided over 2019. Reviewing and ensuring the continuation of the independence and objectivity of PwC as our external statutory auditors was an important factor in fulfilling our governance as a Committee and was equally monitored by PwC through their own procedures for pre-approving any non-audit services.

INTERNAL AUDIT GOVERNANCE AND RESOURCING

The Committee relies heavily on Internal Audit ("IA") to provide an objective and professionally skeptical view of how the Group is handling a number of key financial and non-financial reporting and record-keeping tasks in order to protect the assets, reputation and sustainability of the organisation. Whilst primary responsibility to manage risk always resides with Management, IA's role, as the "third line of defence", is to identify potential problems and recommend ways of improving risk management and internal controls. The Committee meets regularly with the Head of IA (Chief Audit Executive) with no management present. The CAE always attends the entirety of our Committee meetings. IA has unrestricted access and scope within the organisation. As Chairman of the Committee, I am in at least monthly (and often weekly) contact with the CAE who functionally reports unambiguously to me and makes an extensive quarterly submission to the Committee. The Committee regards IA as its "eye and ears" within the Group.

IA seeks to complete audits of all the Group's key operating units on a regular recurring basis structured through a rolling audit plan agreed in advance with the Committee. Such planned audits continued throughout the year and 99% of all pre-agreed internal audit assignments were completed in 2019. We track very closely all deficiencies identified by IA both in terms of severity and trend and scrutinise remediation follow-up with historic analyses being carefully maintained. Units of the Bank which showed weaknesses are routinely re-inspected to confirm if improvements have been made and the Committee updated on the results of these repeat audits, such an example having been TBC Pay. The Committee was pleased to note that in 2019 there was again further improvement in the rate and speed of remediation of identified IA deficiencies. We have agreed with the CEO that such deficiencies, whilst all addressed, should be even more clearly prioritised into a hierarchy according to the potential systematic risk they represent.

The hiring and retention of IA staff is a challenge in a country like Georgia and, whilst attracting new talent, we also need to embrace alternative and more flexible staffing models. Nevertheless, we are satisfied that IA has sufficient human and financial resources to perform its role and the Committee has where necessary requested additional funds to hire or retain staff and to purchase the training and tools (e.g. specialist software) necessary for them to function effectively. The Committee requires all managerial IA executives to attend training, including for relevant international (Certified Internal Auditor) exams; the pass rate is improving but needs to be improved further and measures have been taken to incentive staff accordingly including allowing study days. There is a particular shortage of internal IT auditors in the country. After discussion among the Committee and given the importance of mitigating IT risk, it was decided to conduct a tender process to select an external Big 4 firm (drawing on international resources in 3 countries) with whom we will, from 2020, co-source these skills at the same time as using this collaboration to educate our own audit staff and to gain experienced insights into best practices and emerging technologies.

IA's Audit's Charter was reviewed and approved largely unchanged in December 2019 and is appropriate to the current needs of the organisation. The Committee routinely reviews IA's remit, annual and rolling 5 year plan, provides feedback on it and authorises any changes to its scope. The plan allows for some flexibility where any urgent matters or emerging risks arise and the Committee supports this approach. We provide targets for and formal assessment of IA and ensure that it is effective and suitably embedded in the organisation. The CAE routinely attends (as observer) monthly Management Board meetings. Given the overlap of particularly operational risk issues, the CAE is now invited to attend also meetings of the Group's Risk

Committee. The CAE, who is sufficiently senior in the Group's hierarchy, has direct access to the CEO and also the External Auditor and we will be encouraging more interaction with both in the coming year.

The Committee solely determines IA's budget and compensation including variable bonus payments to the CAE and her staff; the Committee is also responsible for supervising the annual personal performance assessment of the CAE drawing on input from peers, direct reports and senior management including the CEO and CFO. We believe, with corroboration by the external EQA (see below), that IA has established its arms-length independence from Management and is free from any interference in determining the scope and performance of its work and communication of its results. It feels properly empowered and motivated to do its job and is respected by Management and of use to them, its value reflected in the latter's proactive requests (with sign-off from the Committee) for their involvement in various projects and internal investigations.

The CAE has now been in role for 8 years and we are aware of IIA guidance on tenure beyond 7 years. We have discussed this as a Committee and have concluded, on the basis of her displayed behaviour and proven tenacity, that the CAE's objectivity and independence remains undoubted.

IA has delivered its annual assurance statement which sets out the CAE's opinion together with the summarised reports of the internal audit work performed during the year and a summary of audit performance in comparison to the plan and an assessment of compliance with auditing standards.

The Committee notes the recent (January 2020) publication of an updated Internal Audit Code of Practice by the Chartered Institute of Internal Auditors (IIA). This is a far reaching code which the Committee intends to implement over the course of the year. Most of its recommendations were already 'in force' for financial services firms so already adopted by the Group, for example in relation to the audit of risk appetite and risk culture. Nevertheless there are a number of new recommendations, for example regarding supporting strategic and operational decision-making. We welcome this direction as it places the function of internal audit in an increasingly value-added internal consulting role whilst enhancing its core risk mitigation mission.

INTERNAL AUDIT PROJECTS

The Committee is overseeing a project (internally referred to as "Internal Audit 3.0") to move the IA function towards a more 'agile' approach. We are seeking to use robust root cause analysis to develop more themed reports, prioritising the higher risk areas of the Group and responding even more rapidly to emerging issues, undertaking special deep-dive investigations (particularly arising from situations where the Group may have heightened vulnerability or has been the victim of fraud) and ensuring that IA is able to add more strategic value.

In addition to its regular workload, there were a number of special assignments commissioned by the Committee from IA in 2019. Some involved investigations of particular fraud events. We also asked them to review some of the Bank's significant subsidiaries, in particular TBC Pay, TBC Insurance and TBC Leasing as well as Space (which is TBC's digital neobank). In addition, IA maintained its focus on the identification/reporting processes around capturing and disclosing related party lending and anti-money laundering procedures within the Group, all the more important given stakeholder focus on these vital issues. In addition, IA assessed the Bank's compliance with SWIFT requirements in terms of its customer security control framework, penetration testing and training requirements. IA undertook a review of certain Treasury functions and, importantly led a review of the Bank's document retention and retrieval policy since this was an issue emerging from prior audits. We also requested IA to confirm the adherence of the Bank to its approved risk tolerances. A recurring theme in all IA's audits was information security and data protection.

IA is in the process of updating its Internal Audit handbook. This is a reference guide for all internal audit activities. Based on the main standards applicable to best practice audit functions, it describes all IA's methodologies. The Risk Committee is leading a process of updating the Group's Risk Register and we believe that this will provide a useful tool also for IA and the Committee to align our priorities.

CULTURE AND BEHAVIOUR

Culture is a key driver and potential mitigant of conduct and operating risk within any organisation, especially in a bank. Therefore, as noted above, we asked IA to undertake its first formal review of culture and observed behaviour within the Bank. As non-executive Directors of a company, it is sometimes hard to understand the prevailing culture at lower levels of an organisation yet this often determines the opportunity, incentives and pressures for staff to commit dishonest acts or to by-pass critical procedures and even mentally to rationalise this behaviour. Therefore, the Committee considers that such cultural audits are essential to monitoring behavioural and operational risks presented by our most valuable asset, our human capital, and confirming that employees 'live' the ethical values espoused by the Company and that this is matched and driven by a suitable "tone at the top". Our priority, as a Board, supported by Internal Audit, is to guarantee that there is real commitment to good ethics beyond mere slogans, ensuring that we continue to be a high integrity organisation from top to bottom and to ensure alignment with TBC's strategy and taking into account of stakeholders' interests.

This audit focused on issues such as our code of ethics, perceptions of the Group's visions and values, training issues, employee awareness of our whistleblowing hotline, employee commitment and morale and, importantly, customer protection. The Group is ever more aware of the regulatory and moral imperative for protection of its customers and has signalled its intention to move from a product-centric strategy to a customer-centric one that prioritises above all else customer protection and service. Independent surveys demonstrate that the Bank is already the national leader in terms of customer satisfaction. In addition to IA's work in this area, the HR department recently completed an employee engagement survey and the Board has initiated a process of nominating one of our independent directors as a rotating 'staff ambassador' to meet in confidence with focus groups of employees at all levels better to gauge the Bank's prevailing culture. IA is now including an ethics-related evaluation within every audit engagement. The Board and Committee has agreed that the Risk Committee will henceforth supervise the ongoing monitoring of 'culture' as part of its formal Ethics remit.

IA will be including new geographies and additional subsidiaries in their rolling audit plan. We would stress that IA is a Group-wide not just Bank function and as we enter new geographies and sectors beyond Georgia and mainstream banking, for example Uzbekistan and ecosystems, we will need to pay attention to ensuring process and ethical standards in these areas, some of which are evolving very fast and present heightened levels of operational and conduct risk and thus new challenges. For example, our CAE already led an advisory audit of Nikoil Bank in Azerbaijan with which we are hoping to finalise a merger with our TBC Kredit local subsidiary. The Chairman of the Committee also recently made a trip to Baku and met with senior management and internal auditors there.

EXTERNAL ASSESSMENT AND EVOLUTION OF INTERNAL AUDIT

In early 2019, the Committee supervised the completion of an External Quality Assessment (EQA) of our Internal Audit department focused on assessing IA's function in terms of "efficiency and effectiveness in matters of Governance, People, Infrastructure and Operations". The yardstick was the Code of Ethics and International Standards for the Professional Practice of Internal Auditing and the Chartered Institute of Internal Auditors' ("IIA") September 2017 Guidance on Effective Internal Audit in the Financial Services Sector. The exercise was conducted by international specialists in a Big 4 firm (selected after a tender process of the Big 4 and others). It included some international benchmarking analysis of our maturity level against peers according to the IIA's Audit Intelligence Suite Benchmarking Report. It was the first time that the Group has conducted an EQA exercise and not only were the results reassuring but also the unit benefited from the feedback and the assessment process itself.

The conclusion gave IA a "generally conforms" score (the highest available ranking) with a conclusion that "in general there is a high degree of compliance with IIA standards' requirements", with the function being "well aligned with the Bank's operations and its people". It confirmed that the Internal Audit function acts as a trusted adviser to the Bank. We were advised that the unit ranks in the top 20% equivalent for banks in the CEMEEA region. Various recommendation were made and will be implemented. In particular, we noted the recommendation for more regular high-level alignment between IA and other assurance providers, notably the chief risk and chief compliance officers.

We have reviewed the scale of Internal Audit's function comparing it with other similar-sized financial institutions and consider it right-sized. We noted the EQA's comment that "Internal Audit Function is a talent pipeline for the business" and intend to boost IA's integration into the Group and to encourage a rotation of staff both into and out of the department.

The EQA assessment gave us good scores for automation but the direction of travel is for us to now take IA into more technology-driven capabilities, using automated audit scripts, laying the foundation for continuous (if not "robo") and more agile auditing of critical controls, monitoring high risk areas in real time. This will also free up more IA resources to shift the focus from pure assurance ("policeman") activities to more consulting level activities, recognising that IA can and should act as an agent of change, anticipating and deflecting risk.

Capitalising on new software tools, we will be shifting the emphasis from traditional rotational heavily-documented audits in search of findings to a more outcome-driven approach delivering right-sized audits, balancing value preservation (assurance) with value creation (advisory). Ultimately, we hope to apply 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. Management is responsible for establishing and maintaining adequate internal controls over the capturing, processing and reporting of financial information but the 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 Group. As noted above, IA reports on control weaknesses and breakdowns with robust root cause analysis and recommendations with clear ownership/accountability and deadlines. The Committee regularly reviews progress in this vital discipline and alerts the CEO, CFO, divisional heads and, if necessary, the full Board where it occasionally sees intractable problems and insufficient commitment to continuous process improvement. The Committee was pleased to note that in 2019 there was again a further improvement in the rate and speed of remediation of identified IA deficiencies. We have implemented 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 2019 a Big 4 firm was commissioned to undertake an evaluation of the Group's operational risk governance framework and risk assessment methodologies.

The Committee is conscious of increased regulatory and stakeholder focus on ICFR (Internal Control Over Financial Reporting) issues and the need for proactive responses from companies and audit committees. Much of the Finance function involves data gathering. We discussed with PwC the level of manual processes in the Group and whether these posed heightened risk. The vast majority of financial numbers are system generated. The Group is increasing its automation of remaining manual controls which reduces the risks of human error or malpractice and also delivers cost-saving benefits. We are also working with Finance to understand better how using data analytics and artificial intelligence can deliver sharper predictive insights which could be relevant to our reporting and provisioning agenda. In 2020 the Committee will continue to work with Finance on its transformation strategy. At the same time we are conscious that new and disruptive technologies can bring their own risks in collecting, interpreting and protecting all this data.

On a wider issue, we are aware of the strains that international expansion and diversification can potentially place on the Finance team of the Group and are taking steps to ensure that competent resources are in place to cope with the extra workload involved.

In accordance with our mandate, we have reviewed the robustness of the Bank's wider controls, working with our External Auditor and IA. In the opinion of the Committee, there is a proper system and allocation of responsibilities for day to day monitoring of financial and other controls within the Group and no significant systemic failings or weaknesses. We have also considered the risk of executive override of controls, and discussed with PwC their assessment of this mandatory significant audit risk. We ensure that the remuneration of senior and middle management is calibrated so that they are not incentivised to take unhealthy short-term risks to generate personal rewards.

After every noted fraud event larger than US$20,000, Management conducts a full post-mortem which is shared with the Committee and often the full Board (as well as the CEO and divisional head responsible), concluding lessons learned to avoid any future repeat events. The Committee has directly discussed all larger frauds with senior management and is confident that the CEO and his deputies have taken full ownership of the issues and rectified any vulnerabilities arising. Our experience over 2019, as with 2018, is that typically our processes were watertight but had not been fully followed due to human error or deliberate malfeasance. The Committee was promptly notified in accordance with escalation procedures.

We have reviewed PwC's management letter from the 2018 audit, discussed Management's responses to it and confirmed that there are no major issues raised therein. We are also satisfied with the PwC's requested management representation letter (signed by the CEO and CFO) in relation to the 2019 audit.

In 2016 the Bank's 'whistleblowing' or anonymous hotline for staff and external entities went live, alerting the Bank to any potentially unsatisfactory practices relating to customers, other third party entities and our employees. Arrangements are in place for proportionate and independent investigation of all such cases and appropriate follow up actions. We agreed in 2019 that the Risk Committee would take primary responsibility for overseeing these whistleblowing reports since it has the Compliance mandate. However, IA will continue to be involved as appropriate. We believe that our employees and customers have come to realise that 'speaking up' is valued and taken seriously.

The Committee works closely with the Remuneration Committee, where we have a majority of overlapping members. We are comfortable that the compensation policies and practices for top executives are appropriate for maintaining a robust control environment and consistent with good stewardship. The CEO's compensation is partly linked to a Leadership KPI which includes as one of its key elements an "Internal Audit Engagement" factor and since 2018 the Bank's branch directors have also had an operational risk mitigation KRI attached to their remuneration.

IT, CYBER-SECURITY AND DATA PROTECTION

The Group is undergoing a significant amount of change in IT as it implements new systems and invests in network automation, digitalisation and other new technologies. The Group is pursuing a phased approach to its core IT systems strategy and is seeking to bring more system development in-house and to create more modular, decentralised and agile, less monolithic, capabilities. The intention is to facilitate faster development and deployment of new technologies. The Committee believes that this approach will allow us to achieve our goals at lower cost and with lower risk of IT failure.

The Committee, with support from IA, supervised an internal cyber 'health check' and 'gap analysis'. The Committee, together with the Risk Committee, received a presentation from the IT division on its cyber and information security status highlighting its governance framework, maturity level, improvements underway and threat assessment and we have received feedback on extensive externally facilitated penetration testing. Our conclusion was that the risk environment is satisfactory and that we have sufficient prevention, detection and containment practices in place.

The Bank has established some cyber-risk insurance cover but is fully conscious that this area of insurance is evolving, only partial in protection and no substitute for having rigorous data policies in place. We are anticipating GDPR equivalent laws coming into force in Georgia and are taking steps to be fully prepared for this. Georgia has appointed a new data regulator, the office of the Personal Data Protection Inspector (PDP), who we understand are currently working on amendments to the local law in order to align it with the EU's GDPR. Safeguarding of customer data remains a paramount concern for all of us.

The Group's Management continuously seeks to raise cyber-security risk standards within the organisation requiring almost all employees to pass an IT security awareness test covering vital vulnerabilities such as access control.

As noted above, it was agreed in 2019 that the Risk Committee would assume primary responsibility for overseeing IT and cyber risks.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, TBC Bank Group PLC's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2019 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise the:

- Consolidated and Separate Statements of Financial Position as at 31 December 2019;
- Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- Consolidated and Separate Statements of Cash Flows for the year then ended;
- Consolidated and Separate Statements of Changes in Equity for the year then ended;
- The summary of significant accounting policies; and
- The notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 34 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall group materiality: GEL 29.3 million (2018: GEL 25.5 million), based on 5% of profit before tax.
- Overall parent company materiality: GEL 15.7 million (2018: GEL 15.5 million), based on 1% of total assets.
- Our scoping was driven by legal entity contribution to profit before tax and other key financial metrics. 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.
- Key audit matters which were of most significance in the audit of the consolidated financial statements were the expected credit loss allowance for loans and advances to customers and the impact of Coronavirus (COVID-19) on the financial statements.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and the legal, regulatory and banking industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to the rules of the National Bank of Georgia, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing Rules and UK and local tax legislation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of management, including the group's Chief Legal Counsel, and Internal Audit, in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting;
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters;
- Attendance at and inquiry of selected key governance committees and reviewing management information presented at these meetings;
- Reading key correspondence with regulatory authorities and legal advisors;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of loans and advances; and
- Identifying and testing journal entries meeting specific risk criteria.

There are inherent limitations in the audit procedures described above, and the further removed that non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance of loans and advances to customers Refer to pages 180 to 190 (Audit Committee Chair's report), pages 206 to 224 (Summary of Significant Accounting Policies), page 224 to 225 (Critical Accounting Estimates), and pages 230-246 (note 9: Loans and Advances to customers). We focused on this area as the management estimates regarding the expected credit loss ('ECL') allowance are complex and require a significant degree of judgement. Under IFRS 9 management is required to determine the ECL allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether or not there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement in situations where past experience was not considered to be reflective of future outcomes due to limited or incomplete data. As a result, we consider that this represents a key audit matter. We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant: - Setting of appropriate criteria for what represents an SICR; - Critical judgements and assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD'); and - Assessment of model limitations and use of post model adjustments ('PMAs') if required to address such risks.	We understood and evaluated the design of the key controls over the determination of ECL allowance and tested their operating effectiveness. These controls included among others: - Model performance monitoring controls, including testing model estimates against actual outcomes; - Review and approval of the key judgements and assumptions used for determining an SICR, LGDs and PDs; - Controls over key parameters calculation by the calculation engine; - Controls over regular monitoring of the financial standing of the borrowers; - Controls over assignment of staging criteria to exposures; - Controls over ECL calculation and analysis of results; and - Controls over changes and approval of ECL methodology. We noted no exceptions in the design or operating effectiveness of the above controls. We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, making use of our credit risk modelling specialists and our industry knowledge. This included an evaluation of the criteria set by management for determining whether there had been a significant increase in credit risk ('SICR'), and the critical judgements and assumptions applied in determination of LGDs and PDs. We also critically evaluated management's assumptions in response to data limitations, focusing on long-term PDs. We concluded that management's judgements in deriving LGDs and PDs were reasonable. We independently verified the calculation of ECL, and assessed whether the ECL calculations were consistent with the approved model methodologies. We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) performed by management relating to model performance and stability and critically assessed the monitoring results. We found no exceptions in this work. We considered whether PMAs were required to address relevant risks that were not captured in the modelled provisions. We were satisfied that no PMAs are required. Based on the procedures performed and the evidence obtained, we concluded that management's judgements used in the determination of the ECLs were reasonable.

Key audit matter	How our audit addressed the key audit matter
Impact of Coronavirus (COVID-19) on the financial statements Refer to page 183 (Audit Committee Chair's report), pages 2 to 123 (Strategic Report), Since the balance sheet date, there has been a global pandemic of COVID-19 virus. In addition to the human cost, the pandemic has been disruptive to the financial markets and is translating into a global economic crisis, potentially plunging the major economies into deep recessions. The Directors believe that, notwithstanding the unprecedented fiscal and monetary response from governments and regulators around the world, the financial impact of COVID-19 on TBC Bank Group plc is expected to be significant, at least over the short-term. The Directors have specifically considered the impact of this on the financial statements, including on the going concern assessment and post balance sheet events disclosures. The directors have concluded that the impact of COVID-19 is a non-adjusting post balance sheet event under IAS 10 "Events After the Reporting Period" and therefore no adjustments have been made to the primary financial statements or the notes to the financial statements. However, IAS 10 states that the financial statements should not be prepared on a going concern basis where events after the reporting date indicate that the going concern assumption is no longer appropriate. This guidance applies even if those events would otherwise be non-adjusting. The Directors have therefore considered whether developments subsequent to the reporting date have any implications for the going concern assumption through evaluating the impact on the Group's capital and liquidity position. As stated on page 134, the Directors have concluded that the going concern basis of accounting is appropriate and in reaching their conclusions, they have taken into consideration all of the latest information, including new assumptions and judgements about forward-looking economic scenarios. Given the sudden onset of the virus, there remains a considerable level of uncertainty about the duration of this pandemic and its medium to long term consequences. Therefore, significant judgement has been exercised by management and directors in reaching their conclusions.	We critically assessed the Director's conclusions that the matter be treated as a non-adjusting post balance sheet event and that the impact cannot be reliably estimated at this stage. In particular we considered: - The timing of the development of the outbreak across the world; - The timing and nature of advice from the World Health Organisation (WHO) and from the Georgian government to its citizens. - How the financial statements might be impacted by the aforementioned disruption and the complexity in measuring such impacts. In forming our conclusions over going concern, we evaluated whether the Director's assessment considered impacts arising from COVID-19. Our procedures in respect of going concern included: - Evaluating management's assessment of the impact of the events on the Group's operations, capital and liquidity positions; and - Evaluating the Group's access to funding. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

TBC Bank Group's banking and insurance activities are primarily carried out in Georgia, with small subsidiary operations in four other countries. The Group's business activities comprise of four segments for which it manages and reports its operating results and financial position, namely Retail Banking, Corporate and Investment Banking and Micro Small and Medium Enterprises ('MSME') and Corporate Centre.

JSC TBC Bank is the largest subsidiary of the group. Its main operations are Retail and Commercial banking, with all significant operations based in Georgia. Accounting functions and management of JSC TBC Bank are primarily based in Georgia, and represent 97% of the group assets and 99% 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 27.8 million (2018: GEL 24.2 million). We also performed other audit procedures including testing information technology general controls and other relevant controls related to financial reporting, to mitigate the risk of material misstatement.

Our audit approach and team was also designed to reflect the structure of the group, and we therefore used component auditors from PwC in each of the relevant territories, all of whom are familiar with the relevant businesses in their geographical locations, to audit the relevant component that was in scope for the group audit. As part of the planning and execution of the audit, the UK audit team visited the significant component in Georgia on several occasions, in order to ensure that the procedures performed to support the group audit were sufficient for our purposes. Specific audit procedures were also performed at the UK parent company, mainly related to the presentation of the group financial statements, the consolidation process, taxation and elements of laws and regulations specific to the UK. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 99% of revenue and 98% of total assets of the group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent company financial statements**
Overall materiality	GEL 29.3 million (2018: GEL 25.5 million).	GEL 15.7 million (2018: GEL 15.5 million).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	The parent company is the top holding company with investments in the subsidiaries within the Group. The parent company's performance is measured primarily on the value of these investments, and therefore total assets is considered an appropriate materiality benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between GEL 27.8 million and GEL 29.3 million. Certain components were audited to a local statutory audit materiality that was less than our overall group materiality allocation.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above GEL 1.4 million (group audit) (2018: GEL 1.3 million) and GEL 0.8 million (parent only) (2018: GEL 0.8 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	**Outcome**
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA), require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 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 pages 134-135 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 134-135 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 135, 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 184 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 acco rdance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 135, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited, are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 11 August 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2016 to 31 December 2019.

Allan McGrath
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
28 April 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	**31 December 2019**	31 December 2018	31 December 2017
ASSETS				
Cash and cash equivalents	6	**1,003,583**	1,166,911	1,431,477
Due from other banks	7	**33,605**	47,316	39,643
Mandatory cash balances with the National Bank of Georgia	8	**1,591,829**	1,422,809	1,033,818
Loans and advances to customers	9	**12,349,399**	10,038,452	8,325,353
Investment securities measured at fair value through other comprehensive income	10	**985,293**	1,005,239	-
Investment securities available for sale	10	**-**	-	657,938
Bonds carried at amortised cost	11	**1,022,684**	654,203	449,538
Net Investments in leases	13	**256,660**	203,802	143,836
Investment properties	17	**72,667**	84,296	79,232
Current income tax prepayment		**25,695**	2,116	19,084
Deferred income tax asset	35	**2,173**	2,097	2,855
Other financial assets	12	**133,736**	167,518	146,144
Other assets	14	**255,712**	192,792	156,651
Premises and equipment	15	**385,736**	367,504	366,913
Right of use assets	16	**59,693**	-	-
Intangible assets	15	**167,597**	109,220	83,492
Goodwill	18	**61,558**	31,286	28,658
Investments in associates		**2,654**	2,432	1,278
TOTAL ASSETS		**18,410,274**	15,497,993	12,965,910
LIABILITIES				
Due to credit institutions	19	**3,593,901**	3,031,503	2,620,714
Customer accounts	20	**10,049,324**	9,352,142	7,816,817
Other financial liabilities	23	**113,608**	98,714	91,753
Current income tax liability		**1,634**	63	447
Debt securities in issue	21	**1,213,598**	13,343	20,695
Deferred income tax liability	35	**21,331**	22,237	602
Provisions for liabilities and charges	22	**23,128**	18,767	13,200
Other liabilities	24	**95,161**	104,337	84,440
Lease Liabilities	16	**59,898**	-	-
Subordinated debt	25	**591,035**	650,919	426,788
TOTAL LIABILITIES		**15,762,618**	13,292,025	11,075,456
EQUITY				
Share capital	26	**1,682**	1,650	1,605
Shares held by trust	26	**(27,517)**	-	-
Share premium	26	**848,459**	796,854	714,651
Retained earnings		**1,953,364**	1,523,879	1,232,865
Group reorganisation reserve	26	**(162,166)**	(162,166)	(162,166)
Share based payment reserve	27	**(17,802)**	(16,294)	9,828
Revaluation reserve for premises		**56,374**	57,240	70,045
Fair value reserve		**(6,476)**	8,680	-
Revaluation reserve for available-for-sale securities		**-**	-	1,730
Cumulative currency translation reserve		**(6,850)**	(6,937)	(7,359)
Net assets attributable to owners		**2,639,068**	2,202,906	1,861,199
Non-controlling interest	39	**8,588**	3,062	29,255
TOTAL EQUITY		**2,647,656**	2,205,968	1,890,454
TOTAL LIABILITIES AND EQUITY		**18,410,274**	15,497,993	12,965,910

