



TBC BANK
Group PLC

TURNING OUR VISION INTO REALITY



#1 GEORGIAN BANK

TBC Bank Group PLC (TBC PLC or the Company) is the UK-incorporated parent company of JSC TBC Bank (the Bank) and its subsidiaries (together TBC Bank or the Group), which is the largest banking group in Georgia and has a clear ambition to be the best digital financial services company in the region¹.

The year 2016 proved to be an extremely successful one for TBC Bank. We turned our vision of becoming the largest bank in Georgia into reality, following our own organic growth and the successful acquisition of Bank Republic. We obtained a premium listing on the London Stock Exchange (LSE), which has significantly improved our share liquidity and helped to expand our investor base. We fulfilled our pledge to innovate, expanding our multichannel platform to pursue growth and efficiency by rolling out more digital services to meet our clients' needs. We also continued to invest in our people and communities, helping to build a better future with Georgia's vibrant young generation.



TBC Bank is Georgia's number one banking group² by most key metrics, including:

- #1 Total banking assets
- #1 Total customer loans and deposits
- #1 Loans and deposits to individuals
- #1 Loans and deposits to legal entities

Our four core differentiators are:

- #1 Focus on core banking activities
- #1 Strong brand
- #1 Superior customer experience
- #1 Leading multichannel capabilities

We are also proud of our:

- #1 Long-term, successful partnerships with businesses
- #1 Distinguished corporate social responsibility

1 Region in this context comprises Georgia, Azerbaijan and Armenia

2 Based on data published by the National Bank of Georgia as of 31 December 2016 and including Bank Republic's market shares





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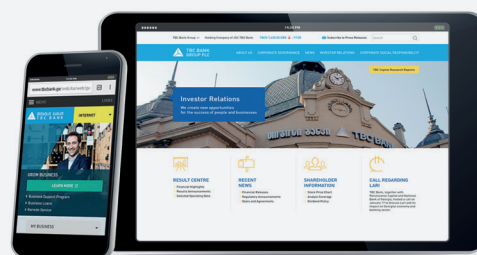
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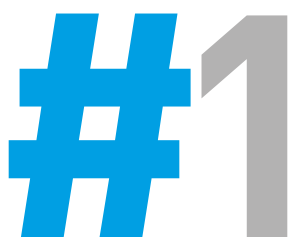
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For more information visit our website www.tbcbankgroup.com



GEORGIAN BANK 2016

FINANCIAL HIGHLIGHTS

▼ IN GEL

Net profit

▶ **298,3m**

FY2015: 218,7m
Change +36.4%

Return on average equity less NCI

▶ **22.4%**

FY2015: 20.1%
Change +2.3pp

Return on average assets

▶ **3.9%**

FY2015: 3.4%
Change +0.5pp

Net interest margin

▶ **7.8%**

FY2015: 7.8%
Change 0.0pp

Net F&C income share in total income

▶ **13.3%**

FY2015: 12.5%
Change +0.7pp

Cost to income¹

▶ **45.8%**

FY2015: 43.9%
Change +1.9pp

Total assets

▶ **10,769m**

FY2015: 6,935m
Change +55.3%

Gross loans

▶ **7,359m**

FY2015: 4,639m
Change +58.6%

Deposits

▶ **6,455m**

FY2015: 4,178m
Change +54.5%

Non-performing loans

▶ **3.5%**

FY2015: 4.8%
Change -1.3pp

Non-performing loan coverage

▶ **88.4%**

FY2015: 87.4%
Change +0.9pp

Cost of risk

▶ **1.0%**

FY2015: 1.7%
Change -0.7pp

Net loans to deposits + IFI funding

▶ **93.4%**

FY2015: 94.8%
Change -1.4pp

Basel II/III Tier 1 capital ratio

▶ **10.4%**

FY2015: 12.8%
Change -2.4pp

Basel II/III Total capital ratio

▶ **14.2%**

FY2015: 16.0%
Change -1.8pp

¹ 42.9% without one-off effects, which are discussed in details on page 67





OPERATIONAL HIGHLIGHTS



Customers

▶ **c.2.2m**
(c.1.6m in 2015)

Employees

▶ **6,292**
(5,262 in 2015)

Branches

▶ **167**
(128 in 2015)

ATMs

▶ **531**
(358 in 2015)

POS terminals

▶ **13,220**
(8,800 in 2015)

Cash-in terminals

▶ **2,500**
(2,591 in 2015)

Offloading ratio

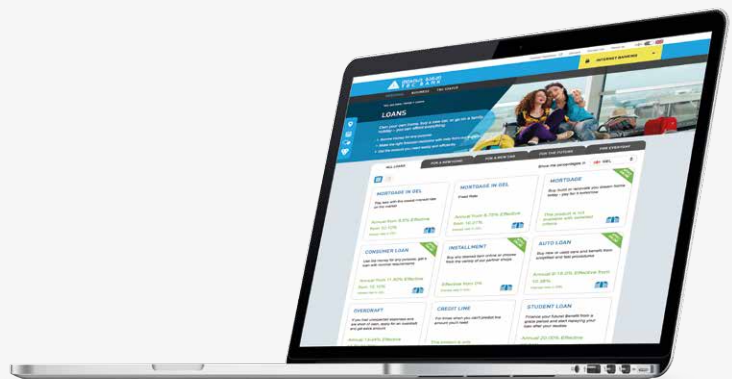
▶ **84%**
of all retail transactions were conducted through remote channels (79% in 2015)

Internet and mobile banking penetration ratio

▶ **37%**
(32% in 2015)

Mobile banking penetration ratio

▶ **24%**
(15% in 2015)



RETAIL BANKING¹



TBC Bank is the undisputed leader in the retail banking segment by deposits and loans in Georgia. We occupy strong positions among both mass retail and affluent customers due to our superior customer experience, longstanding relationships with clients, best-in-class remote banking platform and advanced customer relationship management and analytical capabilities.

We offer the most innovative products and services on the market and are successfully moving transactions and sales to remote channels: in 2016, 84% of all retail transactions were remote and took place outside branches. In addition, of all products available through our remote channels, the share of branch sales decreased from 81% in December 2014 to 45% by the end of 2016, as they were diverted to call centre and digital channels.

► **c.1.7m**

customers

► **GEL3,763m**

in loans
51% of total loans

► **GEL3,666m**

in deposits
57% of total deposits

CORPORATE BANKING²



TBC Bank has been a pioneer in the corporate banking segment since its foundation and has well established business relationships with many large businesses in Georgia. Today, we enjoy the leading position and a strong presence in all major sectors of the economy. Our dedicated coverage, diversified product offering, leading trade finance capabilities and strong expertise in syndicated deals and energy efficiency programmes make us the best banking partner for major corporations in the country.

► **c.2,500**

customers

► **GEL2,060m**

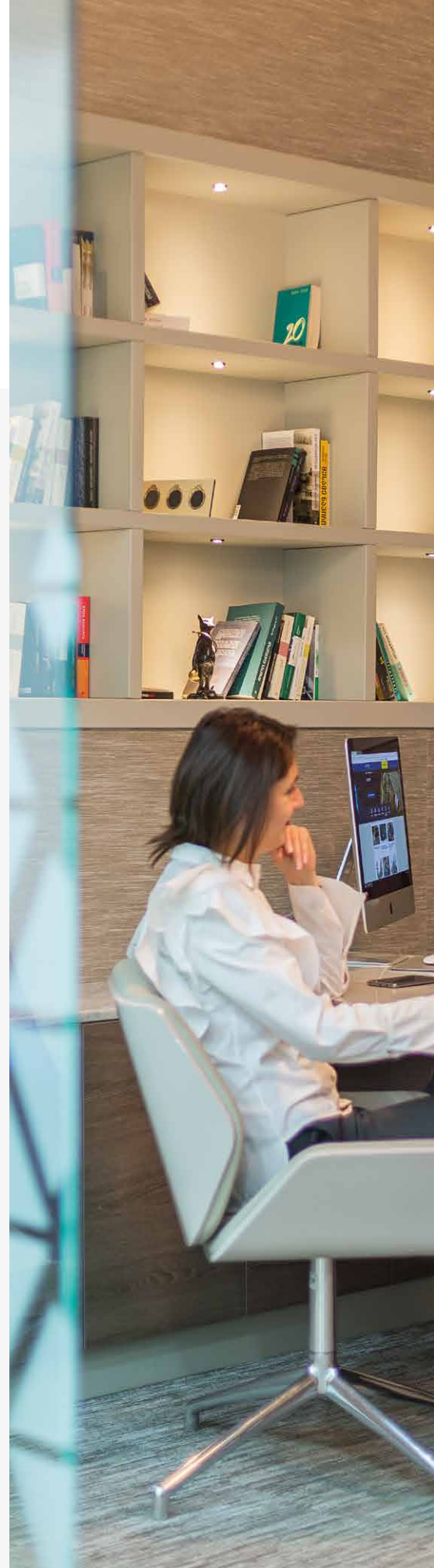
in loans
28% of total loans

► **GEL1,796m**

in deposits
28% of total deposits

¹ Retail segment comprises individuals not included in other segments

² Corporate segment comprises business customers that have annual revenues of GEL8 million or more or have been granted loans equivalent to US\$1.5 million or more. Some other business customers may also be included on a discretionary basis.





SME³



TBC Bank occupies the leading position in the small and medium-sized enterprise (SME) segment, which offers strong long-term growth potential. Alongside market-leading primary products and services, we offer our clients valuable non-financial services through the Business Support Programme, which is unique in Georgia. In 2016 alone, we provided training to representatives of around 3,000 companies. As a result, 56% of companies established in Georgia in 2016 opened accounts with us, driving our share of the total number of firms registered in the country to 37%.

▶ **c.90,000**

customers

▶ **GEL858m**

in loans
12% in total loans

▶ **GEL888m**

in deposits
14% in total deposits

3 SME segment comprises business customers that are not in the corporate or micro segments. Some other business customers may also be included on a discretionary basis

MICRO⁴



TBC Bank is the market leader in the microfinance segment in Georgia, which has strong growth potential. We have built a specialised branch network and established strong coverage of rural areas, which financial institutions have traditionally served less than large towns and cities. We have introduced multiple "touch points", places where our customers can be served, including TBC Bank areas in small shops, post offices and pharmacies, as well as appointed village consuls and local sales agents. We are also offering agricultural management training to rural clients; in 2016, we trained around 1,500 people.

▶ **c.447,000**

customers

▶ **GEL678m**

in loans
9% of total loans

▶ **GEL105m**

in deposits
2% of total deposits

4 Microsegment comprises business customers with loans below US\$70,000, as well as pawnshops, credit cards and cash cover loans granted in TBC Bank Constanta branches, and deposits up to US\$20,000 in urban areas and up to US\$100,000 in rural areas of customers of TBC Bank Constanta branches. Some other business customers may also be included on a discretionary basis

WHY GEORGIA?

THE LEADING ECONOMY IN CAUCASUS REGION

Growth story

Around 99.6% of TBC Bank's operations take place in Georgia, a growing economy with dynamic transport, service and tourism industries that takes advantage of the country's central geographic location, educated population, natural beauty and renowned hospitality. For more than a decade, successive governments have pursued market reforms and turned Georgia into a recognised regional leader in terms of transparency and ease of doing business.

Georgia continues to capitalise on its free trade agreement with the European Union (EU), and the step-by-step alignment of the regulatory environment with the EU standards permits a broader range of its products to enter the EU on favourable terms. In addition, the citizens of Georgia will be granted visa-free travel to Schengen countries starting from 28 March 2017, this is another major milestone in EU-Georgia relations, which should further strengthen EU-Georgia economic ties.

Georgia's real GDP expanded by 2.7% in 2016. Growth is expected to accelerate: the International Monetary Fund (IMF) forecasts 4.0% growth for 2017, one of the highest in Central Asia and Eastern Europe. Amid slowdowns in neighbouring countries, the economy has proved resilient. Expansion in manufacturing, construction, real estate and hotels and restaurants were drivers of economic growth last year, overcoming contraction in the transportation sector caused by lower trade volumes in the wider region.

The outlook for 2017 is positive, with large infrastructure projects planned and a free trade agreement with China coming into force in the second half of the year, further diversifying Georgia's trade flows and reducing exposure to regional economic volatility. Following the democratic parliamentary elections in late 2016, the political outlook appears stable and the government's liberal reform agenda remains in place. The abolition of tax on reinvested profit, which comes into force at the start of 2017, is expected to further boost Georgia's profile as an attractive investment destination.



Georgia is a vibrant and investor-friendly economy with a strategic location at the gateway of trade between Europe and Asia.

Key facts

Economy

Population¹: 3.7 million

GDP (2016)²: US\$14.3 billion

GDP per capita at PPP³ (2016): US\$10,100

Average real GDP growth (2011–2016)⁴: 4.5%

Currency

Currency: lari (GEL)

Exchange rate (at 31 December 2016): GEL2.65 = US\$1

Recent achievements

4th friendliest tax regime globally⁵

16th globally for ease of doing business⁶

8th globally for starting a business⁷

13th in the Index of Economic Freedom⁸

Key competitive advantages

Transport and logistics hub

- There are plans to build a deep-sea port in Anaklia, on Georgia's Black Sea coast, along with a free industrial zone, which will vastly improve the country's transit and logistical potential. The project envisages investment of US\$2.5 billion. In addition, to develop railway and transportation links to the new port, the government has pledged GEL100 million toward investments.

Regional service hub

- The Georgian financial sector stands out in the region, with its robust profitability, high asset quality, strong capital and liquidity levels and transparency. TBC PLC is one of only two banks from the South Caucasus that are listed on the LSE and both are Georgian.
- The pharmaceutical and healthcare sector has rapidly transformed into an internationally competitive industry, with world-class professionals and efficient business models.


Attractive tourism destination

- Tourism is one of the fastest growing industries in Georgia, and related sectors⁹ accounted for 7.6% of GDP in 2016.
- Visitor numbers have soared. In 2016, around 6.4 million travellers visited Georgia, nearly twice the country's population, while solid growth continued in first two months of 2017, when the number of visitors went up by 10.5% YoY.
- In 2016, FDI in the hotel and restaurant segment stood at US\$111 million.

Abundant clean energy generation potential

- Georgia's rich hydropower resources offer significant potential for expanding energy generation sector. Increasing electricity consumption and the potential to export power indicate that the country's energy sector represents an attractive, long-term investment opportunity.
- Several large projects are in the pipeline. These include the Nenskra hydropower plant, with projected investment of US\$1 billion, to be financed by Korea's K-water and other domestic and international investors. It is scheduled to begin generating electricity in 2019 and reach full capacity by 2021.

1 Source: Geostat
2 Source: Geostat
3 Purchasing power parity; source: IMF World Economic Outlook, October 2016
4 Source: Geostat
5 22nd globally for tax payments; source: World Bank Doing Business Report 2017
6 Source: World Bank Doing Business Report 2017
7 Source: World Bank Doing Business Report 2017
8 Source: The Heritage Foundation and The Wall Street Journal
9 Hotel services, restaurant services, railway transportation services, other transportation services including water transports, air transport services, travel agency and tour operator services

 Go to page 16 for more information.

WHY TBC BANK?

#1 IN GEORGIA

TRACK RECORD OF SUCCESS

Over nearly a quarter century, TBC Bank has transformed itself, starting out as a vision of its founders and with US\$500 in capital to become Georgia's leading universal banking group with a strong track record of growth and profitability. Today, it is recognised for its superior customer experience, best-in-class multichannel capabilities with a focus on digital channels, and strong brand.

In June 2014, TBC Bank listed global depositary receipts (GDRs) of the Bank on the main market of the London Stock Exchange (LSE), which was then the largest international off-index initial public offering (IPO) from the EMEA region. In 2016, TBC Bank moved to the LSE's premium segment, expanding the investor base and boosting share liquidity significantly.

Initially serving corporate customers, TBC Bank launched its retail business line in 2006 and is the clear market leader in individual deposits and loans to individuals today. In 2011, we acquired 80% of Bank Constanta, completing the merger in 2015, making us the dominant name in microfinance. In 2016, we acquired Bank Republic, a large and profitable Georgian bank, which made us the undisputed market leader by most key metrics. Entering 2017, we believe that we have fulfilled the main pledges made during the IPO: to secure market leadership in key segments and enhance our multichannel platform.