The financial statements on pages 198 to 318 were approved by the Board of Directors on 28 April 2020 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 205 to 318 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of GEL	Note	2019	2018	2017
Interest income	30	**1,436,843**	1,284,235	1,033,939
Interest expense	30	**(663,860)**	(506,213)	(429,924)
Net gains on currency swaps	30	**28,556**	-	-
Net interest income		**801,539**	778,022	604,015
Fee and commission income	31	**293,431**	235,701	193,944
Fee and commission expense	31	**(106,141)**	(78,171)	(67,983)
Net fee and commission income		**187,290**	157,530	125,961
Net insurance premiums earned		**38,199**	23,601	12,633
Net insurance claims incurred and agents' commissions		**(19,689)**	(11,326)	(5,860)
Insurance Profit		**18,510**	12,275	6,773
Net gains from trading in foreign currencies		**79,279**	91,678	87,099
Net gains from foreign exchange translation		**22,188**	15,196	4,374
Net gains/(losses) from derivative financial instruments		**(280)**	173	(36)
Net gains from disposal of Investment Securities measured at fair value through other comprehensive income		**169**	2	-
Net gains from disposal of Investment securities available for sale		**-**	-	93
Other operating income	32	**18,916**	31,438	31,797
Share of profit of associates		**632**	1,154	909
Other operating non-interest income		**120,904**	139,641	124,236
Credit loss allowance for loans to customers	9	**(82,030)**	(143,723)	(93,823)
Credit loss allowance for investments in lease	13	**582**	(1,765)	(492)
Credit loss allowance for performance guarantees and credit related commitments	22	**(2,156)**	(4,056)	(153)
Credit loss allowance for other financial assets	12	**(8,098)**	(16,609)	(12,439)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		**(290)**	(86)	-
Operating income after credit impairment losses		**1,036,251**	921,229	754,078
Staff costs	33	**(247,803)**	(220,354)	(203,100)
Depreciation and amortisation	15,17	**(59,478)**	(45,740)	(37,265)
(Provision for)/recovery of provision for liabilities and charges	22	**(1,264)**	(4,000)	2,495
Administrative and other operating expenses	34	**(142,181)**	(140,935)	(121,530)
Operating expenses		**(450,726)**	(411,029)	(359,400)
Profit before tax		**585,525**	510,200	394,678
Income tax expense	35	**(45,184)**	(72,765)	(34,750)
Profit for the year		**540,341**	437,435	359,928
Other comprehensive income /(expense) (OCI):				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve	10	**(15,156)**	6,949	-
Revaluation of available-for-sale investments	10	**-**	-	5,489
Exchange differences on translation to presentation currency		**85**	425	181
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment		**-**	10,749	-
Income tax recorded directly in other comprehensive income/(expense)	35	**-**	(2,363)	(422)
Other comprehensive income for the year		**(15,071)**	15,760	5,248
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**525,270**	453,195	365,176
Profit is attributable to:				
- Shareholders of TBCG		**537,895**	435,080	354,410
- Non-controlling interest		**2,446**	2,355	5,518
Profit for the year		**540,341**	437,435	359,928
Total comprehensive income is attributable to:				
- Shareholders of TBCG		**522,824**	450,903	359,585
- Non-controlling interest		**2,446**	2,292	5,591
Total comprehensive income for the year		**525,270**	453,195	365,176
Earnings per share for profit attributable to the owners of the Group:				
- Basic earnings per share	28	**9.8**	8.1	6.7
- Diluted earnings per share	28	**9.8**	8.0	6.6

The notes set out on pages 205 to 318 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of GEL	Note	Net assets Attributable to owners: Share capital	Shares held by trust	Share premium	Group reorganisation reserve	Share based payments reserve	Revaluation reserve for premises	Revaluation reserve for available for sale securities	Fair value reserve[1]	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 1 January 2017		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 for 2017		-	-	-	-	-	(415)	5,411	-	179	354,410	359,585	5,591	365,176
Share issue	26	21	-	32,308	-	(24,253)	-	-	-	-	-	8,076	-	8,076
Share based payment	27	-	-	-	-	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
Impact of adopting IFRS 9 as at 1 January 2018		-	-	-	-	-	-	(1,730)	1,730	-	(62,928)	(62,928)	(719)	(63,647)
Balance as at 1 January 2018		1,605	-	714,651	(162,166)	9,828	70,045	-	1,730	(7,359)	1,169,937	1,798,271	28,536	1,826,807
Profit for the year		-	-	-	-	-	-	-	-	-	435,080	435,080	2,355	437,435
Other comprehensive income (expense)		-	-	-	-	-	8,466	-	6,950	422	-	15,838	(78)	15,760
Total comprehensive income for 2018		-	-	-	-	-	8,466	-	6,950	422	435,080	450,918	2,277	453,195
Share issue	26	23	-	42,031	-	(38,669)	-	-	-	-	-	3,385	-	3,385
Share based payment	27	-	-	-	-	12,547	-	-	-	-	-	12,547	(879)	11,668
Conversion of shares	27	22	-	40,172	-	-	-	-	-	-	(17,838)	22,356	(22,356)	-
Dividends declared		-	-	-	-	-	-	-	-	-	(88,950)	(88,950)	(116)	(89,066)
Transfer of revaluation surplus of derecognised assets to retained earnings		-	-	-	-	-	(21,271)	-	-	-	21,271	-	-	-
Purchase of additional interest from NCI		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,379**	**4,379**	**(4,415)**	**(36)**
Balance as of 31 December 201		**1,650**	**-**	**796,854**	**(162,166)**	**(16,294)**	**57,240**	**-**	**8,680**	**(6,937)**	**1,523,879**	**2,202,906**	**3,062**	**2,205,968**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**537,895**	**537,895**	**2,446**	**540,341**
Other comprehensive expense		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,156)**	**85**	**-**	**(15,071)**	**-**	**(15,071)**
Total comprehensive income for 2019		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,156)**	**85**	**537,895**	**522,824**	**2,446**	**525,270**
Share issue	26	**32**	**-**	**51,605**	**-**	**(35,306)**	**-**	**-**	**-**	**-**	**-**	**16,331**	**-**	**16,331**
Share buy-back	27	**-**	**(27,517)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27,517)**	**-**	**(27,517)**
Share based payment	27	**-**	**-**	**-**	**-**	**33,798**	**-**	**-**	**-**	**-**	**-**	**33,798**	**(35)**	**33,763**
Business Combination		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**	**3,134**	**3,136**
Purchase of additional interest from NCI		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**	**(19)**
Dividends declared		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(108,622)**	**(108,622)**	**-**	**(108,622)**
Transfer of revaluation surplus to retained earnings and other movements		**-**	**-**	**-**	**-**	**-**	**(866)**	**-**	**-**	**-**	**212**	**(654)**	**-**	**(654)**
Balance as of 31 December 2019		**1,682**	**(27,517)**	**848,459**	**(162,166)**	**(17,802)**	**56,374**	**-**	**(6,476)**	**(6,850)**	**1,953,364**	**2,639,068**	**8,588**	**2,647,656**

The notes set out on pages 205 to 318 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of GEL	Note	2019	2018	2017
Cash flows from (used in) operating activities				
Interest received		**1,360,296**	1,224,606	1,000,571
Interest received on currency swaps		**28,556**	-	-
Interest paid		**(647,427)**	(501,984)	(424,105)
Fees and commissions received		**282,715**	235,508	195,285
Fees and commissions paid		**(106,526)**	(78,140)	(68,036)
Insurance and reinsurance received		**76,101**	54,682	23,518
Insurance claims paid		**(21,787)**	(15,174)	(9,127)
Income received from trading in foreign currencies		**79,287**	91,678	87,099
Other operating income received		**44,248**	11,407	8,992
Staff costs paid		**(216,465)**	(202,897)	(187,520)
Administrative and other operating expenses paid		**(169,582)**	(136,670)	(112,270)
Income tax paid		**(70,413)**	(34,918)	(53,916)
Cash flows from operating activities before changes in operating assets and liabilities		**639,003**	648,098	460,491
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		**(22,009)**	(343,772)	(98,586)
Loans and advances to customers		**(2,013,577)**	(1,718,446)	(1,330,105)
Net investment in lease		**(43,719)**	(54,784)	(49,297)
Other financial assets		**19,612**	(35,570)	(38,064)
Other assets		**1,577**	(4,486)	73,814
Net change in operating liabilities				
Due to other banks		**(1,938)**	69,755	(228,486)
Customer accounts		**272,023**	1,371,675	1,329,071
Other financial liabilities		**(8,267)**	(12,136)	18,263
Other liabilities and provision for liabilities and charges		**5,816**	3,618	3,487
Net cash flows (used in)/from operating activities		**(1,151,479)**	(76,048)	140,588
Cash flows from (used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	**(1,781,816)**	(717,729)	-
Acquisition of investment securities available for sale	10	-	-	(560,226)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	**240,603**	14,781	-
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	**1,598,536**	370,571	-
Proceeds from redemption at maturity of investment securities available for sale	10	**-**	-	345,748
Acquisition of subsidiaries, net of cash acquired		**(39,297)**	809	(273)
Acquisition of bonds carried at amortised cost	11	**(613,383)**	(395,717)	(307,248)
Proceeds from redemption of bonds carried at amortised cost	11	**216,871**	200,658	242,380
Acquisition of premises, equipment and intangible assets	15	**(120,333)**	(89,263)	(114,383)
Proceeds from disposal of premises, equipment and intangible assets		**13,225**	813	1,932
Cash acquired from acquired subsidiaries		**2,996**	-	-
Proceeds from disposal of investment property		**13,338**	42,515	19,082
Net cash used in investing activities		**(469,260)**	(572,562)	(372,988)
Cash flows from (used in) financing activities				
Proceeds from other borrowed funds		**1,819,899**	1,776,489	1,461,191
Redemption of other borrowed funds		**(1,392,897)**	(1,515,562)	(800,333)
Repayment of principal of lease liabilities		**(6,453)**	-	-
Proceeds from subordinated debt		**-**	255,900	119,859
Redemption of subordinated debt		**(104,079)**	(60,910)	(59,671)
Proceeds from debt securities in issue		**1,176,049**	(7,596)	-
Redemption of debt securities in issue		**(14,296)**	-	(2,123)
Dividends paid		**(91,928)**	(85,484)	(67,927)
Issue of ordinary shares				29
Net cash flows from financing activities		**1,386,295**	362,837	651,025
Effect of exchange rate changes on cash and cash equivalents		**71,116**	21,207	67,672
Net (decrease)/ increase in cash and cash equivalents		**(163,328)**	(264,566)	486,297
Cash and cash equivalents at the beginning of the year	6	**1,166,911**	1,431,477	945,180
Cash and cash equivalents at the end of the year	6	**1,003,583**	1,166,911	1,431,477

The notes set out on pages 205 to 318 form an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	**31 December 2019**	31 December 2018	31 December 2017
ASSETS				
Cash and cash equivalents		**5,546**	2,204	210
Due from other banks		**40,815**	79,135	11,564
Loans and advances to customers		**-**	-	24,000
Other financial assets		**278**	170	219
Investments in subsidiaries	2	**1,519,922**	1,473,168	1,429,485
Other assets		**465**	3	8
TOTAL ASSETS		**1,567,026**	1,554,680	1,465,486
LIABILITIES				
Other financial liabilities		**1,751**	2,334	825
TOTAL LIABILITIES		**1,751**	2,334	825
EQUITY				
Share capital	26	**1,682**	1,650	1,605
Shares held by trust	27	**(27,516)**	-	-
Shares Premium	26	**848,459**	796,854	714,651
Retained earnings		**681,048**	668,364	670,444
Profit for the year		**100,630**	121,306	86,789
Other reserves	27	**(39,028)**	(35,828)	(8,828)
TOTAL EQUITY		**1,565,275**	1,552,346	1,464,661
TOTAL LIABILITIES AND EQUITY		**1,567,026**	1,554,680	1,465,486

The financial statements on pages 198 to 318 were approved by the Board of Directors on 28 April 2020 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 205 to 318 form an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

In thousands of GEL	Note	Share capital	Shares held by trust	Share premium	Other reserves	Retained Earnings	Total equity
Balance as of 1 January 2017		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	26	24	-	37,440	(24,253)	-	13,211
Dividends declared	26	-	-	-	-	(74,809)	(74,809)
Share based payment	27	-	-	-	10,543	-	10,543
Balance as of 31 December 2017		1,605	-	714,651	(8,828)	757,233	1,464,661
Profit for the year		-	-	-	-	121,306	121,306
Total comprehensive income for 2018		-	-	-	-	121,306	121,306
Share issue	26	45	-	82,203	(38,668)	-	43,580
Dividends declared	26	-	-	-	-	(88,869)	(88,869)
Share based payment	27	-	-	-	11,668	-	11,668
Balance as of 31 December 2018		**1,650**	**-**	**796,854**	**(35,828)**	**789,670**	**1,552,346**
Profit for the year		**-**	**-**	**-**	**-**	**100,630**	**100,630**
Total comprehensive income for 2019		**-**	**-**	**-**	**-**	**100,630**	**100,630**
Share issue	26	**32**	**-**	**51,605**	**(34,941)**	**-**	**16,696**
Share buy-back	26		**(27,516)**				**(27,516)**
Dividends declared	26	**-**	**-**	**-**	**-**	**(108,622)**	**(108,622)**
Share based payment	27	**-**	**-**	**-**	**31,741**	**-**	**31,741**
Balance as of 31 December 2019		**1,682**	**(27,516)**	**848,459**	**(39,028)**	**781,678**	**1,565,275**

The notes set out on pages 205 to 318 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of GEL	**2019**	2018	2017
Cash flows from (used in) operating activities			
Interest received	**9,933**	1,908	1,348
Interest paid	**(42)**	-	-
Fees and commissions paid	**(17)**	(12)	(12)
Salaries and other employee benefits paid	**(4,520)**	(3,797)	(3,469)
Administrative and other operating expenses paid	**(10,439)**	(3,569)	(1,423)
Other operating income received	**215**	16	11
Cash flows used in operating activities before changes in operating assets and liabilities	**(4,870)**	(5,454)	(3,545)
Net change in operating assets			
Other financial assets	**(10)**	5	137
Other assets	**(101)**	3	-
Net change in operating liabilities			
Other financial liabilities	**360**	(161)	(3)
Net cash flows used in operating activities	**(4,621)**	(5,607)	(3,411)
Cash flows from (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	**(40,162)**	-	-
Cash contribution to subsidiaries	**(8,857)**	(800)	-
Dividends received	**99,662**	124,561	77,090
Income from recharge agreement	**16,005**	8,955	23,745
Dividends paid	**(91,925)**	(85,484)	(66,733)
Placement/withdrawal of deposits	**34,007**	(39,555)	(8,830)
Issuance of debt to subsidiary	**-**	-	(22,000)
Net cash flows from investing activities	**8,730**	7,677	3,272
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	**(767)**	(76)	(50)
Net increase (decrease) in cash and cash equivalents	**3,342**	1,994	(189)
Cash and cash equivalents at the beginning of the year	**2,204**	210	399
Cash and cash equivalents at the end of the year	**5,546**	2,204	210

The notes set out on pages 205 to 318 form an integral part of these financial statements.

1. INTRODUCTION

Principal activity. TBC Bank Group PLC ("TBCG" or "Group") is a public limited liability company, incorporated in England and Wales. TBCG held 99.88% of the share capital of JSC TBC Bank (hereafter the "Bank") as at 31 December 2019 (2018: 99.88%, 2017: 98.67%), thus representing the Bank's ultimate parent company. The Bank is a parent of a group of companies incorporated in mainly in Georgia, Azerbaijan and Uzbekistan, their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Group's list of subsidiaries 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"). TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Bank Group PLC is 10029943. The Bank is the Group's main operating unit and it accounts for most of the Group's activities.

JSC TBC Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises, retail and micro operations within Georgia. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). In 2018, the Bank launched fully-digital bank, Space.

The Bank has 148 (2018:146; 2017:154) branches within Georgia.

As of 31 December 2019, 31 December 2018 and 31 December 2017, 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 2019, 31 December 2018 and 31 December 2017 the Group had no ultimate controlling party

	% of ownership interest held as of 31 December		
Shareholders	**2019**	2018	2017
European Bank for Reconstruction and Development	**8.04%**	8.18%	8.38%
Dunross & Co.	**6.61%**	5.51%	0.00%
Schroder Investment Management	**6.48%**	7.08%	9.53%
JPMorgan Asset Management	**6.22%**	8.40%	9.21%
Badri Japaridze*	**6.00%**	6.08%	6.23%
Liquid Crystal International N.V. LLC	**5.55%**	5.64%	5.78%
Mamuka Khazaradze*	**4.71%**	6.19%	6.35%
Other**	**56.39%**	52.92%	54.52%
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 10.26% (2018: 13.54%; 2017: 13.87% and Badri Japaridze has beneficial ownership of 6.00%, (2018: 6.77%; 2017: 6.93%).

** Other includes individual as well as corporate shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone statement of comprehensive income of TBCG is not presented as part of these financial statements. TBCG's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.

The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the certain financial assets and liabilities (including derivative instruments) and certain class of premises and equipment which are measured at fair value. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

New accounting policy for leases by the Group as a lessee. The Group adopted IFRS 16, Leases, using modified retrospective method and applied certain simplifications or practical expedients. The standard is effective for annual periods beginning on or after 1 January 2019. Refer to section 2.3 below. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), except per-share amounts and unless otherwise indicated.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Subsidiaries and associates. The TBC Bank Group PLC holds 99.88%of the Bank as of 31 December 2019. The consolidated financial statements include the following principal subsidiaries:

Subsidiaries Name	Proportion of voting rights and ordinary share capital held as of 31 December 2019	2018	2017	Principal place of business or incorporation	Year of incorporation	Industry
JSC TBC Bank	**99.88%**	99.88%	98.67%	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	**99.53%**	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	**100.00%**	99.61%	99.61%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	**100.00%**	100.00%	75.00%	Baku, Azerbaijan	1999	Non-banking credit institution
Banking System Service Company LLC[2]	**N/A**	100.00%	100.00%	Tbilisi, Georgia	2009	Information services
TBC Pay LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
TBC Invest LLC	**100.00%**	100.00%	100.00%	Ramat Gan,Israel	2011	PR and marketing
Index LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
BG LLC[1]	**N/A**	N/A	N/A	Tbilisi, Georgia	2018	Real Estate
JSC TBC Insurance	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2014	Insurance
Redmed LLC	**100.00%**	N/A	N/A	Tbilisi, Georgia	2019	Insurance
TBC International LLC	**100.00%**	N/A	N/A	Tbilisi, Georgia	2019	Asset management
Swoop JSC	**100.00%**	100.00%	N/A	Tbilisi, Georgia	2010	Retail Trade
Online Tickets LLC	**55.00%**	N/A	N/A	Tbilisi, Georgia	2015	Computer and Software Services
TKT UZ	**75.00%**	N/A	N/A	Tashkent, Uzbekistan	2019	Retail Trade
My.Ge LLC	**65.00%**	N/A	N/A	Tbilisi, Georgia	2019	E-Commerce
Mypost LLC	**100.00%**	N/A	N/A	Tbilisi, Georgia	2019	Postal Service
Billing Solutions LLC	**51.00%**	N/A	N/A	Tbilisi, Georgia	2019	Software Services
Vendoo LLC (Geo)	**100.00%**	N/A	N/A	Tbilisi, Georgia	2019	Retail Leasing
Allproperty.ge LLC	**90.00%**	N/A	N/A	Tbilisi, Georgia	2013	Real estate management
F Solutions LLC	**100.00%**	N/A	N/A	Tbilisi, Georgia	2019	Software Services
Inspired LLC	**51.00%**	N/A	N/A	Tashkent, Uzbekistan	2011	Processing
VENDOO LLC (UZ Leasing)	**100.00%**	N/A	N/A	Tashkent, Uzbekistan	2019	Retail Leasing

The Group has investments in the following associates:

Associate Name	Proportion of voting rights and ordinary share capital held as of 31 December 2019	2018	2017	Principal place of business or incorporation	Year of incorporation	Industry
CreditInfo Georgia JSC	**21.08%**	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
Online Tickets LLC[3]	**N/A**	26.00%	26.00%	Tbilisi, Georgia	2015	Computer and Software Services

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

1 The Group had de-facto control over the subsidiary (control without legal form of ownership). The company was acquired and subsequently legally merged with Bank in 2019.
2 The company was merged to United Financial Corporation JSC in 2019.
3 The group became 55% shareholder of the company in 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December 2019	2018	2017	Principal place of business or incorporation	Year of incorporation	Industry
TBC Invest International Ltd	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund[2]	**33.33%**	33.33%	33.33%	Tbilisi, Georgia	2007	Education
UFC International Ltd[3]	**N/A**	N/A	80.00%	British Virgin Islands	2001	Investment Vehicle
Natural Products of Georgia LLC	**25.00%**	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
Mobi Plus JSC	**14.81%**	14.81%	14.81%	Tbilisi, Georgia	2009	Data monitoring and processing
GRDC	**1.75%**	1.75%	1.64%	Tbilisi, Georgia	2008	Investment Real Estate
Georgian Card JSC	**0.15%**	0.15%	0.15%	Tbilisi, Georgia	1997	Plastic Card Services
Georgian Securities Central Depositor	**0.05%**	0.05%	0.05%	Tbilisi, Georgia	1999	Finance, Service
JSC Givi Zaldastanishvili American Academy In Georgia	**14.48%**	14.48%	14.48%	Tbilisi, Georgia	2001	Education
United Clearing Centre	**18.75%**	18.75%	18.75%	Tbilisi, Georgia	2008	Clearing Centre
Banking and Finance Academy of Georgia	**16.67%**	16.67%	16.67%	Tbilisi, Georgia	1998	Education
Tbilisi's City JSC	**1.80%**	1.80%	1.80%	Tbilisi, Georgia	2007	Education
Swift	**0.01%**	0.01%	0.01%	La Hulpe, Belgium	2014	Finance, Service
TBC Trade	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Mineral Oil Distribution Corporation JSC	**9.90%**	9.90%	9.90%	Tbilisi, Georgia	2009	Data monitoring and processing

Business combinations and Goodwill accounting. 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 acquisition date. Acquisition-related costs are recognised as an expense in the profit or loss 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.

2 Non-entrepreneurial (non-commercial) legal entity
3 Liquidated in 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

The instruments that failed the SPPI test are generally measured at FVTPL. The Bank did not have such category of Loans to customers during 2018 and 2019.

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

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

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

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL");
- Stage 2: If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1. Refer to Note 37 for a description of how the Group determines, on a forward-looking basis, when a SICR has occurred;
- Stage 3: Credit impaired assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Group's definition of credit impaired assets and definition of default is based on the occurrence of one or more loss events, described further in Note 37.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type. The contractual amounts outstanding on loans to customers that have been written off partially or fully, but are still subject to enforcement activity was principal amount GEL 110 million (31 December 2018: GEL 96 million), accrued interest GEL 28 million (31 December 2018: GEL 18 million) and accrued off balance sheet penalty GEL 114 million (31 December 2018: GEL 92 million).

Financial assets – derecognition and modification. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in interest rate due to market environment changes, change in the currency denomination; consolidation of two or more loans into one new loan; change in counterparty; loan with no schedule is replaced with loan with schedule or vice versa; Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

Impairment allowances are determined based on the forward-looking ECL models. Note 37 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset. ***Performance guarantees.*** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

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

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

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

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

Net investments in 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 net investments in leases and carried at the present value of the future lease payments. Net Investments in 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 net investments in leases and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

result from obtaining and selling the assets subject to the lease.

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

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

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

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

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

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are recognized 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.

When derivative instruments are entered into with a view to decrease cost of funding, respective interest effect is presented as a separate line of statement of comprehensive income, within net interest income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment and right-of-use assets 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;
Right-of-use assets	the term of the underlying lease; and
Leasehold improvements	the term of the underlying lease or if not defined, not more than 7 years.

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

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

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

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

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

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

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

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

Accounting for leases by the Group as a lessee from 1 January 2019. The Group leases office, branches and service centre premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- he exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

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

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

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

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

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, plastic card transactions, merchant fees, fees for cash settlements, collection or cash disbursements, etc.

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

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

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

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) Components of equity are translated at the historic rate; and

(iv) All resulting exchange differences are recognised in other comprehensive income.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2019 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 3.7593 (2018: GBP 1 = GEL 3.3955; 2017: GBP 1 = GEL 3.5005); USD 1 = 2.8677 (2018: USD 1 = GEL 2.6766; 2017: USD 1 = GEL 2.5922); EUR 1 = 3.2095 (2018: EUR 1 = GEL 3.0701; 2017: EUR 1 = GEL 3.1044).

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

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the Group's employees.

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

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 award of shares to the scheme participants, respective share based payment reserve is transferred to share capital and share premium. When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

Principles applied before 1 January 2018 *(comparatives only)*

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

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

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis in case the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 42.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of such unquoted equity instruments. Refer to Note 41.

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

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

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

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

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

Cash and cash equivalents (comparatives only). Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed borrowers in order to ensure that loss event is identified as early as possible.

If there is evidence that an impairment loss event on significant credit exposures has been incurred, the Bank assesses the borrowers on an individual basis and measures the amount of the loss as the difference between the asset's carrying

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

amount and the present value of estimated future cash flows discounted by the exposure's original effective interest rate for fixed rate loans or current effective interest rate for variable rate loans. The Bank considers two types of sources for recoveries: cash recoveries and/or collateral recovery. For cash recoveries the estimated recoverable amount is equal to the present value of the estimated future cash flows. Collateral recoveries reflect the cash flows that may result from collateral foreclosure. The Bank uses its best estimates to assess future recoveries, applying scenario analysis and taking into account all relevant information available at the reporting date including adverse changes in general macroeconomic environment or the industry the borrower operates in.

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

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

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

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

Impairment losses on loans and advances and net investments in lease (comparatives only). The Group regularly reviews its loan portfolio and net investments in lease to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group conclude whether there is, or not, any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans or net investments in lease 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 would result in an additional or lower charge for loan loss impairment of GEL 11 thousand as at 31 December 2017 and additional charge for impairment of net investments in lease of GEL 63 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 GEL14 thousand as at 31 December 2017, 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, respectively.

Credit related commitments (comparatives only). The Group enters into credit related commitments, including letters of

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Net investments in lease (comparatives only). Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as net investments in lease and carried at the present value of the future lease payments. Net investments in lease 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 Net investments in lease 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 lease investment. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

3.CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

ECL measurement. Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 37. The following components have a major impact on credit loss allowance: definition of default, definition of significant increase in credit risk (SICR), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Significant increase in credit risk ("SICR"). The Bank applies both qualitative and quantitative indicators to determination of SICR considering all reasonable and supportable information available without undue cost and effort, on past events, current conditions and future behavioural aspects of particular portfolios. The Bank tries to identify indicators of increase in credit risk of individual instruments prior to delinquency and incorporates significant assumptions in the model in doing so. One of such judgement is determination of thresholds of significant increase in credit risk. The effects of respective sensitivity are described below:

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

In thousands of GEL	2019	2018
20% decrease in SICR thresholds	Increase impairment allowance on loans and advances by GEL 1,954	Increase impairment allowance on loans and advances by GEL 2,056
	Change of the Bank's cost of credit risk ratio by 2 basis points	Change of the Bank's cost of credit risk ratio by 2 basis points
10% increase in Stage 2 exposures	Increase impairment allowance on loans and advances by GEL 2,380	Increase impairment allowance on loans and advances by GEL 2,723
	Change of the Bank's cost of credit risk ratio by 2 basis points	Change of the Bank's cost of credit risk ratio by 3 basis points

Risk parameters: Probability of default (PD) and Loss given default (LGD) parameters are one of the key drivers of expected credit losses. The effects of respective sensitivity are described below

In thousands of GEL	2019	2018
10% increase (decrease) in PD estimates	Increase (decrease) impairment allowance on loans and advances by GEL 17,427 (GEL 17,547) Change of the Bank's cost of credit risk ratio by 16 (16) basis points	Increase (decrease) impairment allowance on loans and advances by GEL 18,876 (GEL 18,942) Change of the Bank's cost of credit risk ratio by 21 (21) basis points
10% increase (decrease) in LGD estimates	Increase (decrease) impairment allowance on loans and advances by GEL 24,758 (GEL 26,604) Change of the Bank's cost of credit risk ratio by 22 (24) basis points	Increase (decrease) impairment allowance on loans and advances by GEL 28,185 (GEL 28,012)Change of the Bank's cost of creditrisk ratio by 31 (31) basis points

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Adoption of IFRS 16, Leases. IFRS 16 replaces IAS 17 Leases for annual periods beginning on or after 1 January 2019. The group has adopted IFRS 16 using modified retrospective method from 1 January 2019 with certain simplifications, and has not restated comparatives for the previous reporting periods, as permitted under the specific transitional provisions in the standard (modified retrospective approach). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The comparative information for 2018 and 2017 is reported under IAS 17 and is not comparable to the information presented for 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as of 1 January 2019 which were applied on a portfolio basis of leases with reasonably similar characteristics.

The average incremental borrowing rates applied to the lease liabilities on 1 January 2019 was 3.77% for USD denominated contracts and 9.19% for GEL denominated contracts.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17, Leases, and IFRIC 4, in determining whether an arrangement contains a Lease.

The Group did not have finance leases balances outstanding as at 31 December 2018. TBCG has made no adjustments where the Group acts as lessor, in either a finance or operating lease, of physical assets it owns. Where TBCG acts as an intermediate lessor, i.e., enters into a head lease and subleases the asset to a third party, the sublease has been classified as either a finance or operating lease based primarily on whether the sublease term consumes the majority of the remaining useful life of the right-of-use asset arising from the head lease as at the transition date.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

The following table reconciles the commitments in respect of operating leases as at 31 December 2018 to the opening lease liabilities recognized on 1 January 2019:

In thousands of GEL	**1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases disclosed as at 31 December 2018.	**11,022**
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	**58,573**
- Effect of discounting to present value	**(1,744)**
-Less short-term leases not recognised as a liability	**(575**
- Less low-value leases not recognised as a liability	**(6,233)**
Total effect on the Lease Liability as at 1 January 2019	**61,043**
Of which are:	
- Current lease liabilities	**11,467**
- Non-current lease liabilities	**49,576**

* Non-cancellable leases include those cancellable only: (a) upon the occurrence of some remote contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The right-of use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use assets mostly relate to properties for own use, in particular branches and office buildings.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by GEL 61,043 thousand;
- lease liabilities – increase by GEL 61,043 thousand.

The net impact on retained earnings on 1 January 2019 was nil.

IFRS 16 subsequent recognition and policies

As at 31 December 2019, the balances of Right of the use asset and the Lease liability are GEL 59,693 thousand and GEL 59,898 thousand respectively. The interest charge on lease liabilities presented within interest expense amounted GEL 2,670 thousand, recognized within interest expense. During 2019, the weighted average lease term was approximately 5 years and depreciation expense of right-of-use assets amounted GEL 13,311 thousand.

TBCG predominantly enters into lease contracts, or contracts that include lease components, as a lessee of real estate, including offices, retail branches and service centers. TBCG identifies non-lease components of a contract and accounts for them separately from lease components.

When TBCG is lessee in a lease arrangement, TBCG recognizes a lease liability and corresponding right-of-use (RoU) asset at the commencement of the lease term when TBCG acquires control of the physical use of the asset. The lease liability is measured based on the present value of the lease payments over the lease term, discounted using TBCG's incremental borrowing rate. Interest expense on the lease liability is presented within Interest expense from financial instruments. The RoU asset is recorded at an amount equal to the lease liability but is adjusted for rent prepayments, initial direct costs, any costs to refurbish the leased asset or lease incentives received. The RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within depreciation expense in statement of comprehensive income.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

Lease payments generally include fixed payments. When the lease contains an extension or termination option that the Group considers reasonably certain to be exercised, the expected rental payments or costs of termination are included within the lease payments used to generate the lease liability. TBCG does not typically enter into leases with purchase options or residual value guarantees.

Where TBCG acts as lessor or sublessor under a finance lease, a receivable is recognized and measured at amortized cost at an amount equal to the present value of the aggregate of the lease payments plus any unguaranteed residual value that TBCG expects to recover at the end of the lease term.

Initial direct costs are also included in the initial measurement of the lease receivable. Lease payments received during the lease term are allocated as repayments of the outstanding receivable.

Interest income reflects a constant periodic rate of return on TBCG's net investment using the interest rate implicit in the lease (or, for subleases, the rate for the head lease). TBCG reviews the estimated unguaranteed residual value annually, and if the estimated residual value to be realized is less than the amount assumed at lease inception, a loss is recognized for the expected shortfall. Where TBCG acts as a lessor or sublessor in an operating lease of owned real estate, TBCG recognizes the operating lease income on a straight-line basis over the lease term.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following at initial recognition:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture or the items below the market value of around GEL 15,000.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

The Group also determines non-cancellable lease period for leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Group's operations.

As for the adoption date management has reassessed expected lease terms for the branch offices. The assessment was performed by retail sales department taking into account a few criteria, namely: location, profitability and strategic importance of the branch offices. Based on the analysis performed, management identified and recorded expected terms for the lease contracts, subject to lease extension options that are reasonably certain to be exercised. As at 31 December 2019, the Group has reassessed expected terms for existing lease contracts in line with standard requirements.

Adoption of other IFRS.

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle.

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 2019 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC.

Major new IFRSs

IFRS 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.

6. CASH AND CASH EQUIVALENTS

In thousands of GEL	**2019**	2018	2017
Cash on hand	**650,700**	491,928	419,605
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	**35,133**	118,749	371,342
Correspondent accounts and overnight placements with other banks	**191,420**	371,902	571,078
Placements with and receivables from other banks with original maturities of less than three months	**126,360**	184,429	69,452
Total gross amount of cash and cash equivalents	**1,003,613**	1,167,008	1,431,477
Less: Credit loss allowance	**(29)**	(97)	-
Total carrying amount of cash and cash equivalents	**1,003,584**	1,166,911	1,431,477

85% of the correspondent accounts and overnight placements with other banks are placed with OECD (The Organization for Economic Co-operation and Development) banking institutions (31 December 2018: 95%; 31 December 2017: 97%).

As of 31 December 2019 GEL 11,348 thousand was placed on interbank term deposits with one non-OECD bank and GEL 115,012 thousand with one OECD banks (31 December 2018: GEL 13,383 thousand with one non-OECD bank and GEL 171,046 thousand with two OECD bank; 31 December 2017: GEL 12,421 thousand with one non-OECD bank and GEL 57,031 thousand with one OECD bank). Interest rate analysis of cash and cash equivalents is disclosed in Note 37.

The credit-rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	**2019**	2018	2017
AA	**-**	5,883	-
A+	**66,805**	249,802	271,366
A	**13,816**	4,628	62,434
A-	**-**	-	213,247
BBB+	**20,286**	93,450	3,235
BBB	**69,302**	-	383
BBB-	**-**	873	45
BB+	**733**	241	300
BB	**3,680**	208	224
BB-	**12,346**	16,394	15,919
B+	**4,452**	381	442
B	**-**	42	185
Not rated	**-**	-	3,298
Total	**191,420**	371,902	571,078

The 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	**2019**	2018	2017
AAA	**-**	10,021	-
A	**-**	-	-
A-	**115,012**	161,025	-
BBB+	**-**	-	57,031
BB	**1,719**	-	-
B+	**9,629**	13,383	-
Not rated	**-**	-	12,421
Total	**126,360**	184,429	69,452

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used, after introduction of IFRS 9, as of January 2018, for those financial institutions which are not assigned credit ratings country ratings are used. As of 31 December 2019 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (31 December 2018: nil; 2017: nil). For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. As the ECL for 31 December 2018 is measured per IFRS 9, it is not comparable to the prior periods.

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 2019, 2018 and 2017. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

In thousands of GEL	**2019**	2018	2017
AA	**-**	8,913	-
A+	**9,549**	-	-
A	**-**	-	8,632
BBB+	**-**	80	78
BBB	**2,493**	3,838	-
BB+	**-**	4,388	-
BB	**9,045**	-	-
BB-	**5,323**	26,238	4,041
B+	**7,195**	3,194	661
B	**-**	665	1,520
Not rated	**-**	-	24,711
Total	**33,605**	47,316	39,643

As of 31 December 2019 the TBC Bank had no placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2018: one placement with one bank; 2017: one placement with one bank). The total aggregated amount of these placement was nil (2018: GEL 19,311 thousand; 2017: 23,147 thousand) or 40.8% of the total amount due from other (2018: 41%; 2017: 58%).

As of 31 December 2019 GEL 11,836 thousand, (2018: GEL 15,725 thousand; 2017: GEL 13,121 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 37. As the ECL for year 2018 is measured per IFRS 9, it is not comparable to the prior periods.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2019 is GEL 9 thousand (31 December 2018: GEL 39 thousand).

8. MANDATORY CASH BALANCES WITH THE NATIONAL BANK OF GEORGIA

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 9.0%, 1.25% and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in 2019 (2018: 6.0%, 0.8% and (0.6%) in GEL, USD and EUR respectively; 2017: 5.0%, 0.6% and (0.4%) in GEL, USD and EUR respectively).

In February 2019 Fitch Ratings has upgraded Georgia's Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-'. The outlook is a stable. The issue ratings on Georgia's long-term senior unsecured foreign and local-currency bonds are also upgraded to 'BB' from 'BB-'. The Country Ceiling is upgraded to 'BBB-' from 'BB' and the Short-term Foreign and Local-Currency IDRs affirmed at 'B'.

9. LOANS AND ADVANCES TO CUSTOMERS

In thousands of GEL	**2019**	2018	2017
Corporate loans	**4,660,473**	3,177,289	2,475,392
Consumer loans	**1,884,006**	1,989,516	2,163,425
Mortgage loans	**3,169,197**	2,709,183	2,069,728
Loans to micro, small and medium enterprises	**2,948,279**	2,496,594	1,844,672
Total gross loans and advances to customers at AC	**12,661,955**	10,372,582	8,553,217
Less: credit loss allowance	**(312,556)**	(334,130)	(227,864)
Total carrying amount of loans and advances to customers at AC	**12,349,399**	10,038,452	8,325,353

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit loss allowance as at 31 December 2019 and 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017.

As of 31 December 2019 loans and advances to customers carried at GEL 474,480 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2018: GEL 228,454 thousand; 2017: GEL 246,267 thousand).

In 2019, the Group has reassessed its definition of segments as disclosed in Note 29. Some of the clients were reallocated to different segments. Comparative information as of 31 December 2018 has not been updated due to impracticability.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. It should be noted, that
  - Movement does not include exposures which were issued and repaid during the period;
  - For loans, which existed at the beginning of the period, opening exposures are disclosed as transfer amounts;
  - For newly issued loans, starting exposures are disclosed as transfer amount
  - For the exposures which changed stage several times during the period, transfers between starting and ending stage is disclosed.
- New originated or purchased gives us information regarding gross loans and corresponding credit impairment losses issued during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- The line, derecognised during the period refers to starting balance of loans which were repaid or written-off during the period (gross exposure and corresponding credit impairment losses, however, exposures which were issued and repaid during the period and repaid by newly issued refinancing loans are excluded);
- Net repayments refers to net changes in gross carrying amounts, consisting of withdrawal of loan and repayment;
- Net write offs refer to write off of loans during the period, and net of written off and recoveries of already written off loans for ECL
- Foreign exchange translations of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary.
- Net remeasurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations.

For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases is disclosed as nil.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(126,154)	137,126	(10,972)	**-**	(2,876)	5,184	(2,308)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(27,531)	(5,261)	32,792	**-**	(2,914)	(192)	3,106	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	72,484	(71,151)	(1,333)	**-**	2,806	(2,806)	-	**-**
New originated or purchased	1,638,709	-	-	**1,638,709**	25,355	-	-	**25,355**
Derecognised during the period	1,988	(31,192)	(13,862)	**(43,066)**	(2,544)	(1,064)	(9,094)	**(12,702)**
Net repayments	(186,958)	(70,285)	(27,812)	**(285,055)**	-	-	-	**-**
Resegmentation	55,356	711	-	**56,067**	176	76	-	**252**
Net Write-offs	-	-	-	**-**	-	-	630	**630**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(14,698)	(4,398)	991	**(18,105)**
Foreign exchange movements	103,478	5,746	7,305	**116,529**	908	175	2,732	**3,815**
At 31 December 2019	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**2,041,538**	**325,919**	**107,935**	**2,475,392**	**21,208**	**15,036**	**31,719**	**67,963**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(93,957)	100,702	(6,745)	-	(1,811)	2,185	(374)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,395)	(85,409)	88,804	-	(32)	(8,341)	8,373	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	129,019	(126,886)	(2,133)	-	3,908	(3,908)	-	-
New originated or purchased	1,787,999	-	-	**1,787,999**	22,031	-	-	**22,031**
Derecognised during the period	(873,776)	(53,958)	(14,720)	**(942,454)**	(9,217)	(3,140)	(21,293)	**(33,650)**
Net repayments	(145,691)	(25,028)	(39,857)	**(210,576)**	-	-	-	-
Other movements	2	-	-	**2**	-	-	-	-
Resegmentation	36,699	488	-	**37,187**	283	-	-	**283**
Net Write-offs	-	-	(321)	**(321)**	-	-	3,269	**3,269**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	-	(3,430)	3,162	21,877	**21,609**
Foreign exchange movements	24,875	2,887	2,298	**30,060**	-	-	-	-
At 31 December 2018	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**2,210,617**	**193,157**	**92,820**	**2,496,594**	19,273	22,379	29,362	**71,014**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(181,576)	186,581	(5,005)	**-**	(3,097)	5,142	(2,045)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(51,354)	(42,338)	93,692	**-**	(2,568)	(6,711)	9,279	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	49,093	(48,292)	(801)	**-**	6,191	(5,872)	(319)	**-**
New originated or purchased	1,312,100	-	-	**1,312,100**	11,981	-	-	**11,981**
Derecognised during the period	(354,274)	(47,777)	(48,874)	**(450,925)**	(2,356)	(2,582)	(6,102)	**(11,040)**
Net repayments	(333,112)	(42,333)	(14,348)	**(389,793)**	-	-	-	**-**
Resegmentation	(55,356)	(786)	-	**(56,142)**	(176)	(78)	-	**(254)**
Net Write-offs	-	-	(28,963)	**(28,963)**	-	-	(12,946)	**(12,946)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(11,134)	6,047	10,948	**5,861**
Foreign exchange movements	54,123	6,487	4,798	**65,408**	227	268	1,034	**1,529**
At 31 December 2019	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**1,630,103**	**149,799**	**64,770**	**1,844,672**	**9,894**	**11,890**	**24,468**	**46,252**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(142,901)	152,463	(9,562)	**-**	(13,479)	15,630	(2,151)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(83,887)	(21,578)	105,465	**-**	(6,489)	(2,130)	8,619	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,601	(30,683)	(918)	**-**	2,973	(2,552)	(421)	**-**
New originated or purchased	1,360,236	-	-	**1,360,236**	21,595	-	-	**21,595**
Derecognised during the period	(528,289)	(61,702)	(49,272)	**(639,263)**	(4,388)	(2,679)	(3,210)	**(10,277)**
Net repayments	(146,754)	(20,622)	788	**(166,588)**	-	-	-	**-**
Other movements	(21)	6	349	**334**	-	-	-	**-**
Resegmentation	75,069	23,747	1,725	**100,541**	4,377	8,457	1,611	**14,445**
Net Write-offs	-	-	(22,004)	**(22,004)**	-	-	(5,664)	**(5,664)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	4,781	(6,245)	5,997	**4,533**
Foreign exchange movements	15,460	1,727	1,479	**18,666**	9	8	113	**130**
At 31 December 2018	**2,210,617**	**193,157**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**1,641,978**	**265,687**	**81,851**	**1,989,516**	42,903	59,245	54,575	**156,723**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(166,459)	176,428	(9,969)	**-**	(16,454)	21,029	(4,575)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(60,362)	(67,012)	127,374	**-**	(5,682)	(16,168)	21,850	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	81,453	(80,023)	(1,430)	**-**	16,851	(16,013))	(838)	**-**
New originated or purchased	641,207	-	-	**641,207**	34,363	-	-	**34,363**
Derecognised during the period	(101,437)	(39,416)	(125,004)	**(265,857)**	3,706	(11,085)	(7,972)	**(15,351)**
Net repayments	(460,554)	(42,061)	109,208	**(393,407)**	-	-	-	**-**
Resegmentation	2,583	1,092	572	**4,247**	15	97	184	**296**
Net Write-offs	-	-	(110,243)	**(110,243)**	-	-	(97,652)	**(97,652)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(38,995)	15,212	78,558	**54,775**
Foreign exchange movements	14,853	2,122	1,568	**18,543**	17	122	663	**802**
At 31 December 2019	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,439**	**44,793**	**133,956**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**1,788,523**	**301,923**	**72,981**	**2,163,427**	**42,066**	**64,309**	**48,195**	**154,570**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(244,838)	253,057	(8,219)	**-**	(34,737)	38,429	(3,692)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(97,030)	(64,020)	161,050	**-**	(28,073)	(16,142)	44,215	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	73,142	(71,235)	(1,907)	**-**	10,012	(9,115)	(897)	**-**
New originated or purchased	1,359,515	109	20	**1,359,644**	65,303	-	-	**65,303**
Derecognised during the period	(794,286)	(96,300)	(52,401)	**(942,987)**	(23,551)	(13,147)	(23,220)	**(59,918)**
Net repayments	(339,487)	(34,337)	32,155	**(341,669)**	-	-	-	**-**
Other movements	1,033	(77)	1,636	**2,592**	-	-	-	**-**
Resegmentation	(109,359)	(24,193)	(1,725)	**(135,277)**	(4,886)	(8,391)	(1,611)	**(14,888)**
Net Write-offs	-	-	(122,095)	**(122,095)**	-	-	(100,885)	**(100,885)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	16,760	3,298	92,489	**112,547**
Foreign exchange movements	4,765	760	356	**5,881**	9	4	(19)	**(6)**
At 31 December 2018	**1,641,978**	**265,687**	**81,851**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(172,796)	182,744	(9,948)	**-**	(384)	3,294	(2,910)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(12,481)	(23,593)	36,074	**-**	(95)	(1,597)	1,692	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	66,513	(64,675)	(1,838)	**-**	2,563	(1,991)	(572)	**-**
New originated or purchased	811,030	-	-	**811,030**	818	-	-	**818**
Derecognised during the period	(81,648)	(46,649)	4,720	**(123,577)**	(137)	(1,796)	(691)	**(2,624)**
Net repayments	(313,332)	(22,613)	(10,568)	**(346,513)**	-	-	-	**-**
Resegmentation	(2,583)	(1,017)	(572)	**(4,172)**	(15)	(94)	(184)	**(293)**
Net Write-offs	-	-	(955)	**(955)**	-	-	3,608	**3,608**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(3,018)	2,172	4,478	**3,632**
Foreign exchange movements	108,419	12,562	3,220	**124,201**	43	532	1,101	**1,676**
At 31 December 2019	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**1,839,707**	**189,887**	**40,136**	**2,069,730**	**1,371**	**9,336**	**12,102**	**22,809**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(144,596)	156,655	(12,059)	**-**	(2,118)	5,254	(3,136)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(14,734)	(20,146)	34,880	**-**	(1,700)	(1,248)	2,948	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	50,917	(50,040)	(877)	**-**	1,717	(1,466)	(251)	**-**
New originated or purchased	1,367,848	-	-	**1,367,848**	3,035	-	-	**3,035**
Derecognised during the period	(480,297)	(67,350)	(8,657)	**(556,304)**	(801)	(2,083)	(1,575)	**(4,459)**
Net repayments	(174,623)	(18,409)	(8,435)	**(201,467)**	-	-	-	**-**
Other movements	211	71	1,807	**2,089**	-	-	-	**-**
Resegmentation	(2,385)	(61)	-	**(2,446)**	(12)	(8)	-	**(20)**
Net Write-offs	-	-	(3,576)	**(3,576)**	-	-	1,963	**1,963**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	195	(632)	1,969	**1,532**
Foreign exchange movements	28,556	3,803	950	**33,309**	9	13	6	**28**
At 31 December 2018	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Movements in the provision for loan impairment during 2019 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Credit Loss allowance as of 1 January 2019	**81,505**	**156,723**	**24,888**	**71,014**	**334,130**
Resegmentation effect	**767**	**-**	**-**	**(767)**	**-**
Credit loss allowance during the year	**(3,261)**	**74,581**	**2,742**	**7,968**	**82,030**
Amounts written off during the period as uncollectible	**-**	**(110,243)**	**(955)**	**(28,963)**	**(140,161)**
Recoveries	**630**	**12,591**	**4,563**	**16,017**	**33,801**
Effect of translation to presentation currency	**-**	**64**	**115**	**383**	**562**
Foreign exchange movements	**1,109**	**240**	**352**	**493**	**2,194**
Credit Loss allowance as of 31 December 2019	**80,750**	**133,956**	**31,705**	**66,145**	**312,556**

Loans and advances to customers written off in 2019 included loans to customers in the gross amount of GEL 39,464 thousand issued in 2019, out of which, none was previously issued performance guarantee transformed into loan in 2019 and GEL 100,697 thousand was issued in previous years.

Movements in the provision for loan impairment during 2018 were as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 31 December 2017	49,626	121,538	17,577	39,123	227,864
IFRS 9 effect	18,337	33,032	5,232	7,129	63,730
Credit Loss allowance as of 1 January 2018	67,963	154,570	22,809	46,252	291,594
Resegmentation effect	446	(14,889)	(21)	14,464	-
Credit loss allowance during the year	13,416	139,143	5,648	32,194	190,401
Amounts written off during the period as uncollectible	(320)	(122,095)	(3,576)	(22,004)	(147,995)
Effect of translation to presentation currency	-	(6)	28	108	130
Credit Loss allowance as of 31 December 2018	81,505	156,723	24,888	71,014	334,130

Loans and advances to customers written off in 2018 included loans to customers in the gross amount of GEL 43,422 thousand issued in 2018, out of which, none was previously issued performance guarantee transformed into loan in 2018 and GEL 104,573 thousand was issued in previous years.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Movements in the provision for loan impairment during 2017 were as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 1 January 2017	90,100	73,730	23,602	37,591	225,023
(Recovery of)/provision for impairment during the year	(11,088)	130,333	384	21,521	141,150
Amounts written off during the year as uncollectible	(29,386)	(82,601)	(6,507)	(20,265)	(138,759)
Effect of translation to presentation currency	-	76	98	276	450
Provision for loan impairment as of 31 December 2017	49,626	121,538	17,577	39,123	227,864

Loans and advances to customers written off in 2017 included loans to customers in the gross amount of GEL 21,056 thousand issued in 2017, a previously issued performance guarantee of GEL 6 thousand which was transformed into loan in 2017 and GEL 117,697 thousand was issued in previous years.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 37.

In 2018 the Group applied the portfolio provisioning methodology prescribed by IFRS 9. For details please refer to Note 2. For the periods before 1 January 2018, the Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and it created portfolio provisions for impairment losses that were incurred but had not been specifically identified with any individual loan by the end of reporting period.

The table below contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans. For details please refer to Note 2.

For the periods before 1 January 2018, the Group's policy for credit risk management purposes was to classify each loan as 'neither past due nor impaired', 'past due but not impaired', 'individually assessed impaired loans' and 'collectively assessed impaired loans'. The pool of 'neither past due nor impaired loans' included exposures that were not overdue and were not classified as impaired. 'Past due but not impaired' loans included overdue performing loans but with no objective evidence of impairment identified. The classification included as well triggered loans that were not impaired because the current value of the expected cash and collateral recoveries were sufficient for full repayment. 'Individually assessed impaired loans' included exposures which were assessed for impairment on an individual basis, and an ad-hoc impairment allowance was created. 'Collectively assessed impaired loans' included exposures for which objective evidence of impairment was identified and the respective collective impairment allowance was created.

The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

Individually assessed impaired loans' include exposures which are impaired and individual impairment is applied based on individual assessment. 'Collectively assessed impaired loans' include exposures for which default triggers were identified and the respective collective impairment allowance was created. Both individually and collectively impaired loans are classified as stage 3 exposures. The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2019:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	4,094,403	7,882	-	**4,102,285**
- Low	339,960	75,872	-	**415,832**
- Moderate	322	19,827	-	**20,149**
- High	-	828	-	**828**
- Default	-	-	121,379	**121,379**
Gross carrying amount	**4,434,685**	**104,409**	**121,379**	**4,660,473**
Credit loss allowance	(39,153)	(1,969)	(39,628)	**(80,750)**
Carrying amount	**4,395,532**	**102,440**	**81,751**	**4,579,723**
Consumer loans risk category				
- Very low	1,107,490	5,436	-	**1,112,926**
- Low	330,361	17,620	-	**347,981**
- Moderate	155,411	176,815	-	**332,226**
- High	-	16,946	-	**16,946**
- Default	-	-	73,927	**73,927**
Gross carrying amount	**1,593,262**	**216,817**	**73,927**	**1,884,006**
Credit loss allowance	(36,724)	(52,439)	(44,793)	(133,956)
Carrying amount	**1,556,538**	**164,378**	**29,134**	**1,750,050**
Mortgage loans risk category				
- Very low	2,668,691	17,970	-	**2,686,661**
- Low	182,049	80,289	-	**262,338**
- Moderate	22,986	121,743	-	**144,729**
- High	-	11,167	-	**11,167**
- Default	-	-	64,302	**64,302**
Gross carrying amount	**2,873,726**	**231,169**	**64,302**	**3,169,197**
Credit loss allowance	(1,471)	(9,686)	(20,548)	**(31,705)**
Carrying amount	**2,872,255**	**221,483**	**43,754**	**3,137,492**
Loans to MSME risk category				
- Very low	2,223,262	23,114	-	**2,246,376**
- Low	407,106	87,244	-	**494,350**
- Moderate	19,893	80,947	-	**100,840**
- High	-	13,394	-	**13,394**
- Default	-	-	93,319	**93,319**
Gross carrying amount	**2,650,261**	**204,699**	**93,319**	**2,948,279**
Credit loss allowance	(18,341)	(18,593)	(29,211)	**(66,145)**
Carrying amount	**2,631,920**	**186,106**	**64,108**	**2,882,134**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2018:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	2,712,885	6,417	-	**2,719,302**
- Low	189,086	130,798	-	**319,884**
- Moderate	1,344	1,238	-	**2,582**
- High	-	260	-	**260**
- Default	-	-	135,261	**135,261**
Gross carrying amount	**2,903,315**	**138,713**	**135,261**	**3,177,289**
Credit loss allowance	(32,940)	(4,994)	(43,571)	**(81,505)**
Carrying amount	**2,870,375**	**133,719**	**91,690**	**3,095,784**
Consumer loans risk category				
- Very low	1,118,057	3,371	-	**1,121,430**
- Low	349,406	19,874	-	**369,280**
- Moderate	174,530	212,707	-	**387,237**
- High	-	29,719	-	**29,719**
- Default	-	-	81,850	**81,850**
Gross carrying amount	**1,641,993**	**265,673**	**81,850**	**1,989,516**
Credit loss allowance	(42,903)	(59,245)	(54,575)	**(156,723)**
Carrying amount	**1,599,090**	**206,428**	**27,275**	**1,832,793**
Mortgage loans risk category				
- Very low	2,268,634	20,051	-	**2,288,685**
- Low	177,274	62,060	-	**239,334**
- Moderate	24,695	104,550	-	**129,245**
- High	-	7,749	-	**7,749**
- Default	-	-	44,170	**44,170**
Gross carrying amount	**2,470,603**	**194,410**	**44,170**	**2,709,183**
Credit loss allowance	(1,697)	(9,165)	(14,026)	**(24,888)**
Carrying amount	**2,468,906**	**185,245**	**30,144**	**2,684,295**
Loans to MSME risk category				
- Very low	1,865,077	16,285	-	**1,881,362**
- Low	324,306	72,742	-	**397,048**
- Moderate	21,342	84,520	-	**105,862**
- High	-	19,502	-	**19,502**
- Default	-	-	92,820	**92,820**
Gross carrying amount	**2,210,725**	**193,049**	**92,820**	**2,496,594**
Credit loss allowance	(19,301)	(22,379)	(29,334)	**(71,014)**
Carrying amount	**2,191,424**	**170,670**	**63,486**	**2,425,580**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

For description of the credit risk grading used in the tables above refer to Note 37.

Analysis by credit quality of loans outstanding as of 31 December 2017 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Neither past due nor impaired					
- Borrowers with credit history over two years	1,679,029	1,556,495	1,679,495	1,134,503	6,049,522
- New borrowers	708,038	479,433	338,456	619,528	2,145,455
Total neither past due nor impaired	2,387,067	2,035,928	2,017,951	1,754,031	8,194,977
Past due but not impaired					
- 1 to 30 days overdue	-	41,088	15,089	31,598	87,775
- 31 to 90 days overdue	-	26,433	10,620	13,395	50,448
- 91 to 180 days overdue	23,029	165	-	-	23,194
- 181 to 360 days overdue	-	116	-	-	116
- More than 360 days overdue	-	48	-	-	48
Total past due but not impaired	23,029	67,850	25,709	44,993	161,581
Individually assessed impaired loans					
- Not overdue	39,443	-	-	2,420	41,863
- 1 to 30 days overdue	10,351	-	-	-	10,351
- 31 to 90 days overdue	4,455	-	-	-	4,455
- 91 to 180 days overdue	48	-	-	-	48
- 181 to 360 days overdue	-	-	-	-	-
- More than 360 days overdue	8,740	-	-	-	8,740
Total individually assessed impaired loans	63,037	-	-	2,420	65,457
Collectively assessed impaired loans					
- Not overdue	1,266	6,669	5,912	6,744	20,591
- 1 to 30 days overdue	668	2,605	5,097	2,897	11,267
- 31 to 90 days overdue	-	4,078	5,595	3,542	13,215
- 91 to 180 days overdue	-	28,609	2,561	10,009	41,179
- 181 to 360 days overdue	-	10,246	4,335	8,969	23,550
- More than 360 days overdue	325	7,440	2,568	11,067	21,400
Total collectively assessed impaired loans	2,259	59,647	26,068	43,228	131,202
Total loans and advances to customers (before impairment)	2,475,392	2,163,425	2,069,728	1,844,672	8,553,217
Total provision	(49,626)	(121,538)	(17,577)	(39,123)	(227,864)
Total loans and advances to customers	2,425,766	2,041,887	2,052,151	1,805,549	8,325,353

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Economic sector risk concentrations within the customer loan portfolio are as follows

	31 December 2019		31 December 2018		31 December 2017	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**5,046,804**	**40%**	4,677,328	45%	4,198,386	49%
Energy & Utilities	**1,089,643**	**9%**	776,204	7%	719,854	9%
Hospitality & Leisure	**988,467**	**8%**	759,605	7%	450,741	5%
Real Estate	**1,076,102**	**8%**	564,197	5%	453,415	5%
Food Industry	**785,539**	**6%**	570,810	6%	524,286	7%
Trade	**616,475**	**5%**	445,290	4%	394,495	5%
Construction	**576,923**	**5%**	359,549	3%	233,771	3%
Agriculture	**498,783**	**4%**	418,432	4%	269,844	3%
Healthcare	**305,152**	**2%**	220,756	2%	172,255	2%
Services	**212,661**	**2%**	180,045	2%	108,186	1%
Pawn Shops	**203,633**	**2%**	278,384	3%	279,410	3%
Automotive	**183,912**	**1%**	156,241	2%	160,795	2%
Transportation	**134,223**	**1%**	80,075	1%	96,427	1%
Metals and Mining	**99,321**	**1%**	100,855	1%	84,419	1%
Financial Services	**96,430**	**1%**	71,617	1%	87,501	1%
Communication	**43,329**	**0%**	229,522	2%	114,032	1%
Other	**704,558**	**5%**	483,672	5%	205,400	2%
Total loans and advances to customers (before impairment)	**12,661,955**	**100%**	10,372,582	100%	8,553,217	100%

As of 31 December 2019 the Group had 239 borrowers (2018: 170 borrowers; 2017: 142 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 4,443,036 thousand (2018: GEL 3,054,314 thousand; 2017: GEL 2,437,750 thousand) or 35.1% of the gross loan portfolio (2018: 29.4%; 2017: 28.5%).