1992

TBC Bank is established with founding capital of just US\$500 and focuses on the corporate segment

1998

TBC Bank enters the export/import financing operations segment

2000

International financial institutions IFC and DEG become shareholders in TBC Bank, which also becomes the first Georgian company to obtain an international credit rating

2001

TBC Bank launches its first internet banking services

2004

TBC Bank enters the non-banking segment, establishing TBC Leasing

2006

TBC Bank develops a retail banking offering, and the EBRD acquires a 10% stake in TBC Leasing

2007

Total assets exceed US\$1 billion

2008

TBC Bank acquires 75% of TBC Kredit, a non-banking credit institution in Azerbaijan

2016

TBC Bank moves to the LSE's premium segment via listing the shares of TBC PLC and acquires 100% of Bank Republic, making it Georgia's number one banking group according to most key metrics. TBC Bank also acquires 100% of Kopenbur, an insurance company that specialises in retail products, to boost its consumer offering

2015

The merger with Bank Constanta is completed, giving TBC Bank clear leadership in the rapidly growing microfinance segment

2014

TBC Bank successfully conducts an IPO, listing GDRs of the Bank on the main market of the LSE

2013

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

2012

New and award-winning multichannel distribution systems are unveiled

2011

TBC Bank acquires 80% of Bank Constanta, a specialist in microfinance, and establishes a representative office in Israel, TBC Invest, to act as an intermediary with potential future clients

2009

The shareholder base expands, as the EBRD, FMO, JP Morgan and Ashmore acquire stakes in TBC Bank and the IFC and DEG contribute additional capital

Key facts

Market position

- The leader in the Georgian banking market
- Number one bank by most key metrics, following the successful acquisition of Bank Republic, including total banking assets, total loans and deposits¹
- Named "Best Bank in Georgia" for 13 of the last 15 years (26 awards in total)

Customer base

- Strong operations across all major market segments in Georgia
- Around 2.2 million customers in the retail, SME, microfinance and corporate segments

Distribution

- Around 6,300 employees across the entire distribution network, which featured 167 branches, 531 ATMs, 13,220 POS terminals and 2,500 cash-in terminals at the end of 2016, as well as a call centre and internet and mobile banking applications.

Operations

- 99.6% of assets concentrated in Georgia
- The Bank has small international subsidiaries in Azerbaijan (TBC Kredit) and in Israel (TBC Invest). These operations represented 0.4% of total consolidated assets of the Group as of 31 December 2016.

 Go to page 39 for more information

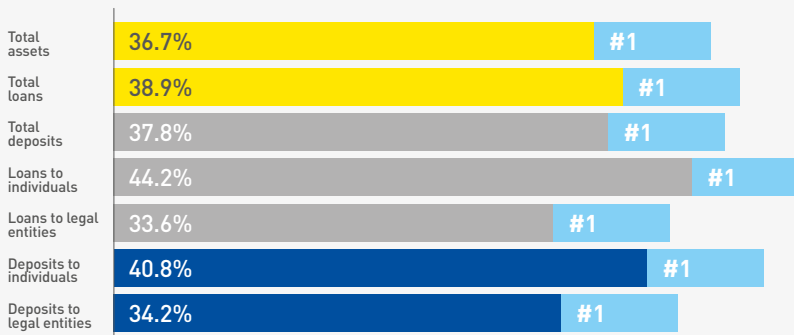
Awards

- The Banker – Bank of the Year in Georgia (2002–2005, 2010, 2014 and 2016)
- Global Finance – Best Bank in Georgia (2004, 2006, 2007 and 2012–2016)
- Global Finance – Best FX Provider (2004–2006 and 2013–2016)
- EMEA Finance – Best Bank in Georgia (2011–2015)
- Euromoney – Best Bank in Georgia (2011–2012 and 2014–2016)
- Global Finance – Best Consumer Internet Bank in Georgia (2012–2016)
- Global Finance – Central and Eastern Europe sub-category awards (2012–2016)
- Global Finance – Best Corporate Internet Bank in Georgia (2013–2016)
- EBRD – Deal of the Year (2014)
- Best Project Finance Deals in Central and Eastern Europe – Best Water Deal and Best Infrastructure Development Deal (2014)
- The Banker and Private Wealth Management Magazine – Best Private Bank in Georgia (2014–2016)
- Global Finance – Best Private Bank in Georgia (2017)

Credit ratings

- Fitch – BB-/stable (foreign-currency long-term issuer default rating), B (foreign-currency short-term issuer default rating) as of 18 May 2016
- Moody's – B1/not prime (foreign-currency bank deposits), Ba3/not prime (domestic-currency bank deposits) as of 27 October 2016

MARKET SHARES¹



¹ Based on data published by the National Bank of Georgia as of 31 December 2016 and including Bank Republic's market shares

We continue to harness our strong multichannel platform and digital presence to reinforce our leadership in all key banking segments.

Leadership

With 2.2 million customers, TBC Bank is Georgia's number one universal bank by most key metrics, following the successful acquisition of Bank Republic. Having achieved our long-term strategic vision of becoming Georgia's largest commercial bank, entering 2017, we are now committed to being the best digital financial services company in the region. We are seeking to transform banking in Georgia and in the region. Our objective is to make the banking sector in Georgia digital, moving into a new era by offering next-generation banking services.

Focus on core banking activities

TBC Bank remains focused on core banking activities in Georgia: banking and leasing activities account for 99.6% of our total assets. This pure-play business model clearly differentiates us in the Georgian market and allows us to take advantage of our key capabilities and grow profitably in a favourable environment.

Exemplary multichannel capabilities

Digital capability represents a key and growing focus of our multichannel distribution platform, which consists of our branches, call centre, payment terminals, ATMs, internet and mobile banking. As a result of our long-term focus on alternative channels, 84% of all retail transactions were remote in 2016, while the remaining 16% were conducted in branches.

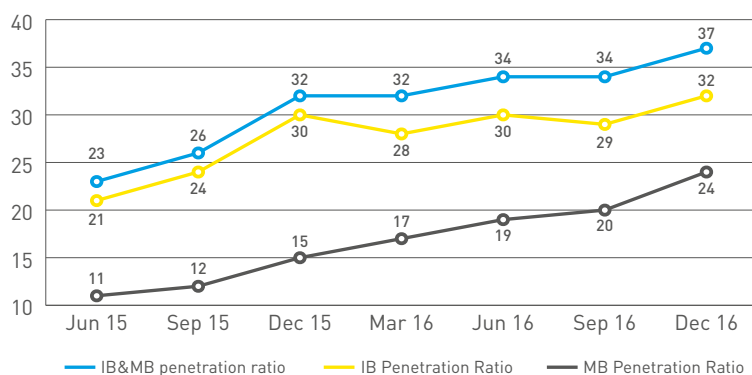
Certainly, branches are and will remain an indispensable part of our customer proposition, as will our specialist offices for affluent clients. Reflecting this priority, we launched a new branch design concept in 2016, developed with international strategic design consulting firm Allen International. The new design reflects our brand values – openness and transparency. While our branches remain crucial for customer engagement regarding complex banking products, clients no longer need to spend time going to a branch to access the vast majority of our services, such as opening an account, making a transaction or paying a bill.

In 2016 we significantly increased the number of transactions carried out via internet and mobile banking, building upon our undisputed market leadership in the digital segment. In addition, the mobile banking penetration jumped from 15% in December 2015 to 24% in December 2016. We continue to differentiate ourselves through our user-friendly interface and the quality of our internet and mobile banking products, recognised by our 4.9-star rating in the Google Play store. Our digital channels have also become the key conduits for selling, cross-selling and up-selling new products.

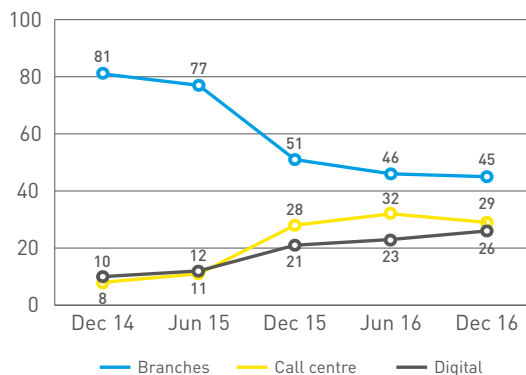
Superior customer experience

Present in the market since 1992, TBC Bank values its longstanding relationships with customers in every banking segment. As part of our multichannel approach, we seek to deliver world-class customer service in our branches, online or through our call centre. Whether providing ever more user-friendly apps for retail customers or free training in crucial business skills to our SME and microfinance customers, we use innovation to stand out from rivals. We are proud to be the number one bank in Georgia in terms of customer experience, as demonstrated by the highest customer satisfaction scores based on various surveys conducted by external research agencies, and our aim is to position ourselves as the number one partner bank in the minds of Georgian people.