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, shares, 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 2019:

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	3,682,456	8,481,849	978,017	310,419
Consumer loans	950,847	2,232,728	933,159	37,658
Mortgage loans	2,949,426	6,171,802	219,771	107,183
Loans to micro, small and medium enterprises	2,579,002	5,983,285	369,277	164,979
Total	**10,161,731**	**22,869,664**	**2,500,224**	**620,239**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral as of 31 December 2018:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	2,857,207	6,516,492	320,082	47,249
Consumer loans	1,213,594	2,543,720	775,922	34,242
Mortgage loans	2,663,362	5,404,518	45,821	28,934
Loans to micro, small and medium enterprises	2,340,847	5,324,290	155,747	68,110
Total	**9,075,010**	**19,789,020**	**1,297,572**	**178,535**

The effect of collateral as of 31 December 2017:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	2,129,927	5,194,598	345,465	97,386
Consumer loans	908,387	2,132,566	1,255,038	25,781
Mortgage loans	2,042,001	4,429,201	27,727	17,189
Loans to micro, small and medium enterprises	1,688,438	3,970,931	156,234	146,949
Total	**6,768,753**	**15,727,296**	**1,784,464**	**287,305**

The financial effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collateral 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 595,464 thousand, GEL 625,719 thousand and GEL 527,498 thousand as of 31 December 2019, 2018 and 2017 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 37. Information on related party balances is disclosed in Note 44. As of 31 December 2019 gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL 844 thousand (As of 31 December 2018: GEL 196 thousand).

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The figures below represent Investment securities measured at FVOCI under IFRS 9 since 1 January 2018, previously classified under available-for-sale category under IAS 39. The credit loss allowance as at 31 December 2019 and as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017.

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME CONTINUED

In thousands of GEL	**2019**	2018	2017
Corporate bonds	**611,694**	549,477	328,761
Ministry of Finance of Georgia Treasury Bills	**330,096**	373,447	319,745
Certificates of Deposit of the National Bank of Georgia	**40,346**	14,985	7,728
Ministry of Finance of Uzbekistan Treasury Bills	**1,596**	-	-
Netherlands Government Bonds	**-**	66,760	-
Less: Credit loss allowance	**(1,438)**	(1,136)	-
Total debt securities	**982,294**	1,003,533	656,234
Corporate shares – unquoted	2,999	1,706	1,704
Total investment securities measured at fair value through other comprehensive income	**985,293**	1,005,239	657,938

All debt securities except for corporate bonds, Uzbekistan treasury bills and Netherlands government bonds were 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 October 2019). Latest country ratings for Uzbekistan and Netherlands stand at BB- and AAA respectively. 56.7% of corporate bonds are issued by triple A rated international financial institutions, 19.7% of corporate bonds are issued by A rated international financial institutions and 6.0% of corporate bond are issued at BB- rating, whereas 17.4% and 0.2% of corporate bonds are issued by B+ and B- rated corporations respectively. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. At 1 January 2018, the Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. In 2017, these investments were classified as AFS. Refer to Note 2 for details. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

As of 31 December 2019 investment securities measured at fair value through other comprehensive income carried at GEL 696,961 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2018: GEL 613,466 thousand; 2017: GEL 424,892 thousand). Refer to Note 19. None of the debt securities measured at fair value through other comprehensive income are overdue or impaired. As of 31 December 2019 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

	Nature of business	**Country of registration**	**Carrying value as of 31 December**		
In thousands of GEL			**2019**	2018	2017
JSC GRDC	Property development	Netherlands Antilles	**365**	365	365
Georgian Stock Exchange	Stock exchange	Georgia	**21,11**	1,004	1,004
Other			**523**	337	335
Total			**2,999**	1,706	1,704

The movements in investment securities measured at fair value through other comprehensive income are as follows:

In thousands of GEL	Note	**2019**	2018	2017
Carrying amount as of 1 January		**1,005,239**	657,938	430,703
Transfers from bonds carried at amortised cost		**27,241**	-	-
Purchases		**1,781,817**	717,630	560,226
Disposals		**(240,603)**	(14,781)	-
Redemption at maturity		**(1,598,534)**	(370,571)	(345,748)
Revaluation		**(15,156)**	6,949	5,489
Interest income accrued	30	**74,043**	57,057	43,735
Interest income received		**(58,539)**	(48,442)	(36,214)
Effect of translation to presentation currency		**10,087**	595	(158)
Transfer to investments in associate		**-**	-	(95)
Change in credit loss allowance*		**(302)**	(1,136)	-
Carrying amount as of 31 December		**985,293**	1,005,239	657,938

**For the purpose of ECL measurement, securities balances are included in Stage 1. Refer to Note 37 for the ECL measurement approach.*

11. BONDS CARRIED AT AMORTISED COST

In thousands of GEL	**2019**	2018	2017
Ministry of Finance Treasury Bills	**1,023,459**	654,618	424,876
Certificates of Deposit of the National Bank of Georgia	**-**	-	24,662
Georgian Government notes	**-**	-	-
Corporate bonds	**1,131**	500	-
Less: Credit loss allowance	**(1,906)**	(915)	-
Total bonds carried at amortised cost	**1,022,684**	654,203	449,538

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 October 2019).

The movements in bonds carried at amortised cost are as follows:

In thousands of GEL	**2019**	2018	2017
Carrying amount as of 1 January	**654,203**	449,538	372,956
Transfers to investment securities at FVOCI	**(27,241)**	-	-
Purchases	**614,000**	396,217	307,248
Redemption at maturity	**(216,667)**	(200,658)	(242,380)
Interest income accrual	**58,682**	40,625	32,328
Interest income received	**(59,316)**	(30,611)	(20,601)
Effect of translation to presentation currency	**14**	7	(13)
Change in credit loss allowance	**(991)**	(915)	-
Carrying amount as of 31 December	**1,022,684**	654,203	449,538

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 37.

As of 31 December 2019 bonds carried at amortised cost of GEL 579,142 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2018: GEL 212,337 thousand; 2017: GEL 223,860 thousand). Refer to Note 19.

None of the bonds carried at amortised cost as of 31 December 2019, 31 December 2018 and 31 December 2017 were either overdue or impaired. For the purpose of ECL measurement securities balances are included in Stage 1. Refer to Note 37 for the ECL measurement approach. As the ECL for year 2019 is measured per IFRS 9, it is not comparable to the prior periods.

12. OTHER FINANCIAL ASSETS

In thousands of GEL	**2019**	2018	2017
Receivables from sales of repossessed assets	**32,844**	43,671	6,619
Receivables on guarantees / letters of credit	**1,695**	36,869	20,983
Prepayments for purchase of leasing assets	**3,866**	32,293	25,478
Insurance and reinsurance receivables	**26,177**	21,451	15,742
Receivables on credit card services and money transfers	**21,895**	14,390	26,703
Receivable on terminated leases	**21,837**	12,651	8,961
Trade receivable	**4,921**	8,292	13,862
Rental income receivables	**2,833**	3,492	4,414
Bank assurance income receivable	**-**	2,527	15,923
Factored receivables	**-**	-	6,182
Foreign exchange forward contracts	**2,087**	1,490	1,767
Other	**46,450**	18,486	17,530
Total gross amount of other financial assets	**164,605**	195,612	164,164
Less: Credit loss allowance	**(30,869)**	(28,094)	(18,020)
Total carrying amount of other financial assets	**133,736**	167,518	146,144

The credit loss allowance as at 31 December 2019 and as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017.

12. OTHER FINANCIAL ASSETS CONTINUED

Movements in the credit loss allowance of other financial assets during 2019 were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Credit loss allowance as of 1 January 2019	**9,377**	**18,717**	**28,094**
Credit loss allowance during the year	**5,382**	**(1,102)**	**4,280**
Amounts written off during the year as uncollectible	**-**	**(1,489)**	**(1,489)**
Foreign exchange translation gains less losses	**-**	**(16)**	**(16)**
Credit loss allowance as of 31 December 2019	**14,759**	**16,110**	**30,869**

The credit loss allowance as at 31 December 2019 and as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017.

Movements in the provision for impairment of other financial assets during 2018 were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 31 December 2017	6,234	11,786	18,020
IFRS 9 effect	-	1,019	1,019
Credit loss allowance as of 1 January 2018	6,234	12,805	19,039
Credit loss allowance during the year	3,143	12,097	15,240
Amounts written off during the year as uncollectible	-	(6,404)	(6,404)
Foreign exchange translation gains less losses	-	219	219
Credit loss allowance as of 31 December 2018	9,377	18,717	28,094

Additions less releases recorded in profit or loss for credit loss allowance of other financial assets include write-off of insurance debtors in the amount of GEL 163 thousand that were included in insurance and reinsurance receivables.

Movements in the provision for impairment of other financial assets during 2017 were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2017	4,666	1,994	6,660
Provision for impairment during the year	1,568	10,645	12,213
Amounts written off during the year as uncollectible	-	(1,011)	(1,011)
Recovery of amounts previously written off	-	189	189
Foreign exchange translation gains less losses	-	(31)	(31)
Provision for impairment as of 31 December 2017	6,234	11,786	18,020

Additions less releases recorded in profit or loss for provision for of other financial assets include write-off of insurance debtors in the amount of GEL 226 thousand that were included in insurance and reinsurance receivables.

12. OTHER FINANCIAL ASSETS CONTINUED

As at 31 December 2019 and 2018, presentation of other financial assets gross carrying amount and credit loss allowance by IFRS 9 stages is as follows:

	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**126,785**	**74**	**47,302**	**174,161**	**13,144**	**14**	**14,936**	**28,094**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(21)	23	(2)	-	(4)	4	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(55)	(15)	70	-	(1)	(15)	16	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	47	(47)	-	-	4	(4)	-	-
New originated or purchased	106,839	-	-	106,839	21,675	-	-	21,675
Changes to ECL measurement model assumptions	-	-	-	-	31	(6)	1,448	1,473
Derecognised during the period	(115,851)	(11)	(30,852)	(146,714)	(16,642)	13	(2,255)	(18,884)
Net repayments	4,022	-	355	4,377	-	-	-	-
Net Write-offs	-	-	(1,489)	(1,489)	-	-	(1,489)	(1,489)
Foreign exchange movements	123	1	1,130	1,254	-	-	-	-
At 31 December 2019	**121,889**	**25**	**16,514**	**138,428**	**18,207**	**6**	**12,656**	**30,869**

	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2017	**115,149**	**174**	**33,099**	**148,422**	**9,099**	**1**	**8,920**	**18,020**
IFRS 9 effect	-	-	-	-	796	31	192	**1,019**
At 1 January 2018	**115,149**	**174**	**33,099**	**148,422**	**9,895**	**32**	**9,112**	**19,039**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(48)	48	-	-	(3)	3	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5,013)	(17)	5,030	-	(81)	(4)	85	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	210	(86)	(124)	-	57	(20)	(37)	**-**
New originated or purchased	50,343	13	35,855	86,211	4,439	1	5,596	**10,036**
Changes to ECL measurement model assumptions	-	-	-	-	(653)	8	7,707	**7,062**
Derecognised during the period	(26,787)	(44)	(1,243)	(28,074)	(510)	(6)	(1,342)	**(1,858)**
Net repayments	(6,070)	(14)	(130)	(6,214)	-	-	-	**-**
Net Write-offs	-	-	(16,772)	(16,772)	-	-	(6,404)	**(6,404)**
Foreign exchange movements	(999)	-	(8,413)	(9,412)	-	-	219	**219**
At 31 December 2018	**126,785**	**74**	**47,302**	**174,161**	**13,144**	**14**	**14,936**	**28,094**

12. OTHER FINANCIAL ASSETS CONTINUED

The credit quality of Other Financial Assets is as follows at 31 December 2019:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Other Financial Assets risk category				
- Very low	121,589	1	-	**121,590**
- Low	219	1	-	**220**
- Moderate	81	23	-	**104**
- High	-	-	-	**-**
- Default	-	-	16,514	**16,514**
Gross carrying amount	**121,889**	**25**	**16,514**	**138,428**
Credit loss allowance	**(18,207)**	**(6)**	**(12,656)**	**(30,869)**
Carrying amount	**103,682**	**19**	**3,858**	**107,559**

The credit quality of Other Financial Assets is as follows at 31 December 2018

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Other Financial Assets risk category				
- Very low	126,540	18	-	**126,558**
- Low	238	39	-	**277**
- Moderate	7	17	-	**24**
- High	-	-	-	**-**
- Default	-	-	47,302	**47,302**
Gross carrying amount	**126,785**	**74**	**47,302**	**174,161**
Credit loss allowance	**(13,144)**	**(14)**	**(14,936)**	**(28,094)**
Carrying amount	**113,641**	**60**	**32,366**	**146,067**

12. OTHER FINANCIAL ASSETS CONTINUED

The table below illustrates the credit quality of other financial assets:

In thousands of GEL	31 December 2017
Neither past due nor impairment	
- Prepayments for purchase of leasing assets	25,478
- Insurance and Reinsurance Receivables	15,742
- Receivables on credit card services and money transfers	26,703
- Trade receivable	13,862
- Receivables from sales of repossessed assets	6,481
- Rental income receivables	4,414
- Bank assurance income receivable	15,923
- Receivables on guarantees / letters of credit	2,990
- Factored receivables	6,182
- Other	14,120
Total neither past due nor impaired	**131,895**
Past due but not impaired	
- Receivables on guarantees	
- More than 90 days overdue	16,773
Total past due but not impaired	**16,773**
Receivables individually determined to be impaired (gross)	
- Receivables on terminated leases	8,961
- Less than 90 days overdue	-
- More than 90 days overdue	8,961
- 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
- Less than 90 days overdue	-
- More than 90 days overdue	138
- Other receivables	5,177
- Less than 90 days overdue	-
- More than 90 days overdue	5,177
Total individually impaired (gross)	**15,496**
Less credit loss allowance	**(18,020)**
Total other financial assets	**146,144**

Credit rating of other financial assets neither past due nor impaired is as follows:

In thousands of GEL	**2017**
A+	13,003
A	4,116
BBB+	6,265
BBB	-
BB	217
BB-	7
B+	4,332
B-	-
B	726
Not rated	103,229
Total	**131,895**

12. OTHER FINANCIAL ASSETS CONTINUED

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 1,531 thousand (2018: GEL 1,484 thousand; 2017: GEL 1,206 thousand). The remaining assets are not collateralised.

13. NET INVESTMENTS IN LEASE

As of 31 December 2019 net investments in lease of GEL 256,660 thousand (2018: GEL 203,802 thousand; 2017: GEL 143,836 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
Lease payments receivable as of 31 December 2019	**147,959**	**193,143**	**341,102**
Unearned finance income	(41,969)	(39,688)	(81,657)
Credit loss allowance	(1,430)	(1,355)	(2,785)
Present value of lease payments receivable as of 31 December 2019	**104,560**	**152,100**	**256,660**
Lease payments receivable as of 31 December 2018	122,056	148,623	270,679
Unearned finance income	(32,981)	(30,294)	(63,275)
Credit loss allowance	(1,789)	(1,813)	(3,602)
Present value of lease payments receivable as of 31 December 2018	87,286	116,516	203,802
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

For fair values refer to Note 42.

The credit loss allowance as at 31 December 2019 and as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017. The table below illustrates the movements in the credit loss allowance of net investment in lease:

13. NET INVESTMENTS IN LEASE CONTINUED

The following table discloses the changes in the credit loss allowance and gross carrying amount for net Investments in lease between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,045**	**205**	**1,352**	**3,602**	**178,171**	**10,861**	**18,372**	**207,404**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(14)	14	-	-	(5,951)	6,598	(647)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(27)	(65)	92	-	(22,099)	(2,941)	25,040	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(1)	-	-	4,968	(2,972)	(1,996)	-
New originated or purchased	1,319	89	81	1,489	138,634	18,663	5,836	163,133
Derecognised during the period	(858)	(154)	(1,536)	(2,548)	(55,562)	(4,849)	(10,407)	(70,818)
Partial repayment	-	-	-	-	(38,828)	(2,253)	(9,448)	(50,529)
Net repayments	(467)	8	701	242	-	-	-	-
Foreign exchange movements	-	-	-	-	2,622	170	1,022	3,814
Other movements	-	-	-	-	3,660	522	2,259	6,441
At 31 December 2019	**1,999**	**96**	**690**	**2,785**	**205,615**	**23,799**	**30,031**	**259,445**

	Credit loss allowance				Gross carrying amount			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2017	**519**	**51**	**928**	**1,498**	**128,500**	**11,610**	**5,224**	**145,334**
IFRS 9 effect	345	394	-	739	-	-	-	-
At 1 January 2018	864	445	928	2,237	128,500	11,610	5,224	**145,334**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(9)	9	-	-	(3,996)	4,078	(82)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(367)	(20)	387	-	(10,605)	(4,533)	15,138	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	357	(357)	-	-	1,052	(1,033)	(19)	-
New originated or purchased	1,350	108	256	1,714	120,992	7,208	5,165	**133,365**
Derecognised during the period	(103)	(81)	(717)	(901)	(36,040)	(5,372)	(3,541)	**(44,953)**
Partial repayment	-	-	-	-	(24,985)	(1,468)	(4,887)	**(31,340)**
Net repayments	(47)	101	498	552	-	-	-	-
Foreign exchange movements	-	-	-	-	1,250	94	289	**1,633**
Other movements	-	-	-	-	2,003	277	1,085	**3,365**
At 31 December 2018	**2,045**	**205**	**1,352**	**3,602**	**178,171**	**10,861**	**18,372**	**207,404**

13. NET INVESTMENTS IN LEASE CONTINUED

The Group applied the portfolio provisioning methodology prescribed by IFRS 9 for the periods beginning 1 January 2018 and IAS 39 for the periods before 1 January 2018 and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors taken into account to consider whether or not a lease is impaired are the deterioration of the lessee's financial position, its overdue status, and liquidity of the leased asset.

The 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").

Per IFRS 9 impairment methodology, the Company classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – credit-impaired exposures.

For stage 1 exposures the Company creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

For the Stage 2 classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition;

Default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

The Group incorporates forward looking information (FLI) for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Group derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Refer to Note 37 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Group calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

13. NET INVESTMENTS IN LEASE CONTINUED

As at 31 December 2019, credit quality of net investment in lease is analysed below:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Net Investments in Lease risk category				
- Very low	175,468	-	-	175,468
- Low	30,147	13,688	-	43,835
- Moderate	-	6,361	-	6,361
- High	-	3,750	-	3,750
- Default	-	-	30,031	30,031
Gross carrying amount	**205,615**	**23,799**	**30,031**	**259,445**
Credit loss allowance	**(1,999)**	**(96)**	**(690)**	**(2,785)**
Carrying amount	**203,616**	**23,703**	**29,341**	**256,660**

As at 31 December 2018, credit quality of net investment in lease is analysed below:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Net Investments in Lease risk category				
- Very low	145,220	-	-	145,220
- Low	32,951	2,350	-	35,301
- Moderate	-	6,712	-	6,712
- High	-	1,799	-	1,799
- Default	-	-	18,372	18,372
Gross carrying amount	**178,171**	**10,861**	**18,372**	**207,404**
Credit loss allowance	**(2,045)**	**(205)**	**(1,352)**	**(3,602)**
Carrying amount	**176,126**	**10,656**	**17,020**	**203,802**

Credit quality of net investment in lease as at 31 December 2017 is analysed below:

In thousands of GEL	31 December 2017
Neither past due nor impaired	
- Customers with more than two year experience	22,705
- New customers	90,668
Total neither past due nor impaired	113,373
Past due but not impaired	
- Less than 30 days overdue	19,047
-31 days to 90 days overdue	9,310
Total past due but not impaired	28,357
impaired leases	
- 31 days to 90 days overdue	343
- From 91 to 180 days	2,204
- From 181 to 360 days	339
- More than 360 days	718
Total impaired gross*	3,604
Total investment in lease	145,334
Impairment loss provision	(1,498)
Total net investment in lease	143,836

*Total impaired leases include both collectively and individually impaired leases

13. NET INVESTMENTS IN LEASE CONTINUED

The effect of collateral as of 31 December 2019:

	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	**228,651**	**365,934**	**30,794**	**22,292**
Total	**228,651**	**365,934**	**30,794**	**22,292**

The effect of collateral as of 31 December 2018:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	166,362	253,582	41,042	34,527
Total	**166,362**	**253,582**	**41,042**	**34,527**

The effect of collateral as of 31 December 2017:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	96,015	153,813	49,319	9,710
Total	**96,015**	**153,813**	**49,319**	**9,710**

14. OTHER ASSETS

In thousands of GEL	**2019**	2018	2017
Current other assets			
Repossessed collateral	**152,109**	120,663	116,809
Prepayments for other assets	**33,664**	29,027	9,721
Prepayments for purchase of leasing assets	**31,426**	-	-
Other inventories	**6,965**	4,198	4,194
Prepaid taxes other than income tax	**2,890**	856	5,788
Total current other assets	**227,054**	154,744	136,512
Non-current other assets			
Reinsurer's Assets	**6,968**	14,529	8,342
Assets repossessed from terminated leases	**6,321**	10,819	3,210
Assets purchased for leasing purposes	**190**	6,985	2,733
Prepayments for construction in progress	**10,401**	2,259	2,745
Prepaid insurance of leasing assets	**2,876**	2,174	1,884
Other	**1,902**	1,282	1,225
Total non-current other assets	**28,658**	38,048	20,139
Total other assets	**255,712**	192,792	156,651

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired. In 2019, collateral repossessed for settlement of impaired loans amounted to GEL 78.9 million (2018: GEL 30million; 2017: GEL 53 million).

With regards to certain repossessed collateral, the Group has granted previous owners a right to repurchase the repossessed collateral 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 24 months from the reporting date, during this time the repossessed collateral may not be disposed to third parties. As of 31 December 2019, the carrying value of the repossessed collateral subjected to the repurchase agreement was GEL 62,578 thousand (2018: GEL 44,024 thousand; 2017: GEL 11,170 thousand).

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of GEL	Land, Premises and leasehold improvements	Office and Other equipment*	Construction in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 1 January 2017	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 1 January 2017	186,950	73,918	53,164	314,032	60,957	374,989
Additions	5,684	26,440	48,663	80,787	34,877	115,664
Transfers within premises and equipment	11,326	-	(11,326)	-	-	-
Transfer from investment property	1,114	-	-	1,114	-	1,114
Disposals	(2,324)	(9,638)	-	(11,962)	(88)	(12,050)
Effect of translation to presentation currency -Cost	25	54	-	79	11	90
Impairment charge to profit and loss	(6)	(730)	(46)	(782)	(1,916)	(2,698)
Depreciation/amortisation charge	(5,567)	(20,096)	-	(25,663)	(10,436)	(36,099)
Elimination of accumulated depreciation/amortisation on disposals	747	8,636	-	9,383	30	9,413
Effect of translation to presentation currency - Accumulated depreciation	(25)	(50)	-	(75)	57	(18)
Carrying amount as of 31 December 2017	197,924	78,534	90,455	366,913	83,492	450,405
Cost or valuation as of 31 December 2017	233,118	191,762	90,455	515,335	123,834	639,169
Accumulated depreciation/ amortisation including accumulated impairment loss	(35,194)	(113,228)	-	(148,422)	(40,342)	(188,764)
Carrying amount as of 31 December 2017	197,924	78,534	90,455	366,913	83,492	450,405
Additions	8,804	46,619	8,538	63,961	42,525	106,486
Business combination	3,607	301	-	3,908	-	3,908
Transfers within premises and equipment	2,661	-	(2,661)	-	-	-
Transfer from investment property	-	-	1,317	1,317	-	1,317
Transfer to investment property	-	-	(32,628)	(32,628)	-	(32,628)
Disposals	(4,160)	(22,945)	-	(27,105)	(603)	(27,708)
Revaluation	10,635	-	114	10,749	-	10,749
Effect of translation to presentation currency - Cost	23	23	-	46	11	57
Impairment charge to profit and loss	(474)	(21)	(4)	(499)	-	(499)
Depreciation/amortisation charge	(5,754)	(22,548)	-	(28,302)	(16,257)	(44,559)
Elimination of accumulated depreciation/amortisation on disposals	348	8,783	-	9,131	58	9,189

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

In thousands of GEL	Note	Land, Premises and leasehold improvements	Office and Other equipment*	Construction in progress	Total premises and equipment	Intangible Assets	Total
Effect of translation to presentation currency - Accumulated depreciation		(22)	35	-	13	(6)	7
Carrying amount as of 31 December 2018		213,592	88,781	65,131	367,504	109,220	476,724
Cost or valuation as of 31 December 2018		254,214	215,739	65,131	535,084	165,767	700,851
Accumulated depreciation/ amortisation including accumulated impairment loss		(40,622)	(126,958)	-	(167,580)	(56,547)	(224,127)
Carrying amount as of 31 December 2018		213,592	88,781	65,131	367,504	109,220	476,724
Additions		4,359	27,862	24,946	57,167	70,319	127,486
Business combination	45	1,027	857	-	1,884	4,782	6,666
Transfers within premises and equipment		3,597	36	(3,633)	-	-	-
Transfer from investment property	17	-	-	1,817	1,817	-	1,817
Transfer to Financial leases or repossessed assets		-	(1,439)	-	(1,439)	-	(1,439)
Disposals		(6,020)	(11,805)	(4,785)	(22,610)	(753)	(23,363)
Effect of translation to presentation currency - Cost		48	75	-	123	23	146
Impairment charge to profit and loss		-	44	(6)	38	-	38
Depreciation/amortisation charge		(5,761)	(22,869)	-	(28,630)	(16,604)	(45,234)
Elimination of accumulated depreciation/amortisation on disposals		1,582	8,393	-	9,975	635	10,610
Effect of translation to presentation currency - Accumulated depreciation		(48)	(45)	-	(93)	(25)	(118)
Carrying amount as of 31 December 2019		**212,376**	**89,890**	**83,470**	**385,736**	**167,597**	**553,333**
Cost or valuation as of 31 December 2019		257,340	232,071	83,470	572,881	240,468	813,349
Accumulated depreciation/ amortisation including accumulated impairment loss		(44,964)	(142,181)	-	(187,145)	(72,871)	(260,016)
Carrying amount as of 31 December 2019		**212,376**	**89,890**	**83,470**	**385,736**	**167,597**	**553,333**

*Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment.

The depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

The latest valuation date of premises to market value is 30 November 2018. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

The management considers that the fair value has not changed significantly between 30 November 2018 and 31 December 2019. Fair value of respective assets is disclosure below.

In thousands of GEL (except for range of inputs)	**Fair value as of 30 November 2018 (valuation date)**	**Valuation technique**	**Other key information**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	153,590	Sales comparison approach	Land	Price per square meter	287 – 10,274 (577)
			Buildings		670 – 5,257 (2,715)
Branches	98,737	Sales comparison approach	Land	Price per square meter	7 – 4,057 (235)
			Buildings		337 – 12,911 (2,982)

Sensitivity of the input to fair value – increase/(decrease) in the price per square metre would result in increase/(decrease) in fair value.