INTERNET AND MOBILE BANKING PENETRATION (%)



SALES CONDUCTED IN DIFFERENT CHANNELS FOR PRODUCTS OFFERED THROUGH REMOTE CHANNELS (%)

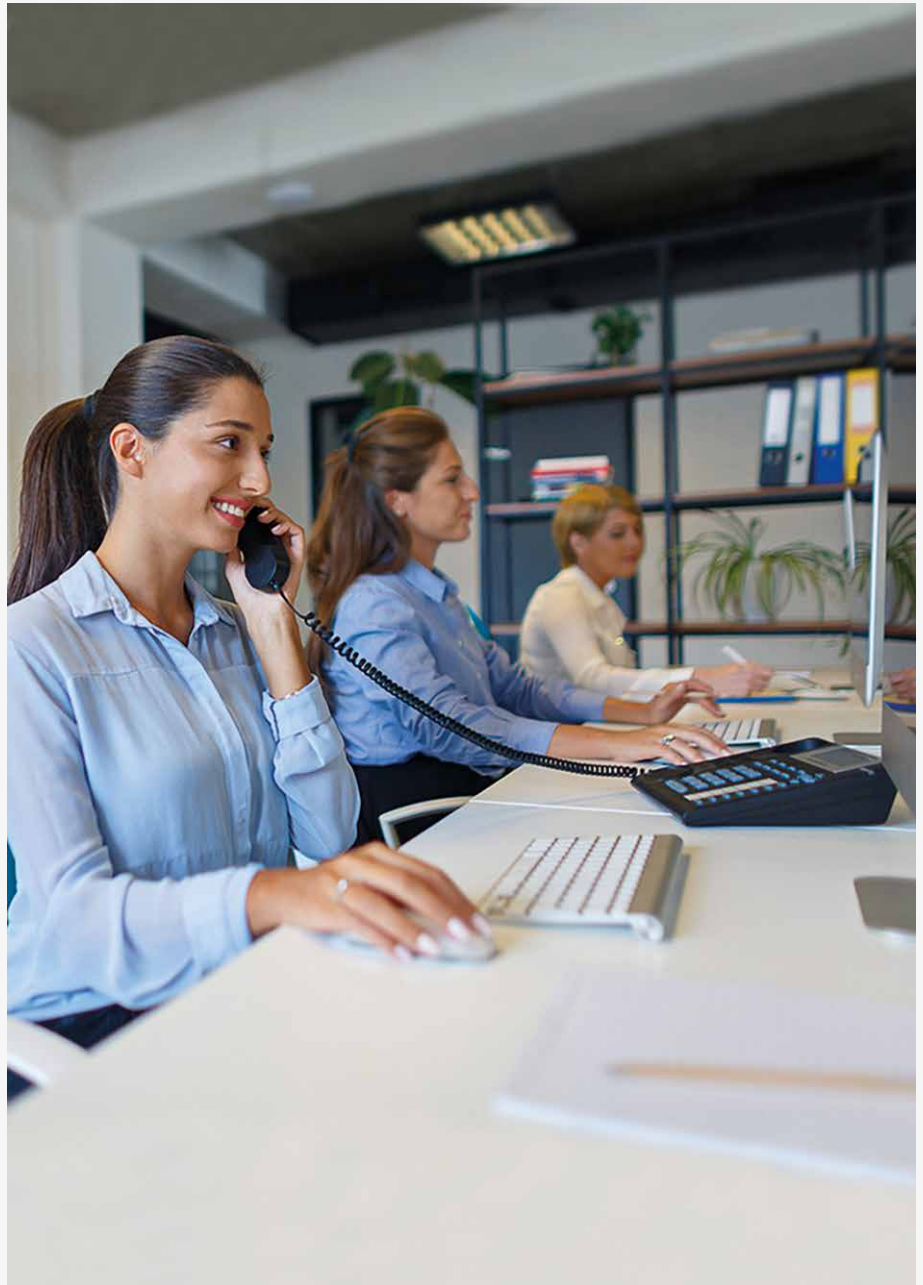


In 2016, we launched an initiative to compare our customer experience to that of not only other banks, but also other large service providers in the country, including food retailers, mobile operators and pharmaceutical companies. This will enable us to challenge ourselves more and think “out of the box”. The recent research indicates that we have the top net promoter score (NPS)¹ across all major industries in Georgia, which is a tremendous result.

Strong brand

Thanks to more than two decades of working with customers and investing in communities, TBC Bank is one of the best-known and most trusted brands in Georgia. We have made our name through providing a high-quality customer experience, establishing a strong corporate social responsibility (CSR) reputation, developing best-in-class multichannel capabilities, creating longstanding customer relationships and conducting innovative marketing campaigns. Our brand is recognised internationally as well, having won many industry awards, including numerous “Best Bank in Georgia” awards from Global Finance, EMEA Finance, Euromoney and the Banker magazines.

¹ Based on independent survey conducted by IPM research in December 2016



CHAIRMAN'S STATEMENT

TBC Bank reached the end of 2016 having had one of the strongest years in its history so far. In 2017, we will maintain our focus on delivering on our stated strategy and objectives. Our goal for this coming year is to further improve what we do best, make the most of the current opportunities, and establish ourselves as the best digital financial services company in the region¹.



Mamuka Khazaradze
Chairman

Review of 2016

Dear Shareholders,

It is my pleasure to present our 2016 annual report.

TBC Bank had another remarkable year in 2016. One of the year's major highlights was the successful listing of TBC PLC's shares on the premium segment of the London Stock Exchange, which will continue to ensure world-class standards of reporting and corporate governance. In addition, the move has helped to significantly improve the liquidity in our shares, expand our investor base and gain inclusion into the FTSE All-Share Index. We firmly believe that the listing will prove to be a major catalyst for generating additional shareholder returns.

Another major milestone in the year was the completion of the acquisition of JSC Bank Republic, Georgia's number-three bank in terms of total loans. The acquisition confirmed TBC Bank as the market leader in Georgia by most key metrics, including total banking assets, total loans and total deposits; it also strengthened TBC Bank's positions in all segments, especially in retail banking and

the affluent segment. The acquisition is value-accretive even in the short term and there are substantial cost synergies to be realised after the merger.

In operational terms, I am also pleased to be able to report a strong set of financial results. In 2016, TBC Bank earned a record GEL298.3 million in net profit, with a ROAE of 22.4% and ROAA of 3.9%. We outperformed the banking sector in terms of business growth, while maintaining solid profitability and strong portfolio quality.

Macro outlook and recent government initiatives

In October 2016, we witnessed another transparent and exemplary democratic parliamentary election process, which resulted in the ruling party remaining in power, thus ensuring the continuity of ongoing reforms. During the year, the government implemented a number of initiatives to enhance economic growth, the most important being a major corporate tax reform. Beginning from 2017, reinvested profit will become tax-free for all companies except for financial services companies, which will benefit from 2019.

Despite continued challenges in the region, GDP grew by 2.7% in 2016, supported by the construction, hotel and restaurant, and real estate sectors, while a slowdown in regional trade volumes resulted in some contraction in the transportation sector. Growth in remittances and exports turned positive from the second half of 2016, following two consecutive years of decline. In 2016, Georgia finalised discussions on a free trade agreement with China, which is expected to come into effect from the second half of 2017. This will further support the growth and diversification of Georgia's export portfolio.

The Georgian banking sector remains a beacon of the national economy. It is conservatively and prudently regulated by the National Bank of Georgia and, as a result, displays strong capital and liquidity levels, as well as sound asset quality, high profitability and sustainable growth. Moreover, TBC PLC is one of two major Georgian banks listed on the premium segment of the London Stock Exchange.

22.4%

Return on average equity

GEL298,3m

Net profit

TBC Bank's strategy

Having achieved our goal of becoming the largest commercial banking group in Georgia, our strategy henceforth is straightforward: to be the best digital financial services company in the region¹.

TBC Bank is one of the best-known and most trusted brands in Georgia, largely due to its strong reputation and exceptional track record in corporate social responsibility. We are also proud to be judged to have the best customer experience, not only in the banking sector, but also across all major service industries in Georgia based on an independent research. In 2017, we will continue to further enhance our customer experience in order to consistently provide a unique and pleasurable banking experience for our clients.

Another major differentiator for TBC Bank is our advanced multi-channel distribution platform and internet and mobile banking offerings that are considered the best in the region. We are following the global trend of mobile-first banking as we seek to digitalise banking in Georgia by offering next-generation banking services to our customers. We are constantly working on fine-tuning our digital offering, focusing on creating a superior user experience through simple and intuitive designs that help to increase the value and comfort of TBC Bank's digital services.

During the year, we enhanced our product offering by acquiring JSC Insurance Company Kopenbur, which was mainly focused on the retail segment in Georgia, with particular strength in motor insurance. After the acquisition, Kopenbur will become TBC Bank's main bancassurance partner. Its product portfolio will include motor, travel, personal accident, credit life, individual and group life, business property and liability insurance services.

Corporate governance and recent changes

I am proud to chair one of the most experienced Boards in the region¹. It consists of nine members in total: five independent non-executive Directors, two founders and two executive members represented by the CEO and CFO. I would like to highlight changes to the Board and Supervisory Board composition that happened during the year. Originally appointed as a representative of DEG, Irina Schmidt's term as a non-executive Director of the Supervisory Board expired in September 2016. We would like to thank Irina for her services and wish her success in her future endeavours. At the same time, we welcomed Stephan Wilcke as the new independent non-executive director of the Board. Stephan has wide-ranging experience in the financial services industry, previously serving as the executive chairman of One Savings Bank PLC during the bank's successful IPO on the London Stock Exchange. His experience will be a very valuable asset to TBC Bank.

We consider our Board to be one of the core strengths of TBC Bank. I am impressed by the dedication and contributions that my colleagues bring to their respective roles. All independent Directors serve on three or more committees and are heavily involved in strategic planning. I look forward to continuing to lead such an enthusiastic and professional team as we continue to grow in 2017.

Culture of giving back

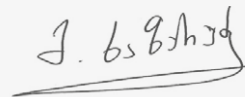
We are proud to have one of the best-developed corporate social responsibility strategies in Georgia. We firmly believe that it is our responsibility to support the community, the environment and our wider stakeholders among which we operate. We work hard to identify the most effective means of giving back to our community through innovative projects that benefit culture, arts, sports and the wider society.

Rugby

We have a long-term partnership deal with the Georgian Rugby Union that includes full-scale support for rugby and its popularisation in the country. We firmly believe that we can play an integral role in developing sport in Georgia, and support our national team in their quest to be included in the Six Nations. Through our campaigns, we support various initiatives aimed at regional development and popularisation of rugby among young people. With our strong partnership and devoted marketing campaigns, we have become true ambassadors of the most successful sports team in the country.

Going forward

TBC Bank reached the end of 2016 having had one of the strongest years in its history so far. In 2017, we will maintain our focus on delivering on our stated strategy and objectives. Our goal for this coming year is to further improve what we do best, make the most of current opportunities, and establish ourselves as the best digital financial services company in the region¹. The successful integration of Bank Republic and the full realisation of its potential synergies are also at the top of the agenda. Every achievement that we accomplish, every milestone that we cross is a testament to our management and staff, and I would like to thank my colleagues, and everyone involved, for their hard work and commitment throughout the year.



Mamuka Khazaradze

Chairman
31 March 2017

¹ Region in this context comprises Georgia, Azerbaijan and Armenia

We sat down with TBC Bank CEO Vakhtang Butskhrikidze to talk about the acquisition of Bank Republic, the LSE premium listing and how digital channels are transforming the business.



Vakhtang Butskhrikidze
Chief Executive Officer

Our new strategic priority is to become the best digital financial services company in the region¹.

Q: By any measure, last year was a transformational one for TBC Bank. In your view, what were the most important events for the business?

A: Alongside the robust financial results, I would emphasise three key events that will strengthen us for years to come. One is the acquisition of Bank Republic, which transformed TBC Bank into the largest non-government owned bank in the region¹. It reinforced our leadership in all banking segments in Georgia where we are present, particularly retail and affluent banking.

Another crucial development was the listing of our shares on the premium segment of the LSE. It represents an important opportunity to welcome new shareholders into TBC Bank and show them what we have to offer. I am pleased to have seen an increase in our share liquidity during the final quarter of 2016.

Finally, we expanded our product offering significantly in 2016 by acquiring the JSC Insurance Company Kopenbur and enhancing our investment banking services. We look forward to becoming an important player in consumer insurance products, a fast-growing market segment.

Q: TBC Bank delivered a stellar financial performance in 2016. How would you evaluate the results?

A: First, I would say that our operational and financial results in 2016 represent the fulfilment and even outperformance of our promises made to investors during the IPO in 2014. We have met or exceeded the medium-term guidance given for most key metrics, including loan book growth, return on average equity, cost-income ratio and dividend payout ratio. We have also fulfilled the pledges to increase our MSME and retail loan market shares and significantly enhance our multichannel capabilities.

I am proud of our financial performance in 2016. We posted a record profit of GEL298.3 million, up 36.4% YoY, while our profitability ratios also continued to improve, the return on average equity (ROAE) reaching 22.4% and return on average assets (ROAA) 3.9%. The main drivers of this were strong non-interest income, a solid net interest margin of 7.8% and efficient cost control. At the same time, we maintained a strong balance sheet and high asset quality. Our non-performing loans (NPL) ratio totalled 3.5%, while our total Basel II/III capital adequacy ratio (CAR) stood at 14.2%, compared with the minimum requirement of 10.5%.

Q: What would you say about Georgia as a destination for international investors?

A: Georgia is undoubtedly a top investment destination in our region. It is investment-friendly, reform-minded and diversified, and it has been demonstrating sound growth despite recent economic challenges in the region. For 2017, the International Monetary Fund forecasts GDP growth for Georgia of 4.0%, one of the highest among countries in Central and Eastern Europe.

The investment environment is attractive due to the strong institutional fundamentals (low corruption, transparent institutions and efficient public services), low tax rates and deregulated labour market. The recent government initiative to make reinvested profit tax-free enhances Georgia's appeal in this respect even further.

In addition, the country has a strategic geographic location and free-trade agreements with EU, China and other major economic players in the region. As such, it is an ideal destination for investors seeking to expand their operations and harness the competitive advantages of the local economy.

Several large-scale projects are under way, including the construction of the Anaklia deep-sea port, the Shah Deniz 2 pipeline, and the Namakhvani and Nenskra hydropower plants. Together, these should bolster Georgia's energy independence and increase its potential as a regional trade, transport and logistics hub. The government's ambitious plan to boost capital spending by another 1% of GDP over the next four years will significantly improve infrastructure and help to enhance tourism and agriculture in currently harder-to-reach regions.

Overall, thanks to the reforms of the last 15 years, Georgia is an exemplary country in the Caucasus region.

Q: Can you tell us about the changes in top management during the year, please?

A: In 2016, we merged our Corporate and Investment Banking departments to provide clients with capital markets products and advisory services through a fully integrated franchise. The resulting new CIB unit is headed by George Tkheldidze, who was previously Chief Risk Officer (CRO). I would like to congratulate George on his appointment and wish him the same success in this new role as he enjoyed as CRO. Replacing him is David Chkonia, who was appointed as a new Deputy CEO and CRO in January 2017 and brings extensive financial services and risk management expertise. I am confident that David will contribute a great deal to TBC Bank's further growth and development.

Q: Today, TBC Bank is Georgia's number one bank in terms of most metrics. Where do you go from here?

A: Having been with the bank since 1992, I would say that our greatest achievement has been to turn our long-term vision into reality and become the market leader. However, we will not rest on our laurels, and one new strategic priority is to be the best digital financial services company in the region¹. While this is a soundbite, it has a lot of meaning.

Some people say: "Digital service company? But you're a bank!" I answer: "Exactly!" In fact, we have already transformed into a digital service company in many crucial respects. Even today, around 84% of all transactions take place outside a branch. The number of active users and the penetration rate for mobile and internet banking are increasing rapidly.

To continually enhance the online banking experience for customers, we are investing substantial resources, and we are the market leader in terms of customer satisfaction. We see continued demand for digital services, as mobile penetration is now almost universal in Georgia.

Q: As we enter 2017, what is your key message to stakeholders?

A: Responsibility: we have a keen sense of responsibility to all of our stakeholders. We know that our bank is now, more than ever, systemically important to Georgia's financial system, so we must act responsibly in everything we do. We know that the development of digital banking services can transform how payments are made in small, remote villages, so reliability and security are absolutely crucial. Finally, we know that TBC Bank is an ambassador of Georgia in the international financial markets, so we have to deliver on our commitments and communicate proactively with the investor community.

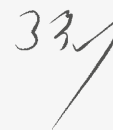
In terms of financial goals, we continue to pursue our medium-term targets and are well on track to achieve them in the next two to three years.

- As a result of strong growth and profitability in 2016, along with the cross-selling and cost-saving opportunities created by the Bank Republic acquisition, we have upgraded our medium-term ROAE forecast to 20% plus;
- Our medium-term loan book growth target is 15–20%;
- Our equity Tier 1 capital ratio (Basel II/III) target is above 10.5%;
- In terms of dividend payout, we will continue to disburse 25% minimum of the Group's annual consolidated net income;
- Finally, we maintain our medium-term cost-to-income guidance at below 40%.

Q: Do you have any final thoughts for our readers?

A: I would like to thank the readers of our annual report for their interest in TBC Bank. I would also like to express my gratitude to our investors, directors and employees for their continued commitment and belief in the TBC Bank story.

Looking ahead, we intend to reinforce our leading position in the market by differentiating our business and ensuring superior customer experience and cutting-edge multichannel services. On this basis, I am confident that we are well positioned to continue to deliver superior results.