As of 31 December 2019 the carrying amount of premises would have been GEL 165,491 thousand (2018: GEL 166,707 thousand; 2017: GEL 144,778 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2019 the carrying amount of construction in progress would have been GEL 60,581 thousand (2018: GEL 42,243 thousand; 2017: GEL 67,033 thousand) had the assets been carried at cost less impairment losses.

16. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Group leases offices, branches and service centers. Rental contracts are typically made for fixed periods of 1 to 15 years.

Until 31 December 2018 leases of premises were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

In thousands of GEL	**Buildings**	**Total**
Carrying amount at 1 January 2019	**61,043**	**61,043**
Additions	20,437	**20,437**
Disposals	(8,476)	**(8,476)**
Depreciation charge	(13,311)	**(13,311)**
Carrying amount at 31 December 2019	**59,693**	**59,693**

Interest expense on lease liabilities was GEL 2,670 thousand.

Expenses relating to short-term leases (included in in administrative and other operating expenses) and to leases of low-value assets that are not shown as short-term leases are included in in administrative and other operating expenses:

In thousands of GEL	**2019**
Expense relating to short-term leases	7,388
Expense relating to leases of low-value assets that are not shown above as short-term leases	6,154

Total cash outflow for leases in 2019 was GEL 16,066 thousand.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

17. INVESTMENT PROPERTIES

In thousands of GEL	Note	2019	2018	2017
Gross book value as of 1 January		**86,884**	83,871	99,347
Accumulated depreciation as of 1 January		**(2,588)**	(4,639)	(3,732)
Carrying amount as of 1 January		**84,296**	79,232	95,615
Transfer to premises and equipment	15	**(1,817)**	(1,317)	(1,143)
Transfer from repossessed collateral		**4,914**	4,625	752
Transfer to repossessed collateral		**-**	-	(590)
Addition from foreclosure		**47**	-	943
Disposals at cost		**(13,507)**	(36,080)	(15,438)
Elimination of depreciation on disposal		**717**	3,232	259
Depreciation charge		**(933)**	(1,181)	(1,166)
Acquisition through business combination	45	**-**	3,157	-
Transfer from Premises and equipment		**-**	32,628	-
Effect of translation to presentation currency		**(1,050)**	-	-
Gross book value as of 31 December		**76,521**	86,884	83,871
Accumulated depreciation as of 31 December		**(3,854)**	(2,588)	(4,639)
Carrying amount as of 31 December		**72,667**	84,296	79,232

As of 31 December 2019, investment properties comprised of 63 lots (2018: 73 lots; 2017: 102lots) of land and 111 buildings (2018: 127 buildings; 2017: 144 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 123,325 thousand (2018: GEL 97,425 thousand; 2017: GEL 85,012 thousand).

For disclosure purposes a fair valuation exercise was carried out for investment properties as of 31 December 2019. The valuation in 2019 and 2018 was carried out by external valuators (in 2017 by internal valuators) who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	**Fair value as of 31 December 2019 (valuation date)**	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Land	60,946	Sales comparison approach	Price per square meter	0.80 – 974 (88)
Buildings	62,379	Sales comparison approach	Price per square meter	3.92 – 4,098 (960)

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

In thousands of GEL	2019	2018	2017
Not later than 1 year	**207**	185	177
Later than 1 year and not later than 5 years	**230**	-	-
Total operating lease payments receivable	**437**	185	177

18. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	Note	2019	2018	2017
Carrying amount as of 1 January		**31,286**	28,658	28,658
Acquisition of subsidiaries	45	**30,272**	2,628	-
Carrying amount as of 31 December		**61,558**	31,286	28,658

18. GOODWILL CONTINUED

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	**2019**	2018	2017
JSC Bank Republic*	**24,166**	24,166	24,166
Bank Republic Retail	**11,088**	11,088	11,088
Bank Republic Corporate	**7,491**	7,491	7,491
Bank Republic MSME	**4,791**	4,791	4,791
Bank Republic Other	**796**	796	796
LLC Bonaco	**2,567**	2,567	-
JSC Swoop	**61**	61	-
CGU Micro	**769**	769	769
JSC United Financial Corporation	**695**	695	695
LLC TBC Kredit	**1,262**	1,262	1,262
JSC TBC Insurance	**1,766**	1,766	1,766
LLC Inspired (Note 45)	**14,015**	-	-
LLC F Solution LLC	**270**	-	-
LLC My.ge (Note 45)	**15,812**	-	-
LLC TKT.ge	**175**	-	-
Total carrying amount of goodwill	**61,558**	31,286	28,658

*Due to the Bank Republic merger in 2017, carrying amount of goodwill was allocated across multiple CGU's of the Bank, that also equal to the operating and reporting segments.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

In thousands of GEL	**2019**	2018	2017
JSC Bank Republic**			
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	5.54% p.a.	4.17% p.a.
Pre-tax discount rate	**16.50% p.a.**	20.27% p.a.	18.71% p.a.
CGU SME / JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	5.54% p.a.	4.17% p.a.
Pre-tax discount rate	**10.36 p.a.**	13.06% p.a.	12.01% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	5.54% p.a.	4.17% p.a.
Pre-tax discount rate	**15.51% p.a.**	18.31% p.a.	18.16% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	**2.7% p.a.**	1.3% p.a.	1.3% p.a.
Pre-tax discount rate	**16.37% p.a.**	24.57% p.a.	31.35% p.a.
JSC TBC Insurance			
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	5.54% p.a.	4.17% p.a.
Pre-tax discount rate	**17.49% p.a.**	18.24% p.a.	18.15% p.a.
LLC Bonaco			
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	-	-
Pre-tax discount rate	**10.17% p.a.**	-	-
LLC My.ge			
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	-	-
Pre-tax discount rate	**17.49% p.a.**	-	-
LLC Inspired			
Growth rate beyond five years of Free Cash Flow to equity	**5.5 p.a.**	-	-
Pre-tax discount rate	**21.14% p.a.**	-	-

**Assumptions related to JSC Bank Republic are similar for all related CGU's.

18. GOODWILL CONTINUED

Goodwill Impairment Test *(continued)* The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average long term 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 goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 3,068,466 thousand (2018: GEL 84,111 thousand; 2017: GEL 781,330 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 39.87% p.a. (2018: 21.77% p.a.; 2017: 29.92% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 2,316,056 thousand (2018: GEL 850,072 thousand; 2017: GEL 402,679 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 36.34% p.a. (2018: 38.86% p.a.; 2017: 27.97% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 1,210,045 thousand (2018: GEL 461,500 thousand; 2017: GEL 246,759 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 36.52% p.a. (2018: 35.83% p.a.; 2017: 27.11% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro/JSC Bank Constanta had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2018: nil; 2017: nil). Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 732,567 thousand (2018: GEL 913,325 thousand; 2017: GEL 440,075 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.74% p.a. (2018: 48.53% p.a.; 2017: 34.60% 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 goodwill or carrying value of net assets of the CGU (. Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 8,222 thousand (2018: GEL 13,458 thousand; 2017: GEL 17,866 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 19.53% p.a. (2018: 29.8% p.a.; 2017: 39.27% 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 (2018:nil; 2017: nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 192,436 thousand (2018: GEL 277,830 thousand; 2017: GEL 36,420 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 134.64% of p.a.(2018: 132.34% p.a.; 2017: 119.51% 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 (2018: nil; 2017: nil). Recoverable amount of JSC TBC Insurance CGU exceeds its carrying amount by GEL 142,799 thousand (2018: GEL 208,095 thousand; 2017: 51,549). The CGU's carrying amount would equal its value in use at a discount rate of 62.29% p.a. (2018: 111.71% 2017: 63.63%).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Bonaco 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 (2018: nil; 2017: nil). Recoverable amount of LLC Bonaco CGU exceeds its carrying amount by GEL 500,031thousand. The CGU's carrying amount would equal its value in use at a discount rate of 49.45% p.a.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC My.ge 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 (2018: nil; 2017: nil). Recoverable amount of LLC My.ge CGU exceeds its carrying amount by GEL 48,629 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 35.31% p.a..

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Inspired 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 (2018: nil; 2017: nil). Recoverable amount of LLC Inspired CGU exceeds its carrying amount by GEL 22,965 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 37.65% p.a..

19. DUE TO CREDIT INSTITUTIONS

In thousands of GEL	**2019**	2018	2017
Due to other banks			
Correspondent accounts and overnight placements	**27,747**	23,273	21,777
Deposits from banks	**139,267**	136,161	64,441
Short-term loans from banks	**-**	-	-
Total due to other banks	**167,014**	159,434	86,218
Other borrowed funds			
Borrowings from foreign banks and financial institutions	**2,005,900**	2,065,560	1,591,778
Borrowings from local banks and financial institutions	**1,378,995**	769,911	908,271
Borrowings from Ministry of Finance	**536**	1,520	2,914
Borrowings from other financial institutions	**41,456**	35,078	31,533
Total other borrowed funds	**3,426,887**	2,872,069	2,534,496
Total amounts due to credit institutions	**3,593,901**	3,031,503	2,620,714

As of 31 December 2019 for the purposes of maturity analysis of financial liabilities (Note 37) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

20. CUSTOMER ACCOUNTS

In thousands of GEL	**2019**	2018	2017
State and public organisations			
- Current/settlement accounts	**616,397**	667,553	810,783
- Term deposits	**298,177**	538,311	209,641
Other legal entities			
- Current/settlement accounts	**3,151,507**	2,791,092	2,207,630
- Term deposits	**310,558**	251,215	210,498
Individuals			
- Current/demand accounts	**2,712,910**	2,426,597	1,973,685
- Term deposits	**2,959,775**	2,677,374	2,404,580
Total customer accounts	**10,049,324**	9,352,142	7,816,817

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	31 December 2019		31 December 2018		31 December 2017	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**5,672,685**	**56%**	5,103,971	55%	4,378,265	56%
Construction	**596,703**	**6%**	613,973	7%	377,944	5%
Trade	**741,385**	**7%**	550,527	6%	209,339	3%
Government sector	**505,494**	**5%**	531,964	6%	330,356	4%
Transportation	**308,268**	**3%**	422,281	5%	376,333	5%
Energy & Utilities	**322,331**	**3%**	397,653	4%	429,722	5%
Financial Services	**288,860**	**3%**	394,336	4%	379,772	5%
Services	**446,876**	**5%**	360,084	4%	236,128	3%
Real Estate	**322,416**	**3%**	207,227	2%	119,507	2%
Hotels and Leisure	**110,816**	**1%**	102,529	1%	174,777	2%
Healthcare	**98,294**	**1%**	76,464	1%	106,439	1%
Agriculture	**50,915**	**1%**	35,884	0%	29,199	0%
Metals and Mining	**12,264**	**0%**	12,479	0%	16,976	0%
Food Industry	**-**	**0%**	-	0%	175,676	2%
Automotive	**-**	**0%**	-	0%	71,628	1%
Communication	**-**	**0%**	-	0%	50,059	1%
Other	**572,017**	**6%**	542,770	5%	354,697	5%
Total customer accounts	**10,049,324**	**100%**	9,352,142	100%	7,816,817	100%

20. CUSTOMER ACCOUNTS CONTINUED

As of 31 December 2019 the Group had 359 customers (2018: 305 customers; 2017: 261 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 4,327,035 thousand (2018: GEL 4,117,881 thousand; 2017: GEL 3,439,673 thousand) or 43% of total customer accounts (2018: 44%; 2017: 44%).

As of 31 December 2019 included in customer accounts are deposits of GEL 9,555 thousand and GEL 101,615 thousand (2018: GEL 6,766 thousand and GEL 158,306 thousand; 2017: GEL 11,040 thousand and GEL 120,406 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 38. As of 31 December 2019, deposits held as collateral for loans to customers amounted to GEL 469,205 thousand (2018: GEL 270,787 thousand; 2017: 224,899 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.

21. DEBT SECURITIES IN ISSUE

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2019	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish stock exchange	USD	**842,471**	19-Jun-24	5.8%	6.4%
Bonds issued on Irish stock exchange	USD	**371,127**	3-Oct-24	10.8%	11.4%
Total debt securities in issue		**1,213,598**			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2018	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian stock exchange	USD	**7,927**	22-Jul-19	7.3%	8.1%
Bonds issued on Georgian stock exchange	USD	**5,416**	16-May-19	8.0%	8.7%
Total debt securities in issue		**13,343**			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2017	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian stock exchange	USD	**7,637**	22-Jul-19	7.3%	8.1%
Bonds issued on Georgian stock exchange	USD	**5,224**	16-May-19	8.0%	8.7%
Bonds issued on Georgian stock exchange	USD	**7,834**	15-Aug-18	7.8%	8.6%
Total debt securities in issue		**20,695**			

Refer to Note 42 for the disclosure of the fair value of debt securities in issue.

On 19 June 2019 the Bank completed the transaction of a debut USD 300 million 5-year 5.75% (6% yield) senior unsecured bonds issue (the "Notes"). The Notes are listed on the regulated market of Euronext Dublin and are rated Ba2 by Moody's and BB- by Fitch. The Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of senior unsecured Notes from Georgia.

On 3 July 2019 the Bank completed the transaction of a debut inaugural USD 125 million 10.75% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue ("AT1 Notes"). The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch. The AT1 Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of additional Tier 1 Capital Notes from Georgia.

22. PROVISION FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2017	2,635	8,049	5,342	16,026
Charges less releases recorded in profit or loss	(579)	190	(332)	(721)
Assuming guarantees following asset purchase	-	-	(2,116)	(2,116)
Additions through Business Combinations	11	-	-	11
Carrying amount as of 31 December 2017	2,067	8,239	2,894	13,200
IFRS 9 transition effect	684	(4,661)	-	(3,977)
Carrying amount as of 1 January 2018	**2,751**	**3,578**	**2,894**	**9,223**
Charges less releases recorded in profit or loss	1,640	1,846	6,056	9,542
Effect of translation to presentation currency	2	-	-	2
Carrying amount as of 31 December 2018	**4,393**	**5,424**	**8,950**	**18,767**
Charges less releases recorded in profit or loss	**3,069**	**(913)**	**3,305**	**5,461**
Utilization of provision	-	-	**(1,104)**	**(1,104)**
Effect of translation to presentation currency	**4**	**-**	**-**	**4**
Carrying amount as of 31 December 2019	**7,466**	**4,511**	**11,151**	**23,128**

Credit related commitments and performance guarantees: Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

For letter of credits and guarantees allowance estimation purposes the Bank applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 3 guarantees are assessed individually. Non-significant stage 3 as well as all stage 1 and stage 2 guarantees and letter of credits are assessed collectively using exposure, marginal probability of conversion, loss given default and discount factor. Amount of the expected allowance differs based on the classification of the facility in the respective stage.

For impairment allowance assessment purposes for undrawn exposures the Bank distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Bank does not create impairment allowance. As for the irrevocable undisbursed exposures the Bank estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

Once the respective on balance exposure is estimated, the Bank applies the same impairment framework approach as the one used for the respective type of on balance exposures.

Additions less releases recorded in profit or loss for "Other" provisions does not include gross change in total reserves for insurance claims in amount of GEL 2,040 thousand (2018: GEL 1,486 thousand; 2017: GEL 1,621 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 842 thousand (2018: GEL 570 thousand) that are included in charges less releases recorded in profit or loss for "Other" provision.

For the purpose of ECL measurement other guarantees balances are included in mainly Stage 1 or Stage 2. Refer to Note 37 for the ECL measurement approach.

23. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

In thousands of GEL	Note	2019	2018	2017
Security deposits for net investments in lease		**27,094**	22,100	20,647
Trade payables		**23,687**	24,270	31,497
Derivative financial liabilities	41	**20,161**	2,119	575
Debit or credit card payables		**13,259**	19,146	10,567
Insurance Contracts Liabilities		**7,613**	16,839	10,992
Other accrued liabilities		**21,794**	14,240	17,475
Total other financial liabilities		**113,608**	98,714	91,753

Refer to Note 42 for disclosure of the fair value of other financial liabilities.

24. OTHER LIABILITIES

Other financial liabilities comprise the following:

In thousands of GEL	2019	2018	2017
Accrued employee benefit costs	**42,197**	48,393	42,497
Taxes payable other than on income	**10,730**	19,477	14,180
Advances received	**11,260**	10,867	10,350
Unearned insurance premium	**24,156**	17,911	14,221
Other	**6,818**	7,689	3,192
Total other liabilities	**95,161**	104,337	84,440

All of the above liabilities are expected to be settled within twelve months after the year-end.

25. SUBORDINATED DEBT

As of 31 December 2019, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
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	15,305	43,890
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,663	21,975
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,662	21,971
Asian Development Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,585	145,064
Private lenders	8-Jun-17	19-Dec-24	USD	25,218	72,318
Subordinated Bond	17-Aug-18	30-Nov-22	USD	10,101	28,976
Global climate partnership fund	20-Nov-18	20-Nov-28	USD	25,089	71,948
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,006	2,884
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,117	8,940
ResponsAbility Micro and SME finance fund	30-Nov-18	30-Nov-28	USD	5,935	17,020
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-25	USD	14,924	42,797
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-28	USD	14,920	42,786
European Fund for Southeast Europe	21-Dec-18	21-Dec-28	USD	20,074	57,565
Total subordinated debt					**591,035**

25. SUBORDINATED DEBT CONTINUED

As of 31 December 2018, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,509	20,100
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	29,213	78,191
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,161	6,161
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,312	40,983
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,666	20,520
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,665	20,516
Asian Development Bank (ADB)	18-Oct-16	31-Oct-26	USD	50,617	135,482
Private lenders	30-Jun-17	30-Jun-23	USD	25,218	67,497
Subordinated Bond	17-Aug-18	30-Nov-22	USD	10,109	27,057
Global climate partnership fund	20-Nov-18	20-Nov-28	USD	25,111	67,211
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,007	2,695
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,121	8,354
ResponsAbility Micro and SME finance fund	30-Nov-18	30-Nov-28	USD	5,943	15,906
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-25	USD	14,916	39,923
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-28	USD	14,915	39,923
European Fund for Southeast Europe	21-Dec-18	21-Dec-28	USD	20,049	53,663
Total subordinated debt					**650,919**

As of 31 December 2017, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,467	27,134
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,496	19,430
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,577	92,222
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,161	6,161
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,259	39,554
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,640	19,805
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,639	19,802
Asian Development Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,467	130,822
Private lenders	30-Jun-17	30-Jun-23	USD	24,114	62,508
LC Opportunity fund (Thales)	14-Jul-17	5-Dec-18	USD	1,008	2,613
Total subordinated debt					426,788

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.

26. SHARE CAPITAL

In thousands of GEL except for number of shares	Number of ordinary shares	Share capital
As of 1 January 2017	**52,166,703**	**1,581**
Shares issued	516,140	16
Scrip dividend issued	146,903	5
Share exchange	102,121	3
As of 31 December 2017	**52,931,867**	**1,605**
Shares issued	618,640	21
Scrip dividend issued	58,762	2
Share exchange	635,060	22
As of 31 December 2018	**54,244,329**	**1,650**
Shares issued	615,175	22
Scrip dividend issued	296,392	10
As of 31 December 2019	**55,155,896**	**1,682**

As of 31 December 2019 the total authorised number of ordinary shares was 55,155,896 shares (31 December 2018: 54,244,329 shares; 31 December 2017: 52,931,867 shares). Each share has a nominal value of one British Penny. All issued ordinary shares are fully paid and entitled to dividends.

Shares are held by employee benefit trust (EBT) for the purpose of future employee share based payments plan. The number of shares held by trust as at 31 December 2019 comprised 595,380. The EBT has waived its rights to receive dividends on such shares.

On 21 March 2019, 615,175 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of the TBC PLC group long term incentive plan and rank pari passu in all respects with TBC PLC's existing ordinary shares.

On 24 June 2019, at the Annual General Meeting, TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.98 per share, based on the 2018 audited financial statements. The dividend was recorded respectively and on 12 July 2019 shareholders received the payment of the total GEL 91,926 dividends. Scrip dividend shares amounted to 296,392 and were issued on 12th of July.

On 21 May 2018, at the Annual General Meeting, TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.64 per share, based on the 2017 audited financial statements. The dividend was recorded on 24 May 2018 of amount GEL 88,869 thousand and was paid on 22 June 2018 out of which scrip dividend shares amounted to 58,762 and were issued on 22th of June.

On 24 April 2018, 635,060 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of a private offer to the holders of the ordinary shares of JSC TBC Bank who have tendered Bank shares pursuant to the Offer. The holders of Bank shares are individuals that did not participate in the tender offer to holders made in 2016 or 2017 by TBC Bank Group PLC. Holders of Bank shares received one Offer Share for each Bank Share tendered pursuant to the Offer.

On 8 March 2018, 618,640 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of the TBC PLC group long term incentive plan and rank pari passu in all respects with TBC PLC's existing ordinary shares.

On 23 June 2017, 102,121 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of a private offer to the holders of the ordinary shares of JSC TBC Bank who have tendered Bank shares pursuant to the Offer. The holders of Bank shares are individuals that did not participate in the tender offer to holders made in 2016 by TBC Bank Group PLC prior to TBC Bank Group PLC's admission to the premium segment of the London Stock Exchange. Holders of Bank shares received one Offer Share for each Bank Share tendered pursuant to the Offer.

On 5 June 2017, at the Annual General Meeting TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.42 per share, based on the 2016 audited financial statements. The dividend was recorded on 9 June 2017 of amount GEL 74,809 thousand and was paid on 14 July 2017 out of which scrip dividend shares amounted to 146,903 and were issued on 14th of July.

27. SHARE BASED PAYMENTS

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved management compensation scheme for the top and middle management and it accordingly authorised the issue of a maximum 3,115,890 new shares. The system was enforced from 2015 through 2018. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares were awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management also received the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares are 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 were gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme remained conceptually the same and was only updated to reflect the Group's new structure, whereby TBC Bank Group PLC distributes its shares to the scheme's participants, instead of JSC TBC Bank. The respective shares' value is recharged to JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The Bank also payed personal income tax on behalf of equity settled scheme beneficiaries, which was accounted as cash settled part.

The share based payment scheme for middle management and other eligible employees continues under existing terms for 2019-2020.

December 2018 arrangements:

The new compensation system was approved by shareholders at the AGM on 21 May 2018 and came into effect on 1 January 2019. On 28 December 2018, the Board of Directors approved following new compensation schemes for the top management and group considers that as a grant date. Arrangements are discussed in below paragraphs:

Deferred share salary plan

Part of the top management salary is given in the form of shares and despite being salary, is still intended to promote the long-term success of the Group by closely aligning executive directors' and shareholders' interests. The new system is enforced from January 2019 through 2021. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition, the shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Where applicable, deferred share salary is paid in part under the executive director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive director's duties to each. Initial salaries are set by the Remuneration Committee based on responsibilities and market data and are set out in a directors' service contracts with the Group. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

27. SHARE BASED PAYMENTS CONTINUED

Deferred Bonus plan

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. The new system is enforced from January 2019 through 2021. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition the shares are registered in the trustees name as the nominee for the participants and the participants are entitled to receive dividends.

KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year. To the extent that the KPIs are achieved, the Remuneration Committee may decide whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs (but not necessarily their specific weightings) will be disclosed in the annual report published in the performance year. However, the precise targets are commercially sensitive and will be disclosed retrospectively. Awards are subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

Long Term Incentive Plan (LTIP)

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align our executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet performance conditions over the 3 year performance period. The new system will be enforced from 2021 through 2023. Shares are usually delivered during the first quarter of the fourth year (i.e. the year after the performance period ends) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to 2 year holding period and continued employment requirements. An award holder shall have no voting rights, or rights to receive dividends, in respect of a conditional share award before such award becomes a vested award. The awards may be granted in the form of conditional share awards, options or restricted share awards. Performance Conditions are set by the Remuneration Committee for a period of 3 years. The Remuneration Committee determines the level of award at the end of the performance period, based on the extent to which the performance conditions have been met. Awards are subject to the Group's malus and clawback policies until three years after the shares are delivered. If at any time after making the award the award holder deliberately mislead the Company or the Bank in relation to the financial performance, there is a material misstatement (or material error) in the financial statements of the Company or the Bank, the award holder's unit has suffered a material downturn in its financial performance caused by the award holder, there is misconduct on the part of the award holder that caused material harm to the Company's or the Bank's reputation or there is misconduct on the part of the award holder that caused failure of the risk management resulting in a material loss to the Company or the Bank, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) and to clawback any amount that has already been paid. For newly issued and treasury shares, the LTIP is limited to using 10% in 10 years for employee plans and 5% in 10 years for discretionary plans. These limits will exclude shares under awards that have been renounced, forfeited, released, lapsed or cancelled or awards that were granted prior to the Company's IPO or awards that the Remuneration Committee decide will be satisfied by existing shares.

The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

The performance conditions for the award are set by the Committee each year. The Remuneration Committee's current view is that performance conditions will include: 1) a measure of efficiency (e.g. ROE) 2) a measure of share price performance (e.g. EPS/TSR) 3) a measure of customer experience Weightings of these measures may vary year-on-year.The performance period is three year.

27. SHARE BASED PAYMENTS CONTINUED

Tabular information on both of the schemes is given below:

In GEL except for number of shares	**31 December 2019**	31 December 2018	31 December 2017
Number of unvested shares at the beginning of the period	**2,121,129**	2,284,773	2,622,707
Number of shares granted	**1,613,101**	-	-
Change in estimates of number of shares expected to be granted**	**(57,058)**	-	-
Change in estimate of number of shares expected to vest based on performance conditions	**(16,501)**	166,377	(13,100)
Number of shares vested	**(519,130)**	(330,021)	(324,834)
Number of unvested shares at the end of the period	**3,141,541**	2,121,129	2,284,773
Value at grant date per share according to June 2015 scheme (GEL)	**24.64**	24.64	24.64
Value at grant date per share (GEL) middle management and other eligible employees plan	**50.16**	-	-
Value at grant date per share (GEL) Deferred share salary plan	**50.16**	-	-
Value at grant date per share (GEL) Deferred bonus plan	**50.16**	-	-
Value at grant date per share (GEL) LTIP*	**50.16**	-	-
Expense on equity-settled part (GEL thousand)	**33,798**	11,668	10,543
Expense on cash-settled part (GEL thousand)	**59**	8,424	5,119
Expense recognised as staff cost during the period (GEL thousand)	**33,857**	**20,092**	**15,662**

*Grant date for LTIP plan has been determined for the first award tranche only, which is planned in 2021. For remaining tranches expense is accrued based on estimated fair value during the future grant date.
** The maximum amount is fixed for deferred share compensation for top management, the exact number will be calculated as per policy.

Liability in respect of the cash-settled part of the award amounted to GEL 3,160 thousand as of 31 December 2019 (31 December 2018: GEL 11,001 thousand; 31 December 2017: GEL 12,675 thousand). Tax part of the new bonus system for the top management is accounted under equity settled basis.

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 2019 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system and decreased estimated number of shares to vest by 16,501 (31 December 2018: increased by 166,377 shares; 31 December 2017: decreased by 13,100 shares).

In 2019 the Group established employee benefit trust (EBT) set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's share based payments plan. It purchases Group's shares from the open market and holds them before they are awarded to participants and vesting date is due. The number of shares to be purchased and held are instructed by the Group. The shares are presented as treasury shares under Shares held by trust category in the Statement of Financial Position until they are awarded to participants. As at 31 December 2019 the share number held by Trustee was 595,380.

28. 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	**2019**	2018	2017
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)	**537,895**	435,080	354,410
Weighted average number of ordinary shares in issue	**54,684,038**	53,906,472	52,685,702
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**9.8**	8.1	6.7

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year. Ordinary shares with dilutive potential represent those shares that were granted to the participants of the share based payments scheme and are not yet distributed.

In thousands of GEL except for number of shares	**2019**	2018	2017
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)	**537,895**	435,080	354,410
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	**55,129,444**	54,415,642	53,480,632
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**9.8**	8.0	6.6

29. SEGMENT ANALYSIS

The Board of Directors is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. In 2019 the Group made the re-segmentation after which some of the clients were reallocated to different segments – GEL 166 million of loans and customers amount was transferred from MSME to Corporate segment. In the tables below is disclosed the information as of 31 December 2019 both with and without re-segmentation effect.