Vakhtang Butskhrikidze

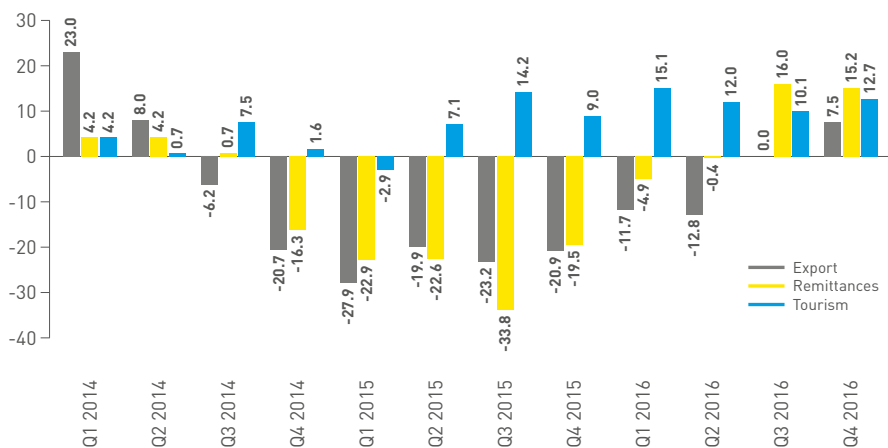
Chief Executive Officer
31 March 2017

The Strategic Report as set out on pages 2 to 87 was approved by the Board, and signed on behalf of the Board by Vakhtang Butskhrikidze
Chief Executive Officer
31 March 2017

¹ Region in this context comprises Georgia, Azerbaijan and Armenia

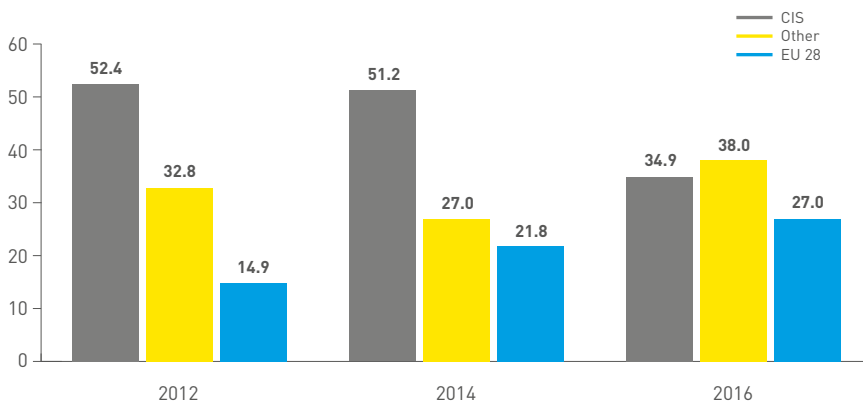
In 2016, the Georgian market offered an attractive business environment, while foreign inflows started to recover.

EXTERNAL INFLOWS HAVE STARTED TO RECOVER, TOURISM REVENUES CONTINUE TO GROW SOLIDLY (% CHANGE YOY)



Source: Geostat, NBG

SHARE OF DIFFERENT REGIONS IN MERCHANDISE EXPORTS OF GEORGIA (%)



Source: Geostat

Economic overview

Georgia's real GDP grew by an estimated 2.7% in 2016, according to Geostat, giving a 4.5% average growth for 2011-2016. Strong construction and manufacturing sectors underpinned GDP growth while other major contributors were real estate, trade and repairs, hotels and restaurants sectors.

Amid continued challenges faced by Georgia's immediate neighbouring countries, the Georgian economy has proved resilient, aided by the country's stable political and business environment. The downward trend in exports and remittances since 2014, driven by these external factors, reached the lowest point in H1 2016 and began trending upwards.

In recognition of its continued progress, Georgia moved up seven steps in the World Bank's 2017 Doing Business ranking, from 23rd in 2016 to 16th out of 190 countries surveyed globally. This placed it third in Eastern Europe and made it one of the top ten countries in terms of annual improvement. In addition, Georgia moved up ten places to 13th out of 186 countries in the "Index of Economic Freedom" by Heritage Foundation, leaving behind countries like the Netherlands, Germany and all the neighbouring countries.

Developments in external trade and other currency inflows

The external sector remains in the spotlight, given continued challenges in the region. In 2016, merchandise imports declined by 0.6% YoY, while merchandise exports fell by 4.1% over the same period, resulting in a slight deterioration in the trade deficit (0.9%). The picture was mixed during the year. In the first half, the trade deficit improved noticeably (up 5.0% YoY), driven by lower imports (down 7.2%). In the second half, despite a recovery in exports (up 3.7% YoY), the trade balance worsened by 6.3% as a result of increasing imports due to the higher oil prices and increased import of consumer and investment goods.

The worsening economic situation in Turkey, Armenia and Azerbaijan negatively impacted exports to those countries. At the same time, a relatively stable situation in Russia and Ukraine drove an increase of exports there (up 26.6% and 22.3%, respectively). Exports to less traditional markets like China (up 34.8%), Iran (up 30.1%) and other Gulf countries increased at higher rates, further diversifying Georgia's export profile and reducing its dependence on any particular country or region. Overall, export dependence on the CIS has fallen steadily in recent years, from 52.4% of total exports in 2012 to 34.9% in 2016.

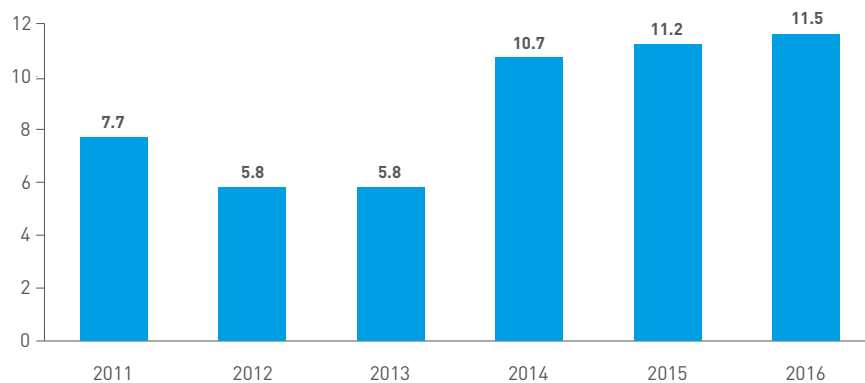
Exports of the country's signature wines (+18.5% YoY) and other alcoholic drinks (+41.5% YoY) were key drivers of the recovery in exports by the end of 2016. Beginning of 2017 marked continuation of positive export dynamics started by the end of 2016. In the first two months of 2017 merchandise exports expanded by 26.6% YoY. Growth of exports was mostly driven by increasing exports of Ferro-alloys, wines and other alcoholic drinks.

Expansion of trade relationships

In 2016 Georgia signed a free trade agreement with the European Free Trade Area states (Iceland, Lichtenstein, Norway, Switzerland), representing a small but important expansion of its free-trade partnerships. Georgia is gradually capitalising on the free-trade agreement with the EU, while a step-by-step alignment of the Georgian regulatory environment to that of the EU means that a broader range of Georgian produced goods can enter the EU on favourable terms.

In addition, the European parliament approved visa-free travel to Schengen countries for Georgian citizens and the decision will enter into force from 28 March 2017. Visa-free movement will be a valuable addition to the existing free-trade deals and enable Georgia to benefit from the significant export potential offered by the EU.

FOREIGN DIRECT INVESTMENT INFLOWS (% OF GDP)



The free trade agreement between China and Georgia, to come into force in the second half of 2017, represents a considerable addition to the existing ones and formalises Georgia's role in China's "Belt and Road" initiative.

Tourism and remittance inflows

Georgia's dynamic tourism industry continued to grow in 2016, with visitor numbers increasing 7.6% YoY to 6.4 million people, contributing US\$2.2 billion to the economy. In addition, the initial indicators for 2017 are encouraging: in first two months of 2017, the number of visitors went up by 10.5% YoY. Remittances, which represent a significant positive component of Georgia's current account balance, also recovered by 6.6% YoY, mainly supported by greater money transfers from Israel (up 84.7%), the US (up 27.6%), Turkey (up 26.3%), Italy (up 11.2%) and Greece (up 5.8%). Money transfers from Russia were also showing the first signs of recovery by the end of 2016.

Foreign direct investments

Georgia remained attractive destination for foreign direct investments, FDI stood at 11.5% of GDP, 0.3 pp above the same figure in 2015. In absolute terms FDI increased by 5.2% YoY to US\$1.65 billion in 2016. Over the last three years FDI inflows stayed above 10% of GDP, reflecting opportunities of growth and positive sentiment of investors in Georgia in spite of regional economic difficulties.

From the sectoral perspective, transport and communications was the major recipient of FDI mostly reflecting the construction of Shah Deniz 2 pipeline, this sector accounted for 39.0% of total FDI in 2016. Energy, construction, manufacturing and hotels and restaurants also remained among the top FDI recipients and their share in FDI stood at 12.3%, 9.9%, 9.6% and 6.7% respectively.

6.4m

Number of visitors in 2016

7.6%

YoY growth of number of visitors in 2016

Recent developments of local currency exchange rate

In 2016 average USD/GEL exchange rate depreciated by 4.3% YoY while EUR/GEL exchange rate depreciated by 3.9% YoY. As of 28 February 2017 the USD/GEL exchange rate appreciated by 2.4% compared to 2016 year end supported by increasing export, remittance and tourist inflows. Overall, USD/GEL exchange rate remained consistent with exchange rates of regional currencies. Real effective exchange rate of GEL appreciated by 3.4% YoY in 2016, following 4.6% depreciation in 2015.

Fiscal policy and tax environment

Georgia offers one of the most favourable taxation regimes in the region. With a total tax rate of 16.4% , the country has a lower tax burden than most peers in Central Asia and Eastern Europe. Starting from 2017, reinvested profit will become tax-free for most business sectors, further bolstering Georgia's position as the country with most liberal corporate taxation regime in the region. Corporate profit tax reform will apply to financial institutions from 2019.

To cover the temporary gap in revenues resulting from the profit tax reform, the government has raised excise taxes on tobacco, petroleum, gas, alcoholic drinks and cars. Reshuffling tax incentives should support growth over the longer term, with investing and re-investing made more attractive, while consumption of currently very cheap tobacco and alcoholic drinks will be discouraged, which should be positive for the external trade balance perspective as well.

The fiscal policy remained pro-growth in 2016, with the fiscal deficit c.3.9% of GDP, financed mostly by external liabilities. Despite the fiscal deficit being over 3%, public debt levels remain adequate, at around 44.5% of GDP. In line with the government's debt management strategy, the share of domestic debt in total public debt is gradually increasing – it stood at 21% at the end of 2016 – which reduces exchange rate risk and strengthens the sustainability profile of public debt.

In 2017, fiscal deficit is projected at 4.2% of GDP, mostly driven by increased capital expenditures. The government's long-term reform agenda centres on infrastructure development in the country to support long-term economic growth by reducing transportation costs and better harnessing the potential of Georgia's regions. In addition, better transport infrastructure should strengthen the country's position as the region's transport and logistics hub. The immediate effects of increased capital spending should be lower unemployment and higher economic growth.

Inflation and monetary policy

In 2016, inflation fell and the National Bank of Georgia (NBG) began pursuing lower inflation targets, cutting the refinancing rate from 8.0% in the beginning of the year to 6.5% at year-end. This allowed banks to reduce rates on local currency lending, with non-commercial lending accelerating from the third quarter, supporting the de-dollarisation of the loan portfolio.

An increase in excise taxes and higher commodity prices by late 2016 triggered inflation expectations, requiring monetary policy action. In late January 2017, the NBG raised the base rate by 0.25 percentage points from 6.5% to 6.75% and pledged to do the same in the coming quarter. Given that the inflation was primarily driven by one-off factors, the NBG is not expected to overreact even if inflation goes temporarily above the target of 4.0% in 2017.

Financial sector

In 2016, the banking sector experienced healthy growth as a whole, driven by positive economic growth across the economy, among other factors.

In 2016, the total loan portfolio increased by 18.1% YoY (10.7% excluding the FX effect), reaching 55.7% of GDP. Loans in foreign currency rose by 19.6% YoY (8.3% excluding the FX effect), while GEL-denominated loans grew by 15.2%. The share of foreign currency-denominated loans decreased by 1.4 % YoY (excluding the FX effect), a reflection of falling rates on local currency loans. The share of total foreign-currency loans stood at 65.4%, while the dollarisation of deposits was 72.5% as at 31 December 2016.

The NBG and government introduced new initiatives to reduce the dollarisation of the financial system, which represents a key challenge for the Georgian financial sector. The programme includes a one-off, voluntary conversion of certain US Dollar

loans secured by real estate into GEL-denominated ones at a favourable rate, and they will be financed by the government. It also includes measures to support the de-dollarisation of certain loans below GEL100,000 by providing respective funding and implementing appropriate regulations. The NBG is providing US Dollar and local-currency liquidity for banks during this process. The de-dollarisation of the loan portfolio should continue over the medium term, supported by a credible monetary policy of the NBG and increased availability of longer-term local-currency funding.

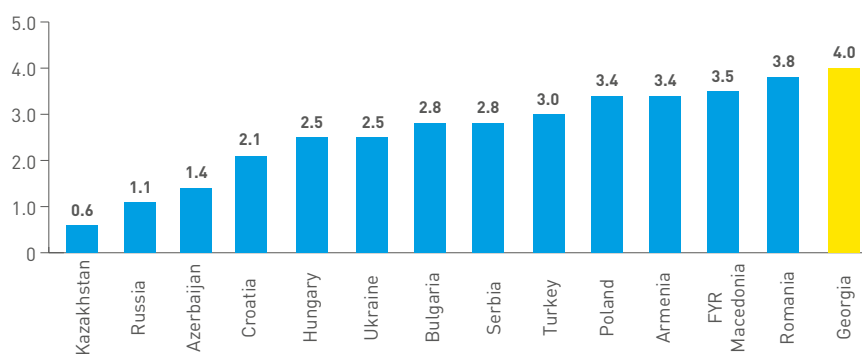
The financial sector continues to operate in a prudent regulatory framework, with strong capital, liquidity and asset quality. Georgia continues to stand out in the region in terms of credit portfolio quality. At the end of 2016, non-performing loans (NPLs) accounted for 3.4% of total loans. The low level of NPLs reflects the broader stability in the economy.

TBC Bank's acquisition of Bank Republic continued the consolidation of the Georgian banking sector, which increases general quality and cost efficiency in the market, allowing TBC Bank and competitors to deliver more efficient services to retail, MSMEs and large corporate clients.

Outlook

The IMF forecasts 4.0% GDP growth for Georgia in 2017, which would make it one of the best performers in Central Asia and Eastern Europe. Political stability and prudent fiscal and monetary policies are expected to remain in place.

PROJECTED GDP GROWTH IN PEER COUNTRIES (%)



Source: IMF, WE0, October 2016 update

Exports, remittances and tourism should continue to grow, driven by the diversification of export markets and an improved economic environment for the main trading partners. The greater use of benefits offered by the Deep and Comprehensive Free Trade Area and the free-trade deal with China also offer tangible benefits for Georgian exporters.

Potential developments in the external sector remain at the centre of both positive and negative scenarios for the economy. At the same time, continued reforms, improvements in institutional quality and better diversification of the export portfolio are expected to support Georgia's economy to navigate in an uncertain regional and global environment.

18.1%

Loan portfolio growth in 2016

55.7%

Loan portfolio share in GDP in 2016

BUSINESS MODEL

Having achieved the strategic goal of becoming the number one player on the Georgian market, we decided to embark on the next challenge: to change the way that people bank in Georgia and become the best digital financial services company in the region¹.

Overview

Following the acquisition of Bank Republic in 2016, TBC Bank became the number one commercial banking group in Georgia, with leading positions in most key metrics². Having achieved the strategic goal of becoming the number one player on the market, we decided to embark on the next challenge: to change the ways people bank in Georgia and become the best digital financial services company in the region¹.

Mission

Our mission is to create new opportunities that will enable people and businesses to succeed.

Vision

Our vision is to be the best digital financial services company in the region¹.

Market

Our business model is primarily focused on core banking activities in Georgia, although we have two small subsidiaries abroad. We believe that the country's banking sector retains considerable long-term growth potential: it remains under-penetrated, is well capitalised, has some of the highest-quality assets in the region and offers sustainable growth potential. Mobile and broadband communications are widely available in Georgia, while mobile application penetration rates continued to grow in 2016, supporting a growth strategy built on digital business.

What we do

We are the lead partner banking group in Georgia for both retail and business customers, including large corporates, SMEs and microfinance companies. We offer much more than just common banking services: we seek to create a unique service experience and support clients by providing innovative value-added services, including free training sessions, individual consultations, networking events and educational web portals.


We have also established leasing, brokerage, advisory and insurance subsidiaries with the aim of providing the full range of financial products for customers.

Sources of income

TBC Bank's primary sources of income are interest income and fee and commission income generated by core banking business areas and related activities. We seek to continuously support our strong organic growth by developing new products and services. Our digital focus creates new opportunities for customer engagement, new revenue streams and cost savings. The merger with Bank Republic, due for completion in the third quarter of 2017, will provide further opportunities for cross-selling and upselling as well as cost efficiency.