The operating segments in 2019 and 2018 are determined as follows:

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

The operating segments during the year 2017 were as follows:

- Corporate – all business customers with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other business customers may also be assigned to the Corporate segment on a discretionary basis;
- Micro, small and medium enterprises – all business customers who are not included in Corporate segment; Some other customers may also be assigned to the MSME segment on a discretionary basis;
- Retail – all individual customers not included in the other categories;
- Corporate Centre and Other Operations – comprises of the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax.

The reportable segments are the same as the operating segments.

29. SEGMENT ANALYSIS CONTINUED

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2019, 2018 or 2017.

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 37.

Allocation is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the most related expenses to it (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

A summary of the Group's reportable segments for the years ended 31 December 2019, 2018 and 2017 is provided below:

Per new segmentation:

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
- Interest income	356,652	582,788	299,451	197,952	1,436,843
- interest expense	(160,064)	(152,751)	(10,202)	(340,843)	(663,860)
- Net gains on currency swaps	-	-	-	28,556	28,556
- Inter-segment interest income(expense)	31,352	(66,951)	(101,424)	137,023	-
Net interest income	227,940	363,086	187,825	22,688	801,539
- Fee and commission income	49,338	207,258	26,271	10,564	293,431
- Fee and commission expense	(7,069)	(88,679)	(9,081)	(1,312)	(106,141)
Net Fee and commission income	42,269	118,579	17,190	9,252	187,290
- Insurance Profit	-	-	-	18,510	18,510
- Net gains from trading in foreign currencies	49,851	30,990	24,220	(25,782)	79,279
- Net gains from foreign exchange translation	-	-	-	22,188	22,188
- Net losses from derivative financial instruments	-	(264)	-	(16)	(280)
- Gains less losses from disposal of investment securities measured at FVOCI	-	-	-	169	169
- Other operating income	2,953	9,563	1,093	5,307	18,916
- Share of profit of associates	-	-	-	632	632
Other operating non-interest income	52,804	40,289	25,313	21,008	139,414
- Credit loss allowance for loans to customers	3,261	(77,323)	(7,968)	-	(82,030)
- Credit loss allowance for performance guarantees and credit related commitments	(2,691)	411	124	-	(2,156)
- Credit loss allowance for net investments in lease	-	-	-	582	582
- Credit loss allowance for other financial assets	2,211	(3,545)	(11)	(6,753)	(8,098)
- Credit loss allowance for financial assets measured at FVOCI	(141)	-	-	(149)	(290)
Profit before administrative and other expenses and income taxes	325,653	441,497	222,473	46,628	1,036,251
- Staff costs	(38,360)	(134,143)	(48,018)	(27,282)	(247,803)
- Depreciation and amortisation	(2,571)	(45,522)	(7,210)	(4,175)	(59,478)
- Provision for liabilities and charges	-	-	-	(1,264)	(1,264)
- Administrative and other operating expenses	(17,127)	(77,563)	(21,094)	(26,397)	(142,181)
- **Operating expenses**	(58,058)	(257,228)	(76,322)	(59,118)	(450,726)
- **Profit/(loss) before tax**	267,595	184,269	146,151	(12,490)	585,525
- Income tax (expense)/credit	(29,048)	(18,101)	(14,825)	16,790	(45,184)
- **Profit for the year**	238,547	166,168	131,326	4,300	540,341
Total gross loans and advances to customers reported	4,660,473	5,053,203	2,948,279	-	12,661,955
Total customer accounts reported	3,187,319	5,673,917	1,188,088	-	10,049,324
Total credit related commitments and performance guarantees	2,451,769	205,433	302,648	-	2,959,850

29. SEGMENT ANALYSIS CONTINUED

Per old segmentation:

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
- Interest income	344,107	582,788	311,996	197,952	1,436,843
- interest expense	(159,088)	(152,751)	(11,178)	(340,843)	(663,860)
- Net gains on currency swaps	-	-	-	28,556	28,556
- Inter-segment interest income(expense)	31,352	(66,951)	(101,424)	137,023	-
Net interest income	216,371	363,086	199,394	22,688	801,539
- Fee and commission income	48,516	207,258	27,093	10,564	293,431
- Fee and commission expense	(7,069)	(88,679)	(9,081)	(1,312)	(106,141)
Net Fee and commission income	41,447	118,579	18,012	9,252	187,290
- Insurance Profit	-	-	-	18,510	18,510
- Net gains from trading in foreign currencies	51,671	30,990	22,400	(25,782)	79,279
- Net losses from foreign exchange translation	-	-	-	22,188	22,188
- Net losses from derivative financial instruments	-	(264)	-	(16)	(280)
- Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	169	169
- Other operating income	2,953	9,563	1,093	5,307	18,916
- Share of profit of associates	-	-	-	632	632
Other operating non-interest income	54,624	40,289	23,493	21,008	139,414
- Credit loss allowance for loans to customers	3,261	(77,323)	(7,968)	-	(82,030)
- Credit loss allowance for performance guarantees and credit related commitments	(2,691)	411	124	-	(2,156)
- Credit loss allowance for net investments in lease	-	-	-	582	582
- Credit loss allowance for other financial assets	2,211	(3,545)	(11)	(6,753)	(8,098)
- Credit loss allowance for financial assets measured at fair value through OCI	(141)	-	-	(149)	(290)
Profit before administrative and other expenses and income taxes	315,082	441,497	233,044	46,628	1,036,251
- Staff costs	(38,471)	(135,842)	(48,546)	(24,944)	(247,803)
- Depreciation and amortisation	(2,571)	(45,522)	(7,210)	(4,175)	(59,478)
- Provision for liabilities and charges	-	-	-	(1,264)	(1,264)
- Administrative and other operating expenses	(17,313)	(83,486)	(22,993)	(18,389)	(142,181)
- **Operating expenses**	(58,355)	(264,850)	(78,749)	(48,772)	(450,726)
- **Profit/(loss) before tax**	256,727	176,647	154,295	(2,144)	585,525
- Income tax expense	(29,020)	(17,371)	(14,593)	15,800	(45,184)
- **Profit for the year**	227,707	159,276	139,702	13,656	540,341
Total gross loans and advances to customers reported	4,494,349	5,053,203	3,114,403	-	12,661,955
Total customer accounts reported	3,100,953	5,672,602	1,275,769	-	10,049,324
Total credit related commitments and performance guarantees	2,451,769	205,433	302,648	-	2,959,850

29. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
- Interest income	264,559	609,989	255,833	153,854	1,284,235
- interest expense	(133,302)	(123,729)	(9,710)	(239,472)	(506,213)
- Inter-segment interest income(expense)	35,531	(78,453)	(83,475)	126,397	-
Net interest income	166,788	407,807	162,648	40,779	778,022
- Fee and commission income	40,667	170,082	22,498	2,454	235,701
- Fee and commission expense	(6,661)	(64,270)	(6,861)	(379)	(78,171)
Net Fee and commission income	34,006	105,812	15,637	2,075	157,530
- Insurance Profit	-	-	-	12,275	12,275
- Net gains/(losses) from trading in foreign currencies	44,629	28,811	22,002	(3,764)	91,678
- Net gains from foreign exchange translation	-	-	-	15,196	15,196
- Net gains/(losses) from derivative financial instruments	-	(223)	-	396	173
- Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	2	2
- Other operating income	19,691	8,658	748	2,341	31,438
- Share of profit of associates	-	-	-	1,154	1,154
Other operating non-interest income	64,320	37,246	22,750	27,600	151,916
- Credit loss allowance for loans to customers	(9,826)	(118,043)	(15,854)	-	(143,723)
- Credit loss allowance for performance guarantees and credit related commitments	(2,827)	(412)	(247)	(570)	(4,056)
- Credit loss allowance for net investments in lease	-	-	-	(1,765)	(1,765)
- Credit loss allowance for other financial assets	(8,634)	(3,959)	(2)	(4,014)	(16,609)
- Credit loss allowance for financial assets measured a fair value through other comprehensive income	(95)	-	-	9	(86)
Profit before administrative and other expenses and income taxes	243,732	428,451	184,932	64,114	921,229
- Staff costs	(30,266)	(128,957)	(43,385)	(17,746)	(220,354)
- Depreciation and amortisation	(2,226)	(36,745)	(4,980)	(1,789)	(45,740)
- Provision for liabilities and charges	-	-	-	(4,000)	(4,000)
- Administrative and other operating expenses	(12,616)	(90,329)	(21,184)	(16,806)	(140,935)
- **Operating expenses**	(45,108)	(256,031)	(69,549)	(40,341)	(411,029)
- **Profit before tax**	198,624	172,420	115,383	23,773	510,200
- Income tax expense	(29,907)	(22,898)	(17,250)	(2,710)	(72,765)
- **Profit for the year**	168,717	149,522	98,133	21,063	437,435
Total gross loans and advances to customers reported	3,177,289	4,698,699	2,496,594	-	10,372,582
Total customer accounts reported	3,230,653	5,103,971	1,017,518	-	9,352,142

29. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2017					
- Interest income	203,082	535,851	184,008	110,998	1,033,939
- interest expense	(103,707)	(118,516)	(11,661)	(196,040)	(429,924)
- Inter-segment interest income(expense)	22,489	(73,141)	(51,488)	102,140	-
- **Net interest income**	121,864	344,194	120,859	17,098	604,015
- Fee and commission income	30,037	140,582	20,335	2,990	193,944
- Fee and commission expense	(6,942)	(51,199)	(8,949)	(893)	(67,983)
Net Fee and commission income	23,095	89,383	11,386	2,097	125,961
- Insurance Profit	-	-	-	6,773	6,773
- Net gains/(losses) from trading in foreign currencies	38,885	22,597	26,885	(1,268)	87,099
- Net gains 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 net investments in 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)/credit	(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

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
- Fee and commission income	**49,338**	**207,258**	**26,271**	**10,564**	**293,431**
- Other operating income	**2,952**	**9,563**	**1,093**	**5,308**	**18,916**
Total	**52,290**	**216,821**	**27,364**	**15,872**	**312,347**
Timing of revenue recognition:					
- At point in time	**52,262**	**215,341**	**27,359**	**15,872**	**310,834**
- Over time	**28**	**1,480**	**5**	**-**	**1,513**

29. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
- Fee and commission income	40,667	170,082	22,498	2,454	235,701
- Other operating income	19,691	8,658	748	2,341	31,438
Total	60,358	178,740	23,246	4,795	267,139
Timing of revenue recognition:					
- At point in time	56,397	160,555	22,950	4,790	244,692
- Over time	3,961	18,185	296	5	22,447

Reportable segments' assets were reconciled to total assets as follows:

In thousands of GEL	31 December 2019	31 December 2018	31 December 2017
Total segment assets (gross loans and advances to customers)	**12,661,955**	10,372,582	8,553,217
Credit loss allowance (provision for loan impairment for comparatives)	**(312,556)**	(334,130)	(227,864)
Cash and cash equivalents	**1,003,583**	1,166,911	1,431,477
Mandatory cash balances with National Bank of Georgia	**1,591,829**	1,422,809	1,033,818
Due from other banks	**33,605**	47,316	39,643
Investment securities measured at fair value through other comprehensive income	**985,293**	1,005,239	-
Investment securities available for sale (comparatives only)	**-**	-	657,938
Bonds carried at amortised cost	**1,022,684**	654,203	449,538
Current income tax prepayment	**25,695**	2,116	19,084
Deferred income tax asset	**2,173**	2,097	2,855
Other financial assets	**133,736**	167,518	146,144
Net investments in leases	**256,660**	203,802	143,836
Other assets	**255,712**	192,792	156,651
Premises and equipment	**385,736**	367,504	366,913
Intangible assets	**167,597**	109,220	83,492
Investment properties	**72,667**	84,296	79,232
Goodwill	**61,558**	31,286	28,658
Right of use assets (Net)	**59,693**	-	-
Investments in Associates	**2,654**	2,432	1,278
Total assets per statement of financial position	**18,410,274**	15,497,993	12,965,910

Reportable segments' liabilities are reconciled to total liabilities as follows:

In thousands of GEL	31 December 2019	31 December 2018	31 December 2017
Total segment liabilities (customer accounts)	**10,049,324**	9,352,142	7,816,817
Due to credit institutions	**3,593,901**	3,031,503	2,620,714
Debt securities in issue	**1,213,598**	13,343	20,695
Current income tax liability	**1,634**	63	447
Deferred income tax liability	**21,331**	22,237	602
Provisions for liabilities and charges	**23,128**	18,767	13,200
Other financial liabilities	**173,506**	98,714	91,753
Other liabilities	**95,161**	104,337	84,440
Subordinated debt	**591,035**	650,919	426,788
Total liabilities per statement of financial position	**15,762,618**	13,292,025	11,075,456

30. INTEREST INCOME AND EXPENSE

In thousands of GEL	2019	2018	2017
Interest income calculated using effective interest method			
Loans and advances to customers	**1,225,196**	1,123,972	919,796
Bonds carried at amortised cost	**58,682**	40,625	32,328
Investment securities available for sale	**-**	-	43,735
Investment securities measured at fair value through OCI	**74,043**	57,057	-
Due from other banks	**29,570**	23,744	14,807
Other financial assets	**1,418**	-	-
Other interest income			
Investments in leases	**47,934**	38,837	23,273
Total interest income	**1,436,843**	1,284,235	1,033,939
Interest expense			
Customer accounts	**320,379**	266,741	233,884
Due to credit institutions	**226,899**	196,498	157,122
Subordinated debt	**63,693**	41,571	36,975
Debt securities in issue	**50,248**	1,403	1,943
Other interest expense			
Lease liabilities	**2,670**	-	-
Other	**(29)**	-	-
Total interest expense	**663,860**	506,213	429,924
Net gains on currency swaps	**28,556**	-	-
Net interest income	**801,539**	778,022	604,015

In the year ended 31 December 2019 the interest accrued on impaired loans amounted to GEL 14,372 thousand (2018: 41,373 thousand; 2017: 16,332 thousand).

In 2019, the Group entered into swap agreements denominated in foreign currencies in order to decrease its cost of funding. As the contracts reached significant volume, the Group revisited the presentation of effects in the Statement of profit or loss. 2018 information has not been restated due to immateriality of amounts.

31. FEE AND COMMISSION INCOME AND EXPENSE

In thousands of GEL	2019	2018	2017
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**138,620**	106,067	82,525
- Settlement transactions	**86,967**	70,720	59,739
- Guarantees issued	**28,701**	19,815	15,121
- Cash transactions	**13,211**	17,147	17,424
- Issuance of letters of credit	**5,215**	6,463	5,735
- Foreign exchange operations	**2,841**	2,183	1,339
- Other	**17,876**	13,306	12,061
Total fee and commission income	**293,431**	235,701	193,944
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**82,583**	55,893	46,360
- Settlement transactions	**13,739**	8,669	7,421
- Cash transactions	**4,732**	5,180	4,393
- Guarantees and letters of credit received	**3,627**	2,863	2,873
- Self-service and point of service (POS) terminal transactions	**31**	34	6,436
- Other	**1,429**	5,532	500
Total fee and commission expense	**106,141**	78,171	67,983
Net fee and commission income	**187,290**	157,530	125,961

32. OTHER OPERATING INCOME

In thousands of GEL	2019	2018	2017
Gain from sale of investment properties	**938**	9,781	4,353
Revenues from operational leasing	**3,046**	6,544	6,544
Warrant option	**-**	2,677	-
Gain from sale of repossessed collateral	**2,755**	2,577	2,383
Revenues from sale of cash-in terminals	**926**	1,715	1,093
Revenues from non-credit related fines	**344**	683	1,408
Gain on disposal of premises and equipment	**2,440**	352	1,017
Gain from sale of receivables	**-**	225	4,090
Reimbursement of taxes	**-**	-	2,486
Gain from marketing promotional services	**-**	-	2,077
Other	**8,467**	6,884	6,346
Total other operating income	**18,916**	31,438	31,797

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the repossessed collateral disposed in the year ended 31 December 2019 was GEL 32,306 thousand (2018: GEL 33,295 thousand; 2017: GEL 24,284 thousand).

33. STAFF COSTS

In thousands of GEL	2019	2018	2017
Salaries and bonuses	**201,344**	190,304	182,784
Share based compensation	**33,857**	20,092	15,662
Other compensation cost	**12,602**	9,958	4,654
Salaries and other employee benefits	**247,803**	220,354	203,100

In 2019 the monthly average number of persons employed by the Group was 7,262 people (2018: 7,170; 2017: 6,993). Breakdown of monthly average number of employees by categories is as follows:

In thousands of GEL	2019	2018	2017
Headquarters*	**2,924**	2,837	2,788
Branches*	**3,638**	3,824	3,773
Other administrative staff **	**700**	509	432

* Under monthly average number of employees in headquarters and branches employees in JSC TBC Bank, JSC Bank Republic, JSC TBC Insurance, Bank Constanta JSC and LLC TBC Kredit's are considered.

** Employees from other subsidiaries are considered under other administrative staff.

In 2019 monthly average number of employees in TBC PLC was 10 individuals (2018: 10; 2017: 10).

34. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of GEL	2019	2018	2017
Advertising and marketing services	**22,634**	29,575	18,430
Rent*	**13,541**	24,389	23,132
Professional services	**25,865**	13,951	14,332
Intangible asset enhancement	**12,885**	11,366	10,304
Taxes other than on income	**6,962**	6,757	5,670
Utility services	**6,874**	6,491	6,067
Premises and equipment maintenance	**9,828**	6,098	5,413
Communications and supply	**5,960**	5,173	4,063
Stationery and other office expenses	**5,167**	4,841	4,936
Insurance	**1,660**	4,589	2,461
Business trip expenses	**2,612**	2,273	2,021
Transportation and vehicle maintenance	**2,140**	2,043	1,637
Security services	**2,035**	2,040	1,965
Personnel training and recruitment	**3,120**	1,880	1,444
Charity	**1,990**	1,074	1,045
Loss on disposal of premises and equipment	**938**	860	492
Loss on disposal of inventories	**1,310**	137	1,239
Impairment of intangible assets	**-**	1	1,916
Write down of current assets to fair value less cost to sell	**2,545**	567	2
Reversal of previously written-down current assets to fair value less costs to sell	**(815)**	(1,593)	(540)
Other	**14,930**	18,423	15,501
Total administrative and other operating expenses	**142,181**	140,935	121,530

*2019 information is reported under IFRS 16 and is not comparable with information presented for 2018 and 2017, which irs reported under IAS 17.

34. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Auditors' remuneration is included within professional services expenses above and comprises:

In thousands of GEL	Audit	Audit Related	Other Services	Total
2019				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	**1,427**	**-**	**-**	**1,427**
Audit of the financial statements of the company's subsidiaries	**248**	**-**	**-**	**248**
Audit-related assurance services	**-**	**561**	**-**	**561**
Other assurance services	**-**	**-**	**864**	**864**
Total auditors' remuneration	**1,675**	**561**	**864**	**3,100**
2018				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	1,894	-	-	1,894
Audit of the financial statements of the company's subsidiaries	241	-	-	241
Audit-related assurance services	-	310	-	310
Other assurance services	-	-	97	97
Total auditors' remuneration	**2,135**	**310**	**97**	**2,542**
2017				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	1,145	-	-	1,145
Audit of the financial statements of the company's subsidiaries	296	-	-	296
Audit-related assurance services	-	213	-	213
Other assurance services	-	-	196	196
Total auditors' remuneration	**1,441**	**213**	**196**	**1,850**

Fees presented in the tables above are exclusive of taxes. As of 31 December 2019, GEL 1,125 thousands is attributable to reporting accountant fees related to listing of debt securities on the Irish stock exchange.

35. INCOME TAXES

Income tax expenses comprises of the following:

In thousands of GEL	2019	2018	2017
Current tax charge	**46,166**	52,914	39,313
Deferred tax (credit)/charge	**(982)**	19,851	(4,563)
Total income tax expense for the year	**45,184**	72,765	34,750

The income tax rate applicable to the majority of the Group's income was 15% (2018: 15%; 2017: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2018: 15% - 20%; 2017: 15% - 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	2019	2018	2017
Profit before tax	**585,525**	510,200	394,678
Theoretical tax charge at statutory rate (2019: 15%-20%; 2018: 15%-20%; 2017: 15%-20%)	**87,829**	76,500	59,119
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	**(19,318)**	(16,869)	(12,958)
- Non-deductible expenses	**(2,083)**	(746)	(117)
- Effect of change in tax legislation	**(20,757)**	13,833	(11,794)
- Other differences	**(487)**	47	500
Total income tax expense for the year	**45,184**	72,765	34,750

35. INCOME TAXES CONTINUED

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% (2018: 15%; 2017: 15%) for Georgia and 20% for Azerbaijan and United Kingdom (2018: 20%; 2017: 20%).

Income which is exempt from taxation includes interest income from placements in NBG, Georgian government Treasury bills and IFI securities. Non-deductible expenses include penalties paid and charity expenses towards beneficiary which are not registered charity organizations.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023.The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

As of 31 December 2019, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2020 to 31 December 2022.

In thousands of GEL	1 January 2019	(Credited)/ Charged to profit or loss	Charged directly to other comprehensive income	31 December 2019
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(23,202)	9,386	-	(13,816)
Loan to customers	2,866	(11,688)	-	(8,822)
Other financial assets	2,421	2,300	-	4,721
Due to credit institutions	(3,641)	1,155	-	(2,486)
Subordinated debt	(70)	70	-	-
Other financial liabilities	(41)	833	-	792
Other liabilities	864	(2,664)	-	(1,800)
Share based payment	663	1,590	-	2,253
Net deferred tax asset/(liability)	(20,140)	982	-	(19,158)
Recognised deferred tax asset	2,097	76	-	2,173
Recognised deferred tax liability	(22,237)	906	-	(21,331)
Net deferred tax asset/(liability)	(20,140)	982	-	(19,158)

35. INCOME TAXES CONTINUED

In thousands of GEL	1 January 2018	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2018
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(4,298)	(16,460)	(2,444)	(23,202)
Loan to customers	2,401	417	-	2,866
Other financial assets	2,266	301	-	2,421
Other assets	29	(29)	-	-
Investment property	(342)	342	-	-
Due to credit institutions	(816)	(2,825)	-	(3,641)
Subordinated debt	(23)	(47)	-	(70)
Other financial liabilities	(72)	31	-	(41)
Other liabilities	1,651	(787)	-	864
Share based payment	1,486	(823)	-	663
Tax loss carried forward	(29)	29	-	-
Net deferred tax asset/(liability)	2,253	(19,851)	(2,444)	(20,140)
Recognised deferred tax asset	2,855	(659)	-	2,097
Recognised deferred tax liability	(602)	(19,192)	(2,444)	(22,237)
Net deferred tax asset/(liability)	2,253	(19,851)	(2,444)	(20,140)

In thousands of GEL	1 January 2017	(Credited)/ Charged to profit or loss	Charged directly to other comprehensive income	31 December 2017
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(5,323)	648	377	(4,298)
Loan impairment provision	(92)	2,400	-	2,401
Fair valuation of AFS	165	483	(648)	-
Other financial assets	2,368	(104)	-	2,266
Other assets	39	(10)	-	29
Investment property	(982)	640	-	(342)
Due to credit institutions	(1,295)	479	-	(816)
Subordinated debt	(85)	62	-	(23)
Other financial liabilities	197	(269)	-	(72)
Other liabilities	2,226	(575)	-	1,651
Share based payment	676	810	-	1,486
Tax loss carried forward	(29)	-	-	(29)
Net deferred tax asset/(liability)	(2,135)	4,563	(271)	2,253
Recognised deferred tax asset	3,511	(753)	-	2,855
Recognised deferred tax liability	(5,646)	5,316	(271)	(602)
Net deferred tax asset/(liability)	(2,135)	4,563	(271)	2,253

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.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

	Liabilities from financing activities				
In thousands of GEL	**Other borrowed funds**	**Debt Securities in Issue**	**Subordinated debt**	**Lease liabilities**	**Total**
Liabilities from financing activities 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
Liabilities from financing activities at 1 January 2018	2,534,496	20,695	426,788	-	2,981,979
Cash flows	79,390	(9,308)	171,781	-	241,863
Foreign exchange adjustments	70,883	554	9,958	-	81,395
Other non-cash movements	187,300	1,402	42,392	-	231,094
Liabilities from financing activities at 31 December 2018	**2,872,069**	**13,343**	**650,919**	**-**	**3,536,331**
Adoption of IFRS 16, Leases	-	-	-	61,043	61,043
Liabilities from financing activities at 1 January 2019	**2,872,069**	**13,343**	**650,919**	**61,043**	**3,597,374**
Cash flows	**222,395**	**1,160,729**	**(167,847)**	**(21,417)**	**1,193,860**
Foreign exchange adjustments	**122,591**	**37,362**	**45,533**	**4,108**	**209,594**
Other non-cash movements	**209,832**	**2,164**	**62,430**	**16,164**	**290,590**
Liabilities from financing activities at 31 December 2019	**3,426,887**	**1,213,598**	**591,035**	**59,898**	**5,291,418**

37. FINANCIAL AND OTHER RISK MANAGEMENT

TBC Bank Group's strong risk governance reflects the importance placed by the Board and the Group's Risks, Ethics and Compliance Committee on shaping the risk strategy and managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organization structure: enterprise risk management; credit, financial and non-financial risks management; risk reporting & supporting IT infrastructure; cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensures sustainability and resiliency of the business model and positioning of risk management as Group's competitive advantage and strategic enabler.

The TBC Bank Group's governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. The Risks, Ethics and Compliance Committee is responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the Board. Namely, the committee carries out following duties: 1) Review and assessment of the Group's risk management strategy, risk appetite and tolerance, risk management system and risk policies; 2) Review and monitoring of the processes for compliance with laws, regulations and ethical codes of practice; 3) monitoring of the remediation of internal control deficiencies identified by internal and external auditors around compliance, ethics and risk management functions; 4) Annual self-assessment of the committee's performance and reporting of the results to the Board; 5) Review of the key risk management framework and other policy documents and make recommendations to the Board for their approval.

On the Bank level, risk management is the duty of the Supervisory Board, which has the overall responsibility to set the tone at the top and monitor compliance with established objectives. At the same time, Management Board governs and directs Groups' daily activities.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Both the Supervisory Board and the management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Bank's Risk Appetite, supervises risk profile and risk governance practice within the Bank while Audit Committee is responsible for implementation of key accounting policies and facilitation of activities of internal and external auditors. Management Board Risk Committee is established to guide group-wide risk management activities and monitor major risk trends to make sure risk profile complies with the established Risk Appetite of the Group. Operational Risk Committee makes decisions related to operational risk governance while Asset-Liability Management Committee ("ALCO") is responsible for implementation of ALM policies.

The Board, the Supervisory Board and Senior Management govern risk objectives through Risk Appetite Statement ("RAS") which sets desired risk profile and respective risk limits for different economic environments. Risk Appetite ("RA") establishes monitoring and reporting responsibilities as well as escalation paths for different trigger events and limit breaches which as well prompt risk teams to establish and implement agreed mitigation actions. In order to effectively implement Risk Appetite in the Group's day-to-day operations, the RA metrics are cascaded into more granular business unit level limits. That way risk allocation is established across different segments and activities. The Board level oversight coupled with the permanent involvement of the Senior Management in TBC Group risk management ensures the clarity regarding risk objectives, intense monitoring of risk profile against risk appetite, prompt escalation of risk-related concerns and establishment of remediation actions.

The daily management of individual risks is based on the principle of the three lines of defense. While business lines are primary risk owners, risk teams assume the function of the second line defense. This role is performed through sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees are established at operational levels in charge of making transaction-level decisions that comprise of component of clear and sophisticated delegations of the authority framework based on "four-eye principle". All new products/projects go through the risk teams to assure risks are analyzed comprehensively.

Such control arrangements guarantee that the Bank takes informed risk-taking decisions that are adequately priced, avoiding taking risks that are beyond the Group's established threshold. Within the Risk Organization the below teams manage the credit, liquidity, market, operational and other non-financial risks:

- Enterprise Risk Management (ERM);
- Credit Risk Management;
- Underwriting (Credit sanctioning);
- Restructuring and Collections;
- Financial Risk Management;
- Operational Risk Management.

The strong and independent structure enables fulfillment of all the required risk management functions within the second line of defense by highly skilled professionals with a balanced mix of credentials in banking and real sectors both on the local and international markets.

In addition to the above-mentioned risk teams, the Compliance Department (reporting directly to CEO) is specifically in charge of AML and compliance risk management. As the third line of defense, the Internal Audit Department provides an independent and objective assurance and recommendations to Group that facilitates further improvement of operations and risk management.

For the management of each significant risk, the Bank puts in place specific policies and procedures, governance tools and techniques, methodologies for risk identification, assessment and quantification. Sound risk reporting systems and IT infrastructure are important tools for efficient risk management of TBC Bank. Thus, significant emphasis and investments are made by the Bank to constantly drive the development of required solutions. Comprehensive reporting framework is in place for the Management Board, the Supervisory Board and the Board that enables intense oversight over risk developments and taking early remedial actions upon necessity.

Beyond the described risk governance components, compensation system features one of the most significant tools for introducing incentives for staff, aligned with the Bank's long term interests to generate sustainable risk-adjusted returns. The risk Key Performance Indicators ("KPIs") are incorporated into both the business line and the risk staff remunerations. The performance management framework differentiates risk staff incentives to safeguard the independence from business areas that they supervise and at the same time enable attraction and maintenance of qualified professionals. For that purpose, the Bank overweighs risk KPIs for risk and control staff and caps the share of variable remuneration.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Credit risk. The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values. For maximum exposure on off-balance sheet commitments refer to Note 38.

Credit risks include: risks arising from transactions with individual counterparties, concentration risk, currency-induced credit risks and residual risks.

- Risks arising from transactions with individual counterparties are the loss risk related to default or non-fulfillment of contracts due to deterioration in the counterparty's credit quality;
- Concentration risk is the risk related to the quality deterioration due to large exposures provided to single borrowers or a group of connected borrowers, or loan concentration in certain economic industries;
- Currency-induced credit risks relate to risks arising from foreign currency-denominated loans in the Group's portfolio;
- Residual risks result from applying credit risk-mitigation techniques, which could not satisfy expectation in relation to received collateral.

Comprehensive risk management methods and processes are established as part of the Group's risk management framework to manage credit risk effectively. The main principles for Group's credit risk management are: establish a prudent credit risk environment; operate under a sound credit-granting process; and maintain efficient processes for credit risk identification, measurement, control and monitoring. Respective policies and procedures establish a framework for lending decisions reflecting the Group's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

Credit Approval: The Group strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. The concept of three lines of defense is embedded in the credit risk assessment framework, with a clear segregation of duties among the parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting the different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis with thorough analysis of the borrower's creditworthiness and structure of the loan; whereas smaller retail and micro loans are mostly assessed in an automated way applying respective scoring models for the loan approval. Lending guidelines for business borrowers have been tailored to individual economic sectors, outlining key lending criteria and target ratios within each industry.

The Loan Approval Committees are responsible to review the credit applications and approve the credit products. Different Loan Approval Committees with clearly defined delegation authority are in place for the approval of credit exposures to Corporate, MSME and Retail customers (except those products which are assessed applying scorecards). The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of respective Loan Approval Committees) ensure that the borrower and the proposed credit exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers or exceeding 5% of the Bank's regulatory capital requires the review and the approval of the Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties resulting in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

Credit Risk Monitoring: The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react timely to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as they encompass individual credit exposures, overall portfolio performance and external trends that may impact the portfolios risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Complex monitoring system is in place for monitoring of individual counterparties with frequency of monitoring depending on the borrower's risk profile and exposure. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Watch category is used as one of the qualitative indicators for transferring of exposures to stage 2 for the corporate and SME borrowers. For retail and micro borrowers along with other portfolio level indicators, portfolio breakdown across risk categories is monitored on a regular basis. In case there are indicators that portfolio distribution across risk categories deteriorates above the predefined threshold it might trigger transferring the respective portfolio to stage 2, as long as deterioration signs are in place.

Reports relating to the credit quality of the credit portfolio are presented to the Board's Risk, Ethics and Compliance Committees on a quarterly basis. By comparing current data with historical figures and analysing forecasts, the management believes that it is capable identifying risks and responding to them by amending its policies in a timely manner.

Credit Risk Mitigation: Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, the Group uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The reliance that can be placed on these mitigation factors is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor.

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

Credit Risk Restructuring and Collection: A comprehensive portfolio supervision system is in place to identify weakened or problem credit exposures in a timely manner and to take prompt remedial actions. Dedicated restructuring units manage weakened borrowers across all business segments. The Bank differentiates between two types of restructuring considering the severity of financial weakness of the borrowers. For the measurement of ECL, restructured borrowers may be classified either in Stage 2 or Stage 3. The primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category or to Stage 1. The sophistication and complexity of rehabilitation process differs based on the type and size of exposure.

A centralised monitoring team monitors retail borrowers in delinquency, which coupled with branches' efforts, are aimed at maximizing collection. The specialised software is applied for early collection processes management. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Correcting the delinquency at early stage limits the amount of exposures becoming past due more than 30 days (one of the criteria indicating SICR) and transferred to Stage 2.

Dedicated recovery units manage loans with higher risk profile. Corporate and SME borrowers are transferred to a recovery unit in case of a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Retail and micro loans are generally transferred to the recovery unit or external collection agencies (in the case of unsecured loans) at 90 days overdue, although they may be transferred earlier if it is evident that the borrower is unable to repay the loan.

Credit Quality. Depending on the type of financial asset the Group may utilize different sources of asset credit quality information including credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), credit scoring information from credit bureau and internally developed credit ratings. Financial assets are classified in an internally developed credit quality grades by taking into account the internal and external credit quality information in combination with other indicators specific to the particular exposure (e.g. delinquency). The Group defines following credit quality grades:

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

The rating models are regularly reviewed and back tested on actual default data. The Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Bank uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Bank classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not credit-impaired when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered credit-impaired. The exposures for which the credit-impaired indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by the Bank affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

Definition of default. Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3. For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. The Group's definition of default for the purpose of ECL measurement, is in accordance with the Capital Requirements Regulation (EU).

The Group uses both quantitative and qualitative criteria for the definition of default. The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Factors indicating the borrower's unlikeliness-to-pay.

In case of individually significant borrowers the Bank additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its financial condition, breach of the contract terms etc. For SME and corporate borrowers default is identified on the counterparty level, meaning that all the claims against the borrower are treated as defaulted. As for retail and micro exposures, facility level default definition is applied considering additional pulling effect criteria. If the amount of defaulted exposure exceeds predefined threshold, all the claims against the borrower are classified as defaulted. Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Grace period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage 2 from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

Significant increase in credit risk ("SICR"). Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

Quantitative criteria

On a quantitative basis the Bank assesses change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Qualitative criteria

Financial asset is transferred to Stage 2 and lifetime ECLs is measured if at least one of the following SICR qualitative criteria is observed:

- delinquency period of more than 30 days on contractual repayments;
- exposure is restructured, but is not credit impaired;
- borrower is classified as "watch".

The Group has not rebutted the presumption that there has been significant increase in credit risk since origination when financial asset becomes more than 30 days past due. This qualitative indicator of SICR together with debt restructuring is applied to all segments. Particularly for corporate and SME segment the Group uses downgrade of risk category since origination of the financial instrument as a qualitative indicator of SICR. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Once the borrower is classified as "watch" category it is transferred to Stage 2. If any of the SICR indicators described above occur financial instrument is transferred to Stage 2. Financial asset may be moved back to Stage 1, if SICR indicators are no longer observed.

ECL measurement: The Group utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for credit impaired individually significant borrowers. Additionally, the Bank may arbitrarily designate selected exposures to individual measurement of ECL based on the Bank's credit risk management or underwriting departments' decision.

The Bank uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Bank may utilize scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis the Bank forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

As for the non-significant and non-impaired significant borrowers the Bank estimates expected credit losses collectively. For the collective assessment and risk parameters estimation purposes the exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: Stage (Stage 1, Stage 2 or Stage 3), type of counterparty (individual vs business), type of product, rating (external or internal), overdue status, restructuring status, months in default category or any other characteristics that may differentiate certain sub-segments for risk parameter's estimation purposes. Number of pools differs for different products/ segments considering specifics of portfolio and availability of data within each pool. Collective ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters:

Exposure at default (EAD). The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. For revolving products, the Bank estimates the EAD based on the expected limit utilisation percentage conditional on the default event.

Probability of default (PD). Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. Taking

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

into account specific nature of different segments of clients for which the PD is estimated as well as unique characteristics that drive their default propensity, the PD is modelled differently for Retail and Micro segments and Corporate and SME segments. PD assessment approach is also differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period. Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Group uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

Loss given default (LGD). The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Bank is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied.

Forward-looking information. The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy with weights of 50%, 25% and 25% assigned to each scenario respectively.

To derive the baseline macro-economic scenario, the Group takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF") as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

Model maintenance and validation. The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual credit loss. Such back-testing is performed at least once a year. As part of the back-testing process, the Group evaluates actual realization of the risk parameters and their consistency with the model estimates. Additionally staging criteria are also analysed within the back-testing process. The results of back-testing the ECL measurement methodology are communicated to the Group Management and further actions for tuning the models and assumptions are defined after discussions between authorised persons.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2019 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	701,993	287,079	14,511	1,003,583
Due from other banks	21,538	12,067	-	33,605
Mandatory cash balances with National Bank of Georgia	1,591,829	-	-	1,591,829
Loans and advances to customers	11,775,027	408,217	166,155	12,349,399
Investment securities measured at fair value through OC	985,293	-	-	985,293
Bonds carried at amortised cost	1,022,684	-	-	1,022,684
Investments in leases	255,596	-	1,064	256,660
Other financial assets	132,060	1,431	245	133,736
Total financial assets	16,486,020	708,794	181,975	17,376,789
Non-financial assets	1,029,732	28	3,725	1,033,485
Total assets	17,515,752	708,822	185,700	18,410,274
Liabilities				
Due to credit institutions	1,813,684	1,744,130	36,087	3,593,901
Customer accounts	8,406,484	733,778	909,062	10,049,324
Debt securities in issue	1,213,598	-	-	1,213,598
Other financial liabilities	113,271	329	8	113,608
Lease liabilities	59,898	-	-	59,898
Subordinated debt	100,993	343,861	146,181	591,035
Total financial liabilities	11,707,928	2,822,098	1,091,338	15,621,364
Non-financial liabilities	135,131	829	5,294	141,254
Total liabilities	11,843,059	2,822,927	1,096,632	15,762,618
Net balance sheet position	5,672,693	(2,114,105)	(910,932)	2,647,656
Performance guarantees	603,910	232,328	622,646	1,458,884
Credit related commitments	1,485,032	4,476	11,459	1,500,967

Table above includes geographical concentration by country of incorporation. Loans and advances to OECD and Non-OECD resident customers, as well as to Georgian customers, are issued to the entities most of which are based and performing in Georgia. As at 31 December 2019, out of total net exposure of loans and advances to customers, GEL 12,330,467 thousand is issued to the entities operating in Georgian market, GEL 18,932 thousand operating in other economies.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2018 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	650,575	515,159	1,177	1,166,911
Due from other banks	28,418	12,852	6,046	47,316
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	1,422,809
Loans and advances to customers	9,526,939	121,713	389,800	10,038,452
Investment securities measured at fair value through OCI	1,004,564	-	675	1,005,239
Bonds carried at amortised cost	654,203	-	-	654,203
Investments in leases	202,850	-	952	203,802
Other financial assets	166,899	329	290	167,518
Total financial assets	13,657,257	650,053	398,940	14,706,250
Non-financial assets	788,042	55	3,646	791,743
Total assets	14,445,299	650,108	402,586	15,497,993
Liabilities				
Due to credit institutions	1,154,327	1,811,299	65,877	3,031,503
Customer accounts	7,790,236	697,753	864,153	9,352,142
Debt securities in issue	7,927	-	5,416	13,343
Other financial liabilities	98,379	296	39	98,714
Subordinated debt	94,264	420,031	136,624	650,919
Total financial liabilities	9,145,133	2,929,379	1,072,109	13,146,621
Non-financial liabilities	144,386	525	493	145,404
Total liabilities	9,289,519	2,929,904	1,072,602	13,292,025
Net balance sheet position	5,155,780	(2,279,796)	(670,016)	2,205,968
Performance guarantees	684,810	291,795	219,207	1,195,812
Credit related commitments	870,446	3,751	1,638	875,835

Table above includes geographical concentration by country of incorporation. Loans and advances to OECD and Non-OECD resident customers, as well as to Georgian customers, are issued to the entities most of which are based and performing in Georgia. As at 31 December 2018, out of total net exposure of loans and advances to customers, GEL 10,015,062 thousand is issued to the entities operating in Georgian market, GEL 23,390 thousand operating in other economies.

37. 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**

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As of 31 December 2019, the Bank maintained an aggregate open currency position of 0.5% of regulatory capital (2018: 7.6%; 2017: 1.5%). 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.

On 13 August 2018 the NBG introduced new regulation on changes to OCP calculation method, according to this regulation, from March 2019 special reserves assigned to FC balance-sheet assets would be deductible gradually for OCP calculation purposes and fully implemented by July 2022 in line with the transition period defined by the NBG (according to the amendment disclosed in December 2019).

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. The Bank has in place the methodology developed 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 part of the provisions to be denominated in the FC 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.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

	As of 31 December 2019			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	**Net position**
Georgian Laris	7,502,497	5,706,300	(100,140)	**1,696,057**
US Dollars	6,846,799	8,774,033	1,955,050	**27,816**
Euros	2,970,008	1,035,944	(1,925,463)	**8,601**
Other	57,485	105,087	56,136	**8,534**
Total	**17,376,789**	**15,621,364**	**(14,417)**	**1,741,008**

	As of 31 December 2018				As of 31 December 2017			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Georgian Lari	5,920,867	4,663,300	86,122	1,343,689	4,814,429	3,767,858	164,521	**1,211,092**
US Dollars	7,309,173	7,445,413	323,306	187,066	6,475,155	6,299,024	(153,449)	**22,682**
Euros	1,375,295	948,398	(409,565)	17,332	816,565	805,153	(9,315)	**2,097**
Other	100,915	89,498	(458)	10,959	121,579	104,732	(899)	**15,948**
Total	**14,706,250**	**13,146,609**	**(595)**	**1,559,046**	**12,227,728**	**10,976,767**	**858**	**1,251,819**

US Dollar strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 2,782 (decrease by GEL 2,782). Euro strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 860 (decrease by GEL 860). US Dollar strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2018 by GEL 18,807 (decrease by GEL 18,807). Euro strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 1,733 (decrease by GEL 1,733). US Dollar strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2017 by GEL 2,268 (decrease by GEL 2,268). Euro strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 210 (decrease by GEL 210).

Interest rate risk. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The Bank's deposits and the part of the loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank used to enter also into interest rate swap agreements or apply for other interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Cross-Currency 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.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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 2019					
Total financial assets	6,650,943	5,034,027	1,022,854	5,354,287	**18,062,111**
Total financial liabilities	6,016,285	3,087,372	1,026,326	6,184,815	**16,314,798**
Net interest sensitivity gap as of 31 December 2019	**634,658**	**1,946,655**	**(3,472)**	**(830,528)**	**1,747,313**
31 December 2018					
Total financial assets	4,782,800	3,610,949	1,017,711	5,295,712	**14,707,172**
Total financial liabilities	4,563,135	3,337,999	948,719	4,297,701	**13,147,554**
Net interest sensitivity gap as of 31 December 2018	**219,665**	**272,950**	**68,992**	**998,011**	**1,559,618**
31 December 2017					
Total financial assets	3,427,631	2,449,029	1,069,488	5,302,335	**12,248,483**
Total financial liabilities	4,094,978	2,634,518	1,038,842	3,229,143	**10,997,481**
Net interest sensitivity gap as of 31 December 2017	**(667,347)**	**(185,489)**	**30,646**	**2,073,192**	**1,251,002**

As of 31 December 2019, if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 19.4 million lower (2018: GEL 4.8 million; 2017 GEL 7.4 million;), mainly as a result of lower interest income on variable interest assets. Other comprehensive income would have been GEL 9.4 million higher (2018: GEL 8.6 million; 2017: GEL 6.1 million), as a result of an increase in the fair value of fixed rate financial assets measured at fair value through other comprehensive income and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 20 million higher (2018: GEL 4.8 million; 2017: GEL 7.4 million), mainly as a result of higher interest income on variable interest assets. Other comprehensive income would have been GEL 9.1 million lower (2018: GEL 8.2 million; 2017: GEL 5.9million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

With the assistance of Ernst & Young LLC the Bank has developed an advanced model to manage the interest rate risk on a standalone basis. The interest rate risk analysis is performed monthly by the Financial Risk Management Department.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. TBC Bank closely monitors the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period to ensure compliance with the predefined risk appetite of the Bank.

In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Ethics and Compliance Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

37. 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 set, forth under Basel III, as well as minimum liquidity ratio defined by the NBG. In addition the Bank performs stress tests and "what-if" scenario analysis and minimum liquidity ratio defined by the NBG. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches were applied to Mandatory Reserves' weighting and to the deposits' withdrawal rates depending on the clients group's concentration. From 1st of September, 2017 the Bank also monitors compliance with NBG LCR limits. In 2019, for long-term liquidity risk management purposes NBG introduced Net Stable Funding Ratio (""NBG NSFR"). From September, 2019, on a monthly basis the Bank monitors compliance with the set limit for NBG NSFR.

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 monitors deposit concentration for large deposits and set limits for non-Georgian residents deposits share in total deposit portfolio.

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 deposits and IFI funding within the Bank's risk appetite.

The loan to deposit and IFI funding ratio (defined as total value of net loans divided by total value of deposits and funds received from International financial institutions)) stood at 104.8%, 89.9% and 92.5%, at the 31 December 2019, 2018 and 2017 respectively.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2019' Subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities as of 31 December 2019 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	1,590,089	616,417	3,724,084	435,233	**6,365,823**
Customer accounts – individuals	3,407,952	1,658,316	699,554	27,344	**5,793,166**
Customer accounts – other	3,722,452	339,113	250,328	142,043	**4,453,936**
Other financial liabilities	90,944	10,133	4,917	-	**105,994**
Lease liabilities	4,367	12,509	57,058	11,988	**85,922**
Subordinated debt	2,019	55,182	1,255,291	2,330,270	**3,642,762**
Debt securities in issue	-	-	1,213,598	-	**1,213,598**
Gross settled forwards	1,476,685	552,630	164,099	-	**2,193,414**
Performance guarantees	115,997	332,833	909,502	100,552	**1,458,884**
Financial guarantees and letters of credit	84,103	176,822	89,342	590	**350,857**
Other credit related commitments	1,150,110	-	-	-	**1,150,110**
Total potential future payments for financial obligations	**11,644,718**	**3,753,955**	**8,367,773**	**3,048,020**	**26,814,466**

The maturity analysis of financial liabilities as of 31 December 2018 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	950,084	372,517	1,909,587	187,454	**3,419,642**
Customer accounts – individuals	3,152,851	1,408,710	628,831	27,397	**5,217,789**
Customer accounts – other	3,821,862	208,250	137,275	195,007	**4,362,394**
Other financial liabilities	77,522	21,192	-	-	**98,714**
Subordinated debt	5,267	71,519	388,594	588,197	**1,053,577**
Debt securities in issue	366	13,847	-	-	**14,213**
Gross settled forwards	567,259	16,008	-	-	**583,267**
Performance guarantees	119,959	349,354	671,333	55,166	**1,195,812**
Financial guarantees and letters of credit	9,932	44,703	51,337	-	**105,972**
Other credit related commitments	769,863	-	-	-	**769,863**
Total potential future payments for financial obligations	**9,474,965**	**2,506,100**	**3,786,957**	**1,053,221**	**16,821,243**

The maturity analysis of financial liabilities as of 31 December 2017 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	1,142,865	418,613	1,167,970	151,417	**2,880,865**
Customer accounts – individuals	2,532,039	1,378,835	522,104	40,727	**4,473,705**
Customer accounts – other	3,068,027	192,852	133,236	80,976	**3,475,091**
Other financial liabilities	82,685	8,808	260	-	**91,753**
Subordinated debt	5,060	74,191	198,042	346,703	**623,996**
Debt securities in issue	504	8,814	13,687	-	**23,005**
Gross settled forwards	176,822	5,509	-	-	**182,331**
Performance guarantees	55,914	241,460	306,788	8,135	**612,297**
Financial guarantees and letters of credit	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**

37. 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 2019 the analysis by expected maturities may be 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
Assets					
Cash and cash equivalents	1,003,583	-	-	-	**1,003,583**
Due from other banks	15,193	3,500	14,912	-	**33,605**
Mandatory cash balances with National Bank of Georgia	1,591,829	-	-	-	**1,591,829**
Loans and advances to customers	1,303,711	2,307,064	5,108,650	3,629,974	**12,349,399**
Investment securities measures at fair value through OCI	985,293	-	-	-	**985,293**
Bonds carried at amortised cost	124,006	215,711	555,379	127,588	**1,022,684**
Net investments in lease	34,448	70,398	148,542	3,272	**256,660**
Insurance and Reinsurance Receivables	9,072	17,104	-	-	**26,176**
Other financial assets	104,612	2,946	2	-	**107,560**
Total financial assets	**5,171,747**	**2,616,723**	**5,827,485**	**3,760,834**	**17,376,789**
Liabilities					
Due to Credit institutions	1,573,720	427,794	1,496,459	95,928	**3,593,901**
Customer accounts	1,082,198	174,905	-	8,792,221	**10,049,324**
Debt securities in issue	-	-	1,213,598	-	**1,213,598**
Other financial liabilities	90,944	10,133	4,918	-	**105,995**
Lease liabilities	4,394	8,513	38,831	8,160	**59,898**
Insurance contracts liabilities	1,850	5,763	-	-	**7,613**
Subordinated debt	331	-	113,497	477,207	**591,035**
Total financial liabilities	**2,753,437**	**627,108**	**2,867,303**	**9,373,516**	**15,621,364**
Credit related commitments and performance guarantees					
Performance guarantees	7,466	-	-	-	**7,466**
Financial guarantees	4,511	-	-	-	**4,511**
Other credit related commitments	100,212	-	-	-	**100,212**
Credit related commitments and performance guarantees	**112,189**	**-**	**-**	**-**	**112,189**
Net liquidity gap as of 31 December 2019	**2,306,121**	**1,989,615**	**2,960,182**	**(5,612,682)**	**1,643,236**
Cumulative gap as of 31 December 2019	**2,306,121**	**4,295,736**	**7,255,918**	**1,643,236**	

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2018 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,166,911	-	-	-	**1,166,911**
Due from other banks	27,153	11,075	9,088	-	**47,316**
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	-	**1,422,809**
Loans and advances to customers	1,090,521	2,056,149	4,152,436	2,739,346	**10,038,452**
Investment securities measures at fair value through OCI	1,005,239	-	-	-	**1,005,239**
Bonds carried at amortised cost	119,489	92,877	368,843	72,994	**654,203**
Net investments in lease	31,133	56,432	113,087	3,150	**203,802**
Other financial assets	131,586	34,268	1,664	-	**167,518**
Total financial assets	**4,994,841**	**2,250,801**	**4,645,118**	**2,815,490**	**14,706,250**
Liabilities					
Due to Credit institutions	933,511	271,993	1,653,575	172,424	**3,031,503**
Customer accounts	997,594	128,395	-	8,226,153	**9,352,142**
Debt securities in issue	112	13,231	-	-	**13,343**
Other financial liabilities	77,522	21,192	-	-	**98,714**
Subordinated debt	3,048	23,246	182,986	441,639	**650,919**
Total financial liabilities	**2,011,787**	**458,057**	**1,836,561**	**8,840,216**	**13,146,621**
Credit related commitments and performance guarantees					
Performance guarantees	4,393	-	-	-	**4,393**
Financial guarantees	5,424	-	-	-	**5,424**
Other credit related commitments	103,029	-	-	-	**103,029**
Credit related commitments and performance guarantees	**112,846**	**-**	**-**	**-**	**112,846**
Net liquidity gap as of 31 December 2018	**2,870,208**	**1,792,744**	**2,808,557**	**(6,024,726)**	**1,446,783**
Cumulative gap as of 31 December 2018	**2,870,208**	**4,662,952**	**7,471,509**	**1,446,783**	

The management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2017 the analysis by expected maturities may be as follows

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months 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**
Net investments in lease	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**	

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 2019, 2018 and 2017 no provision for potential tax liabilities has been recorded.

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with all covenants as of 31 December 2019, 31 December 2018 and 31 December 2017. 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. The Group was in compliance with all other covenants as of 31 December 2019, 31 December 2018 and 31 December 2017.

38. CONTINGENCIES AND COMMITMENTS CONTINUED

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

Outstanding credit related commitments are as follows:

In thousands of GEL	**2019**	**2018**	**2017**
Undrawn credit lines	**1,150,110**	769,863	728,178
Letters of credit issued	**109,733**	105,972	106,919
Financial guarantees issued	**241,124**	-	141,963
Total credit related commitments (before provision)	**1,500,967**	875,835	977,060
Credit loss allowance for credit related commitments	**(4,511)**	(5,424)	(8,239)
Total credit related commitments	**1,496,456**	870,411	968,821

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 2019 were GEL 472,485 thousand (2018: GEL 344,360 thousand; 2017: GEL 389,148 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of 31 December 2019 is GEL 1,458,884 thousand and GEL 7,466 thousand (2018: GEL 1,195,812 thousand and GEL 4,393 thousand, 2017: GEL 612,297 thousand and GEL 2,067 thousand).

Fair value of credit related commitments were GEL 4,511 thousand as of 31 December 2019 (2018: GEL 5,424 thousand; 2017: GEL 8,239 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	**2019**	**2018**	**2017**
Georgian Laris	**1,155,422**	853,965	618,544
US Dollars	**1,203,296**	955,829	734,970
Euros	**542,303**	218,091	166,304
Other	**58,830**	43,762	69,539
Total	**2,959,851**	2,071,647	1,589,357

Capital expenditure commitments. As of 31 December 2019, the Group has contractual capital expenditure commitments amounting to GEL 33,723 thousand (2018: GEL 12,210 thousand; 2017: GEL 7,816 thousand). Out of total amount as at 31 December 2019, contractual commitments related to the head office construction amounted GEL 13,186.

39. NON-CONTROLLING INTEREST

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2019:

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
Inspired LLC	**49%**	**1,350**	**1,906**
TKT Online LLC	**45%**	**303**	**815**
TKT UZ	**25%**	**(0)**	**21**
My.GE LLC	**35%**	**130**	**2,094**
AllProperty.ge LLC	**10%**	**(65)**	**(36)**
Billing Solutions LLC	**49%**	**0**	**169**
TBC Bank JSC including:	**0.12%**	**728**	**3,619**
TBC Leasing JSC*	**0.39%**	**11**	**-**
United Financial Corporation JSC	**0.47%**	**63**	**582**

*In May 2019 the Group purchased remaining 0.39% shareholding from TBC Leasing JSC shareholders and became 100% owner of the Company.

The summarised financial information of these subsidiaries was as follows as of 31 December 2019:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
Inspired LLC	**2,796**	**1,177**	**185**	**-**	**5,683**	**2,759**	**2,756**	**1,686**
TKT Online LLC	**1,586**	**1,562**	**1,336**	**-**	**1,468**	**714**	**675**	**1,280**
TKT UZ	**231**	**5**	**1**	**-**	**-**	**(1)**	**(1)**	**230**
My.GE LLC	**863**	**5,845**	**586**	**-**	**2,122**	**442**	**442**	**482**
AllProperty.ge LLC	**1,286**	**1,053**	**426**	**582**	**1,965**	**651**	**651**	**697**
Billing Solutions LLC	**-**	**344**	**-**	**-**	**-**	**-**	**-**	**-**
TBC Bank JSC	**8,026,612**	**10,280,004**	**11,254,319**	**4,520,588**	**1,010,616**	**545,055**	**545,080**	**(434,292)**
TBC Leasing JSC	**180,282**	**172,275**	**133,198**	**182,804**	**29,894**	**6,861**	**6,861**	**719**
TBC Kredit LLC	**10,605**	**14,140**	**6,238**	**5,730**	**4,543**	**2,221**	**2,221**	**473**
*In 2018 the Group purchased remaining 25% shareholding from TBC Kredit LLC shareholders and became 100% owner of the company	**9,507**	**8,821**	**155**	**435**	**12,023**	**4,725**	**4,725**	**(622)**

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2018:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Bank JSC including:	0.12%	2,357	3,062
TBC Leasing JSC	0.39%	26	96
TBC Kredit LLC	-	251	-
United Financial Corporation JSC	1.33%	59	517
BG LLC	-	(88)	-

*In 2018 the Group purchased remaining 25% shareholding from TBC Kredit LLC shareholders and became 100% owner of the company

39. NON-CONTROLLING INTEREST CONTINUED

Summarised financial information of these subsidiaries was as follows as of 31 December 2018:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Bank JSC	7,421,134	8,031,716	9,955,303	3,385,828	1,066,089	433,051	448,749	(264,368)
TBC Leasing JSC	160,619	128,610	138,582	126,954	26,998	6,585	6,585	10,773
TBC Kredit LLC	19,639	14,987	13,961	10,813	3,177	1,836	1,836	(1,622)
United Financial Corporation JSC	8,711	6,646	3,284	-	12,401	4,427	4,427	(438)
BG LLC	8,964	1	60	8,993	123	(88)	(88)	63

The following table provides information about each subsidiary with non-controlling interest as of 31 December 2017: T

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Bank JSC including:	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

he 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 comprehensive 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

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2019, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

				Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
In thousands of GEL	**Gross amounts before offsetting in the statement of financial position (a)**	**Gross amount set off in the statement of financial position (b)**	**Net amount after offsetting in the statement of financial position (c) = (a) - (b)**	Financial instruments (d)	Cash collateral received (e)	**Net amount of exposure (c) - (d) - (e)**
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	**24,139**	**2,244**	**21,895**	**-**	**-**	**21,895**
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**24,139**	**2,244**	**21,895**	**-**	**-**	**21,895**
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	**17,518**	**2,244**	**15,274**	**-**	**-**	**15,274**
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,518**	**2,244**	**15,274**	**-**	**-**	**15,274**

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amount 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	17,544	3,154	14,390	-	-	14,390
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	17,544	3,154	14,390	-	-	14,390
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	21,426	3,154	18,272	-	-	18,272
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	21,426	3,154	18,272	-	-	18,272

As of 31 December 2017, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsettin in the statement of financial position (a)	Gross amount set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instru-ments (d)	Cash collateral received (e)	
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	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

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	2019	2018	2017
Fair value of gross settled currency swaps, included in other financial assets or due from banks	**5,849**	1,490	1,767
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**(20,266)**	(2,085)	(909)
Fair value of Interest rate swaps, included in other financial liabilities	**-**	-	(267)
Total	**(14,417)**	**(595)**	**591**

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.

	2019		2018		2017	
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 (-)	**-**	**(133,987)**	-	(19,631)	-	(166,326)
- USD receivable on settlement (+)	**2,089,038**	**-**	105,753	-	12,877	-
- GEL payable on settlement (-)	**-**	**(205,292)**	-	(119,520)	-	(1,360)
- GEL receivable on settlement (+)	**105,152**	**-**	442,831	-	165,881	-
- EUR payable on settlement (-)	**-**	**(1,950,702)**	-	(441,617)	-	(9,315)
- EUR receivable on settlement (+)	**25,239**	**-**	32,052	-	-	-
- Other payable on settlement (-)	**-**	**(4,517)**	-	(1,621)	-	(2,247)
- Other receivable on settlement (+)	**60,652**	**-**	1,158	-	1,348	-
Fair value of foreign exchange forwards and gross settled currency swaps	**2,280,081**	**(2,294,498)**	581,794	(582,389)	180,106	(179,248)
Net fair value of foreign exchange forwards and gross settled currency swaps		**(14,417)**		(595)	858	

Interest rate swaps. In March 2010 TBC Bank entered into an interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers the payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expired in November 2018. At the reporting date in 2018 the fair value of interest rate swaps was negative GEL 267 thousand; 2017: negative GEL 267 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 2019				31 December 2018				31 December 2017			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities measured at fair value through other comprehensive income												
- Government notes	-	-	-	-	-	-	-	-	-	-	-	-
- Certificates of Deposits of National Bank of Georgia	-	**40,346**	-	**40,346**	-	14,982	-	14,982	-	7,728	-	7,728
- Corporate bonds	-	**611,000**	-	**611,000**	-	548,864	-	548,864	-	328,761	-	328,761
- Netherlands Government Bonds	-	**1,596**	-	**1,596**	-	66,760	-	66,760	-	-	-	-
- Ministry of Finance Treasury Bills	-	**329,352**	-	**329,352**	-	372,927	-	372,927	-	319,745	-	319,745
- Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	**5,849**	-	**5,849**	-	1,490	-	1,490	-	1,767	-	1,767
NON-FINANCIAL ASSETS												
- Premises and leasehold improvements	-	-	**212,376**	**212,376**	-	-	277,798	277,798	-	-	283,905	283,905
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	**988,143**	**212,376**	**1,200,519**	-	1,005,023	277,798	1,282,821	-	658,001	283,905	941,906
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
- Interest rate swaps included in other financial liabilities	-	-	-	-	-	-	-	-	-	267	-	267
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	**20,266**	-	**20,266**	-	2,085	-	2,085	-	909	-	909
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	**20,266**	-	**20,266**	-	2,085	-	2,085	-	1,176	-	1,176

42. FAIR VALUE DISCLOSURES CONTINUED

There were no transfers between levels 1 and 2 during the year ended 31 December 2019 (2018 none, 2017: none). For sensitivity disclosures of premises and leasehold improvements please refer to the Note 15.

(a) Recurring fair value measurements (continued)

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

	Fair value at 31 December				
In thousands of GEL	2019	2018	2017	Valuation technique	Inputs used
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
- Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	**982,295**	1,003,533	656,234	Discounted cash flows ("DCF")	Government bonds yield curve
- Foreign exchange forwards and gross settled currency swaps, included in due from banks	**5,848**	1,490	1,767	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**988,143**	1,005,023	658,001		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps included in other financial liabilities	**-**	-	267	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	**20,266**	2,085	909	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**20,266**	2,085	1,176		

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 2019 (2018: none; 2017: none).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 2.

For details the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to

Note 15. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter,

the higher the fair value.

42. FAIR VALUE DISCLOSURES CONTINUED

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2019				31 December 2018				31 December 2017			
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	**650,700**	**352,883**	**-**	**1,003,583**	491,928	674,983	-	1,166,911	419,605	1,011,872	-	1,431,477
Due from other banks	**-**	**33,605**	**-**	**33,605**	-	47,316	-	47,316	-	39,643	-	39,643
- Mandatory cash balances with the NBG	**-**	**1,591,829**	**-**	**1,591,829**	-	1,422,809	-	1,422,809	-	1,033,818	-	1,033,818
- Loans and advances to customers:												
- Corporate loans	**-**	**-**	**4,838,348**	**4,579,723**	-	-	3,212,490	3,095,784	-	-	3,292,352	2,425,766
- Consumer loans	**-**	**-**	**1,876,364**	**1,750,050**	-	-	1,970,006	1,832,793	-	-	2,125,733	2,041,887
- Mortgage loans	**-**	**-**	**3,354,901**	**3,137,492**	-	-	2,702,768	2,684,295	-	-	2,058,468	2,052,151
- Loans to micro, small and medium enterprises	**-**	**-**	**2,891,382**	**2,882,134**	-	-	2,440,078	2,425,580	-	-	1,891,528	1,805,549
Bonds carried at amortised cost	**-**	**990,537**	**-**	**1,022,684**	-	660,916	-	654,203	-	458,950	-	449,538
Investments in leases	**-**	**-**	**265,165**	**256,660**	-	-	207,579	203,802	-	-	145,877	143,836
Other financial assets	**-**	**-**	**127,888**	**127,888**	-	-	166,028	166,028	-	-	144,377	144,377
NON-FINANCIAL ASSETS												
Investment properties, at cost	**-**	**-**	**123,325**	**72,667**	-	-	97,425	84,296	-	-	85,012	79,232
TOTAL ASSETS	**650,700**	**2,968,854**	**13,477,373**	**16,458,315**	491,928	2,806,024	10,796,374	13,783,817	419,605	2,544,283	9,743,347	11,647,274
FINANCIAL LIABILITIES												
Due to credit institutions	**-**	**3,600,318**	**-**	**3,593,901**	-	3,028,180	-	3,031,503	-	2,626,155	-	2,620,714
Customer accounts	**-**	**6,480,250**	**3,580,630**	**10,049,324**	-	5,885,242	3,482,741	9,352,142	-	4,992,099	2,937,349	7,816,817
Debt securities in issue	**1,136,297**		**-**	**1,136,297**	-	13,343	-	13,343	-	20,695	-	20,695
Other financial liabilities	**-**	**153,240**	**-**	**153,240**	-	96,629	-	96,629	-	90,577	-	90,577
Subordinated debt	**-**	**594,893**	**-**	**591,035**	-	648,802	-	650,919	-	425,809	-	426,788
TOTAL LIABILITIES	**1,136,297**	**10,828,701**	**3,580,630**	**15,523,797**	-	9,672,196	3,482,741	13,144,536	-	8,155,335	2,937,349	10,975,591

42. FAIR VALUE DISCLOSURES CONTINUED

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 17).

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 2019 (2018: none; 2017: none).

43. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 2. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

In thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	**1,003,583**	**-**	**-**	**1,003,583**
Due from other banks	**33,605**	**-**	**-**	**33,605**
Mandatory cash balances with the National Bank of Georgia	**1,591,829**	**-**	**-**	**1,591,829**
Loans and advances to customers	**12,349,399**	**-**	**-**	**12,349,399**
Investment securities measured at fair value FVOCI	**-**	**985,293**	**-**	**985,293**
Bonds carried at amortised cost	**1,022,684**	**-**	**-**	**1,022,684**
Other financial assets	**133,736**	**-**	**-**	**133,736**
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**16,134,836**	**985,293**	**-**	**17,120,129**
INVESTMENTS IN LEASES	**-**	**-**	**-**	**256,660**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**1,033,485**
TOTAL ASSETS	**-**	**-**	**-**	**18,410,274**

For the periods before 1 January 2018: for the measurement purposes, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, net investments in lease form a separate category. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,166,911	-	-	1,166,911
Due from other banks	47,316	-	-	47,316
Mandatory cash balances with the National Bank of Georgia	1,422,809	-	-	1,422,809
Loans and advances to customers	10,038,452	-	-	10,038,452
Investment securities measured at fair value through other comprehensive income	-	1,005,239	-	1,005,239
Bonds carried at amortised cost	654,203	-	-	654,203
Other financial assets	167,518	-	-	167,518
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	13,497,209	1,005,239	-	14,502,448
INVESTMENTS IN LEASES	-	-	-	203,802
NON-FINANCIAL ASSETS	-	-	-	791,743
TOTAL ASSETS	-	-	-	15,497,993

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 2017:

In thousands of GEL	Loans and receivables	Available for sale assets	Net investments in lease	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 2017:

As of 31 December 2019 and 2018 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets fair value through profit or loss measurement category under IFRS 9.

As of 31 December 2017, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets held for trading measurement category under IAS 39.

44. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form:

- Parties with more than 10% of ownership stake in the TBCG or with representatives in the Board of Directors are considered as Significant Shareholders.
- The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members.

Transactions between TBC Bank Group PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia (link to the document below in the footnote[1]).

As of 31 December 2019, 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: 6.6% – 36.0%)	**77**	**9,723**
Impairment provisions for loans and advances to customers	**-**	**1**
Customer accounts (contractual interest rate: 0.0% – 11.5%)	**16,418**	**12,997**

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44. RELATED PARTY TRANSACTIONS CONTINUED

The Group's income and expense items with related parties except from key management compensation for the year 2019 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income - loans and advances to customers	**42**	**620**
Interest expense	**87**	**197**
Gains less losses from trading in foreign currencies	**159**	**68**
Foreign exchange translation gains less losses	**50**	**283**
Fee and commission income	**77**	**61**
Administrative and other operating expenses (excluding staff costs)	**68**	**978**

The Group's income and expense items with related parties except from key management compensation for the year 2019 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	**249**	**15,160**
Amounts repaid by related parties during the year	**(1,878)**	**(17,747)**

During the year 2019, 3 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2019 would have been GEL 266 thousand higher.

As of 31 December 2019, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	**Balance as of 31 December 2019**
Due from other banks (contractual interest rate: 8.05% – 9.03 %)	**40,815**
Cash and cash equivalents	**6,612**
Investment in subsidiary	**1,463,084**

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,823 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2019 were as follows:

In thousands of GEL	**2019**
Interest income	**5,625**
Fee and commission expense	**48**
Dividend income	**109,520**

As of 31 December 2018, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 0.4% – 48.0%)	1,614	11,407
Impairment provisions for loans and advances to customers	-	9
Customer accounts (contractual interest rate: 0.0% – 10.2 %)	27,095	21,328
Guarantees	10,216	-
Provision on guarantees	36	-

1 https://www.nbg.gov.ge/uploads/legalacts/fts/eng/regulation_on_the_management_of_the_conflict_of_interests.pdf

44. RELATED PARTY TRANSACTIONS CONTINUED

The Group's income and expense items with related parties except from key management compensation for the year 2018 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Interest income - loans and advances to customers	22	591
Interest expense	411	301
Gains less losses from trading in foreign currencies	479	65
Foreign exchange translation gains less losses	28	352
Fee and commission income	87	50
Administrative and other operating expenses (excluding staff costs)	89	297

The aggregate loan amounts advanced to, and repaid, by related parties during 2018 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	2,465	13,547
Amounts repaid by related parties during the year	(1,055)	(10,195)

During the year 2018, 7 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2018 would have been GEL 227 thousand higher.

As of 31 December 2018, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	Balance as of 31 December 2018
Due from other banks (contractual interest rate: 8.05% – 9.03 %)	79,135
Cash and cash equivalents	2,176
Investment in subsidiary	1,465,345

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,823 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2018 were as follows:

In thousands of GEL	2018
Interest income	5,879
Fee and commission expense	3
Dividend income	124,561

As of 31 December 2017, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 0.4% - 36.0%)	154	7,112
Impairment provisions for loans and advances to customers	-	11
Customer accounts (contractual interest rate: 0.0% – 11.8 %)	40,100	11,190
Guarantees	9,901	512
Provision on guarantees	30	2

44. RELATED PARTY TRANSACTIONS CONTINUED

The Group's income and expense items with related parties except from key management compensation for the year 2017 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Interest income - loans and advances to customers	20	444
Interest income - available securities for sale	747	-
Interest expense	928	449
Gains less losses from trading in foreign currencies	108	56
Foreign exchange translation gains less losses	(46)	(36)
Fee and commission income	122	94
Fee and commission expense	104	-
Administrative and other operating expenses (excluding staff costs)	58	239
Net loss on derivative financial instruments	46	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2017 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	573	3,012
Amounts repaid by related parties during the year	(1,293)	(3,920)

During the year 2017, 13 related parties were removed from the insider list. If they had remained in the list, guarantees with related parties as of 31 December 2017 would have been GEL 1,139 thousand higher, net assets with related parties as of 31 December 2017 would have been GEL 214,767 thousand lower.

As of 31 December 2017, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	Balance as of 31 December 2017
Loans and advances to customers	24,000
Due from other banks	11,564
Cash and cash equivalents	57
Investment in subsidiary	1,422,462

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,023 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2017 were as follows:

In thousands of GEL	2017
Interest income	1,807
Interest expense	9
Fee and commission expense	90,552

44. RELATED PARTY TRANSACTIONS CONTINUED

The compensation of the TBCG Board of Directors and the Bank's Management Board is presented below:

	2019		2018		2017	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	**10,274**	**-**	12,481	270	13,339	-
Cash settled bonuses related to share-based compensation	**(1,627)**	**-**	6,424	8,395	3,905	9,772
Equity-settled share-based compensation	**25,695**	**-**	9,369	-	8,469	-
Total	**34,342**	**-**	28,274	8,665	25,713	9,772

Included in salaries and bonuses for 2019, GEL 2,879 thousand (2018: GEL 2,347 thousand; 2017: GEL 2,326 thousand) relates to compensation for directors (2019: 9 person, 2018: 8 person, 2017: 8 person) of TBCG paid by TBC Bank Group PLC. Details of director's compensation is discussed in the remuneration comittee report. Details of director's compensation is discussed in the remuneration comittee report.

45. BUSINESS COMBINATION

Acquisition of Inspired LLC

In May 2019 TBC bank group PLC finalized acquisition process of Inspired LLC – the leading payment platform "Payme". The acquired interest amounted 51% of total shareholding. The transaction is in line with the Group's international expansion strategy of operations. The consideration amounted GEL 14,981 thousands.

The acquisition-date fair value of the total purchase consideration is follows:

In thousands of GEL	
Cash consideration paid	14,981
Total purchase consideration	**14,981**

The consideration paid by the Group was based on results of an appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows:

In thousands of GEL	Fair Values
Cash and cash equivalents	**223**
Due from other banks	**424**
Other financial assets	**676**
Premises and equipment	**379**
Intangible assets	**212**
Other assets	**79**
Other liabilities	**(159)**
Fair value of net assets of subsidiary	**1,834**
Non-controlling interest	**(868)**
Goodwill arising from the acquisition	**14,015**
Total purchase consideration	**14,981**
Less: cash and cash equivalents of subsidiary acquired	**(223)**
Outflow of cash and cash equivalents on acquisition	**14,758**

45. BUSINESS COMBINATION CONTINUED

The goodwill is primarily attributable to the profitability of the acquired business and the positive synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 5,683 thousand and to Group's net profit in the amount of GEL 2,759 thousand from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1st of January 2019, the contribution to the Group's net revenues for the year ended 31 December 2019 would have been of GEL 8,561 thousand and to net profit would have been positive of GEL 4,272 thousand.

Acquisition of My.ge LLC

In August 2019 TBC bank group PLC finalized acquisition process of LLC My.ge – the leading online services platform in Georgia "My Group". The acquired interest amounted 65% of total shareholding. The transaction is in line with the Group's international expansion strategy of operations. The consideration amounted GEL 19,450 thousands.

The acquisition-date fair value of the total purchase consideration is follows:

In thousands of GEL	
Cash consideration paid	19,450
Total purchase consideration	**19,450**

The consideration paid by the Group was based on results of an appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows

In thousands of GEL	**Fair Values**
Cash and cash equivalents	**1,667**
Other financial assets	**232**
Premises and equipment	**1,208**
Intangible assets	**4,403**
Other assets	**1**
Other financial liabilities	**(1,862)**
Other liabilities	**(51)**
Fair value of net assets of subsidiary	**5,598**
Non-controlling interest	**(1,960)**
Goodwill arising from the acquisition	**15,812**
Total purchase consideration	**19,450**
Less: cash and cash equivalents of subsidiary acquired	**(1,667)**
Outflow of cash and cash equivalents on acquisition	**17,783**

The goodwill is primarily attributable to the profitability of the acquired business and the positive synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 2,122 thousand and to Group's net profit in the amount of GEL 442 thousand from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1st of January 2019, the contribution to the Group's net revenues for the year ended 31 December 2019 would have been of GEL 5,208 thousand and to net profit would have been positive of GEL 1,497 thousand.

46. EVENTS AFTER REPORTING PERIOD

COVID 19- outbreak

In late February 2020 the first incident of the coronavirus (COVID-19) was reported in Georgia. This is clearly a serious situation impacting not just Georgia, but also the global economy. The position has been, and continues to be difficult to predict with any certainty. The Group does not consider COVID-19 to be an adjusting event and as such any impacts are not reflected within these financial statements. Our economists' latest analysis forecasts the Georgian economy to contract in 2020, which will have a negative impact on many businesses and individuals in the country. Therefore, in close co-ordination with the National Bank of Georgia ("NBG"), we have decided to create an extra loan loss provision buffer to prepare for the potential impact of the COVID-19 pandemic on the Georgian economy.

TBC Bank has implemented a number of actions to protect its customers and staff members and to minimize disruption to the Group's operations during the COVID-19 outbreak. In developing our response, we have looked at best practices from major global companies as well as organizations like the World Health Organization. We are also closely coordinating with the Government of Georgia, NBG and the other banks in the country. While for the time being most of our branches remain open, we have introduced a number of additional security and infection prevention measures in our branch network. We have introduced remote working practices for most of our head office and back office units and divided all our critical service units into different groups and locations. We have also refreshed the list of critical roles in the company and ensured their continuous operational engagement and remote access.

In order to support our customers during the coming difficult months, in coordination with the Government, NBG and the banking sector, we have introduced a three-month grace period on principle and interest payments for all our individual and MSME customers as well as those corporate customers whose business is the most exposed in the current situation.

Our digital penetration is very high, mainly driven by mobile banking transactions. To ensure continued communication and customer care, we have activated and enhanced all our channels, launched intensive communication campaigns to promote cashless transactions (cash is a potential transmission vector for the virus) and active usage of our digital channels. For the next three months, we have revised tariff plans to further incentivize our digital channel usage. The multichannel promotion campaigns together with the loan repayment grace period are expected to substantially decrease customer flow in our branch network and reduce the risk of spreading the infection. If needed, this will allow us to further optimize branch network operations and decrease the number of front office staff as well as to introduce different shifts in branches. In terms of our IT infrastructure, we have rigorous measures to ensure adequate capacity and security, and we are closely monitoring the system with all controls active.

We expect the pandemic to have a negative economic effect as long as the number of cases is expanding, but we expect a gradual return of economic strength as the number of cases eases. The government has come up with a number of initiatives to support businesses and the economy.

The group assessed the changes in the environment on its capital and liquidity positions and is comfortable that it can keep solid financial standing. Management will keep monitoring the developments and update its strategy and course of actions as necessary in circumstances.

However, taking into consideration the unprecedented uncertainty triggered by the COVID-19 outbreak, the Board of Directors has decided not to recommend a dividend. The decision will be revisited once there is better visibility on the potential economic impact of the outbreak, which we do not expect to occur before the end of May 2020.

Banking licence in Uzbekistan

In April 2019 the Group's subsidiary, TBC Bank in Uzbekistan ("TBC UZ"), has obtained its banking licence and is planning to launch banking operations in June 2020. The range of products offered by the bank at launch will include current and savings accounts, cash loans, salary backed loans and car loans; and cards, mobile application and transactional capabilities including (but not limited to) P2P transactions, money transfers and utility payments. In addition, the bank will also run the point-of-sale consumer finance operation.

FULL LIST OF RELATED UNDERTAKINGS AND THE COUNTRY OF INCORPORATION IS SET OUT BELOW

Company Name	**Country of incorporation**
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Index LLC	8 Tetelashvili,0102,, Tbilisi, Georgia
JSC TBC Insurance	24B, Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
Redmed LLC	24 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
JSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
LTD Online Tickets	3 Irakli Abashidze street, 0179, Tbilisi, Georgia
VENDOO LLC	3 Chavchavadze Avenue, 0128, Tbilisi, Georgia
Swoop JSC	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
Natural Products of Georgia LLC	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Mobi Plus JSC	45 Vajha Pshavela Street, 0177, Tbilisi, Georgia
Mineral Oil Distribution Corporation JSC	11 Tskalsadeni Street, 0153, Tbilisi, Georgia
Georgian Card JSC	106 Beliashvili Street, 0159, Tbilisi Georgia
Georgian Securities Central Depositor	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
JSC Givi Zaldastanishvili American Academy In Georgia	37 Chavchavadze Avenue, 0162, Tbilisi Georgia
United Clearing Centre	5 Sulkhan Saba Street, 0105, Tbilisi, Georgia
GRDC	2 Vagzali Square, 0112, Tbilisi, Georgia
Banking and Finance Academy of Georgia	123, Agmashenebeli Avenue, 0112, Tbilisi, Georgia
Tbilisi's City JSC	15 Rustaveli Avenue, 0108, Tbilisi Georgia
Swift	1 Adele Avenue, B-1310, La Hulpe, Belgium
TBC Trade	11A Chavchavadze Ave, 0179, Tbilisi, Georgia

REPORTS AND COMMUNICATIONS

We issue regulatory announcements through the Regulatory News Service ("RNS"). Our regulatory announcements are also available at our website www.tbcbankgroup.com in the "regulatory news" section.

SHARE PRICE INFORMATION

Our latest and historical share prices are available through our website www.tbcbankgroup.com.

SHAREHOLDER INQUIRES

TBC Bank Group's share register is maintained by Equiniti.
If you have any questions about your TBC Bank Group's shares, please contact Equiniti

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OUR REGISTERED ADDRESS

TBC Bank Group PLC
Elder House St Georges Business Park
207 Brooklands Road
Weybridge, Surrey
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WEBSITE

Our annual report, financial results and investor presentations, as well as other significant information are available through our website: www.tbcbankgroup.com

GLOSSARY

Bank	Joint Stock Company TBC Bank
Bankassurance	An arrangement in which a bank and an insurance company form a partnership, so that the insurance company can sell its products to the bank's client base
Bank Republic	Joint Stock Company Bank Republic
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of Board of Directors of the Company
Chief Executive Officer (or CEO)	Chief Executive Officer of TBC Bank Group PLC
Chief Financial Officer (or CFO)	Chief Financial Officer of TBC Bank Group PLC
Code	The UK Corporate Governance Code
Company	TBC Bank Group PLC
Corporate segment	A legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million, or which have been granted facilities of more than GEL 5 million. Some other business customers may also be assigned to the corporate segment or transferred to MSME on a discretionary basis
Corporate Centre	Comprises the Treasury, other support and back office functions, and the non-banking subsidiaries of the Group
Deputy Chairman	Deputy chairman of Board of Directors of the Company
Director(s)	Members of the Board of TBC Bank Group PLC
Engagement index	Employees feel involved and committed to TBC Bank
Fully digital on-boarding	Share of legal entities registered online out of total number of newly-registered legal entities
Group	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and its subsidiaries
High-net-worth individuals	To qualify for high-net-worth individuals sub-segment, one needs to have a deposit equal to US$ 100,000 or more
Management Board	Management Board of Joint Stock Company TBC Bank
Mobile banking penetration ratio	Number of active mobile banking users divided by total number of active retail clients
Mobile and Internet banking penetration ratio	Number of active mobile and Internet banking users divided by total number of active retail clients
MSME (Micro, Small and Medium) segment	Business customers who are not included in either the corporate or the retail segments; or legal entities who have been granted a pawn shop loan; or individual customers of the newly launched, fully digital bank - Space
Nikoil Bank	Nikoil Open Joint-Stock Company Investment Commercial Bank
Offloading ratio	Number of transactions conducted in remote channels divided by total number of transactions, based on JSC TBC Bank standalone data
Retail segment	Non-business individual customers or individual business customers who have been granted mortgage loans; all individual customers are included in retail deposits;
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank
TBC Bank	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and its subsidiaries
TBC Status clients	Clients with minimum monthly income of GEL 3,000 or a loan of GEL 30,000 or more, or deposit of GEL 30,000 or more
TBC Bank Group PLC	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank)
TBCG	TBC Bank Group PLC (except for Remuneration Report, where it means TBC Bank Group PLC and JSC TBC Bank together)
TBC Insurance	Joint Stock Company TBC Insurance, formerly Joint Stock Company Insurance Company Kopenbur
TBC JSC	Joint Stock Company TBC Bank
TBC PLC	TBC Bank Group PLC

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AFS	Available for sale
ALCO	Asset-liability management committee
APM	Alternative performance measure
ATM	Automated teller machine
BNY	Bank of New York
CAGR	Compounded annual growth rate
CAR	Capital adequacy ratio
CEE	Central and Eastern Europe
CEO	Chief executive officer
CFA	Chartered Financial Analyst
CFO	Chief financial officer
CGU	Cash generating unit
CIB	Corporate investment banking
CIS	The Commonwealth of Independent States
COR	Cost of risk
CRM	Customer relationship management
CRO	Chief risk officer
CSAT	Customer satisfaction
CSR	Corporate social responsibility
CVP	Cost volume profit
DCF	Discounted cash flows
EBRD	European Bank for Reconstruction and Development
ECL	Expected credit losses
EECG	Energy Efficiency Centre Georgia
EFSEDF	The Development Facility of the European Funds for Southeast Europe
EMEA	Europe, Middle East and Africa
ENPS	Employee Net Promoter Score
EPS	Earnings per share
ERM	Enterprise risk management
ESRM	Environmental and social risk management
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GBP	Great British pound, national currency of the UK
GDP	Gross domestic product
GDR	Global depositary receipt
GEL	Georgian lari, national currency of Georgia
GHG	Greenhouse gas
GWP	Gross written premium
HNWI	High-net-worth individuals
HR	Human resources
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDR	Issuer default rating
IFC	International Finance Corporation
IFI	International financial institution
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial public offering
IT	Information technology
JSC	Joint stock company
KPI	Key performance indicators
LED	Light-emitting diode
LSE	London Stock Exchange
MBA	Master of Business Administration
MBO	Management-by-objectives
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NCI	Non-controlling interest
NIM	Net interest margin
NPL	Non-performing loans
NPS	Net promoter score
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
PLC	Public limited company
POS	Point of sale
PPP	Purchasing power parity
PWC	PricewaterhouseCoopers
ROA	Return on average assets
ROE	Return on average equity
SME	Small and medium-sized enterprises
SPPI	Solely payments of principal and interest
STEM	Science, technology, engineering and mathematics
UK	United Kingdom of Great Britain and Northern Ireland
US$	The US dollar, national currency of the United States
VAR	Value-at-risk
VIP	Very important person
WB	World Bank
WRI	World Resources Institute

NOTES

2019

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