¹ Region in this context comprises Armenia, Azerbaijan and Georgia

² Based on data as of 31 December 2016 published by the National Bank of Georgia and including Bank Republic's market shares

 See our Strategic review on page 22





RETAIL

The retail segment provides high-quality services to mass retail, affluent and high-net-worth individuals. Our premium banking offering includes unique VIP and TBC Status areas, dedicated multichannel, superior relationship management and lifestyle services, the aim being to maximise the customer experience.



CORPORATE

The corporate segment provides tailored banking products, brokerage and advisory services to large corporations. Our highly experienced corporate bankers have strong sector knowledge, helping them to find the right solutions for businesses.



SME

The SME segment provides financial and non-financial services, through a unique Business Support Programme, to small and medium-sized companies, which are expected to be the main drivers of economic growth in the medium to long term.



MICRO

Another key area for TBC Bank is microfinance, which offers high margins and substantial growth potential. The merger of Bank Constanta, completed in 2015, provided an opportunity to extend our full product offering to micro clients and enhance our coverage in the more rural regions of the country.

WHAT MAKES US DIFFERENT?

- ▶ Leading positions in an attractive market
- ▶ Strong track record of growth and profitability
- ▶ Resilient and high-quality balance sheet
- ▶ Focus on core banking activities in Georgia
- ▶ Strong brand and award-winning franchise
- ▶ Superior customer experience
- ▶ Long-term partnership with businesses
- ▶ The leading multichannel distribution platform in Georgia
- ▶ One of the most advanced corporate governance structures in the region¹

Our strategy exploits our unique set of strengths and opportunities to unlock the full potential of our business and market.

Overview

TBC Bank's overall strategy is designed to deliver sustainable, long-term growth and profitability without compromising asset quality. In 2016, following the acquisition of Bank Republic, our priorities have evolved in line with our updated vision of being the best digital financial services company in the region¹. This means taking full advantage of our strengths and opportunities to fulfil our strategic goals and achieve a step change in how we operate and deliver products and services.

Strengths

The leading position in an attractive market and a strong track record of growth and profitability

TBC Bank is Georgia's largest commercial banking group by most key metrics. As of 31 December 2016, including Bank Republic, we accounted for 36.7% of the country's banking assets, 38.9% of gross loans and 37.8% of deposits².

In recent years, we have delivered strong results in terms of both growth and profitability. Over 2013–16, the compound annual growth rate (CAGR) for loans and deposits was 35.5% and 30.7% respectively, while the ROAE remained between 18.0% and 22.5%. We have also maintained strong margins, recording a net interest margin of 7.8% in 2016. Such a strong performance was further reinforced by continuous improvements in cost efficiency.

Business model focused on core banking activities in Georgia

TBC Bank focuses overwhelmingly on Georgia, which accounted for 99.6% of total group assets in 2016, allowing us to build on our knowledge and strong position in the market. We have a streamlined business and a clear strategic focus on core banking activities, with most subsidiaries operating in the financial services industry. This, in turn, enables us to maintain a straightforward and resilient balance sheet and a stable, customer-focused source of funding.

Strong brand, superior customer experience and award-winning franchise

TBC Bank is one of Georgia's best known and most trusted commercial names, with strong brand equity built up over more than two decades. As the country's number one bank, our reputation is closely tied to our solidity and trustworthiness as a financial institution, allowing us to establish immediate trust for the new products and services that we bring to the market. At home, the brand is also associated with high-profile CSR activities such as investments in literature, art, sports and education. Internationally, the brand also has a growing profile among shareholders and analysts following our admission to the premium segment of the LSE, enhancing our attractiveness as an investment. It is testament to the brand's success that TBC Bank has been awarded the title of "Best Bank in Georgia" for 13 of the last 15 years and has received 26 such awards in total from Global Finance, EMEA Finance, Euromoney and The Banker magazines.

Since its inception, TBC Bank has consistently sought to build strong client relationships and continues to work tirelessly to deliver the best possible customer experience. Our ambition is to stand out in this respect not only in the financial sector, but also across all major service providers, and our undisputed leadership is confirmed by both internal and external market research. Customer loyalty is a vital part of our overall strategy, as it allows us to retain retail and business clients and offer them the right solutions appropriate for their evolving needs. We maintain high-tech CRM systems to better understand our customers and work to design products that match their needs and preferences.

Strong multichannel capabilities

One of TBC Bank's main competitive advantages is its advanced multi-channel distribution platform. It includes one of the most productive, modern and visually appealing branch networks in Georgia; award-winning internet banking; a vast network of POS, cash-in terminals and ATMs; a best-in-class call centre; and the best mobile banking application on the market, with a customer review score of 4.9 out of 5.0 on Google Play.

We are following the global trend of mobile-first banking, as we seek to make banking digital in Georgia by offering next-generation banking services to our customers. We have invested accordingly to make the most of this opportunity. As a result, we have achieved a comprehensive competitive advantage in terms of both internet and mobile banking transactions, as well as overall customer experience. We have the highest number of active internet and mobile banking users and the number of transactions conducted in these channels is rising rapidly. In addition, we have gained recognition by receiving numerous local, regional and global awards from Global Finance Magazine since the introduction of our breakthrough internet and mobile banking.

Leading partner for businesses in Georgia

We are a leading partner bank for both large corporates and MSMEs, for which we provide a full range of convenient and attractive products and services. Our highly professional and experienced team works to find the best possible solutions for businesses and provides support at every stage of development. We strive to assist businesses to grow and prosper not only by providing financial support, but also by supplying various educational resources and incentives. For the MSME segment, we provide important education through our Business Support Programme, which includes an educational web portal (www.tbcbusiness.ge), free training sessions and consultations as well as networking events, conferences and masterclasses. This, combined with personalised customer service, makes us the most reliable partner bank for any company that wants to prosper, as we firmly believe that success is contagious.

Experienced management team and high-quality corporate governance

As a public company, we are committed to achieving the highest standards of corporate governance. We believe that we have one of the most experienced Boards in the region, whose members have diverse and unique backgrounds. The Board consists of nine members: five independent non-executive Directors, two founders and two executive members represented by the CEO and CFO.

TBC Bank also has a highly experienced management team of eight people with significant expertise in the finance industry and a proven track record of leading its operations. We have a strong mix of people who have been with us for more than 15 years and new members with international experience.

Premium listing on the London Stock Exchange

One of the year's major highlights was the successful listing of TBC PLC's shares on the premium segment of the London Stock Exchange. This allowed us to broaden our investor base and enhance our public profile and has resulted in our inclusion in the FTSE All-Share index. The listing also underlines TBC Bank's transparency and adherence to stringent corporate governance and reporting standards. We firmly believe that it will prove to be a major catalyst for generating additional shareholder returns.

Strategic initiatives

To continue leveraging our strengths and to realise our mission, the following strategic initiatives have been devised for the medium term:

Deepen relationships with customers

Our retail customer base of 1.7 million people represents around half of the population of Georgia. We use our strong analytical capabilities to successfully market products to them, while developing new services to respond to client needs. The size and diverse nature of our customer base also provide a high degree of stability, as we serve people of all incomes and companies of all sizes. The acquisition of Bank Republic has also created significant new opportunities for cross-selling and up-selling. As such, our focus will be exploiting our innovative products, deepening relationships with new and existing clients and creating new products and value-added services, including bancassurance, brokerage and consulting services.

Our medium term targets here are to increase the product-to-customer ratio for the retail segment by more than 15%, from the current 3.7, and increase total non-interest income by 15-20%.

In parallel, we will seek to expand our total loan book at 15-20% annually maintaining our leadership across all key segments and products.

Further enhance multichannel capabilities

Our main strategic initiative in this area will be to exploit our advanced digital capabilities and further strengthen sales through all remote channels, especially mobile banking. In addition, we aim to introduce new innovative channels and processes including Chat Bot technology to complement traditional chat, a mobile wallet for contactless payments, and video chat for TBC Status clients in the mobile banking application. We will also continue educating customers to increase internet and mobile banking penetration further.

Our medium-term targets here are:

- To further offload branch transactions into remote channels, increasing the retail transaction offloading ratio to over 90%, up from the current 84%
- To increase the penetration ratio of internet or mobile banking users among active clients to over 45%, from the current level of 37%
- To boost the mobile banking penetration ratio to over 35%, from the current level of 24%
- To enhance our product offering through the mobile banking platform by adding all major products, including the issuance of credit cards, debit cards and deposits

Further improve customer experience

According to various surveys conducted by external research agencies, we lead the market in terms of customer satisfaction and loyalty. Our net promoter score (NPS, a widely used metric for measuring customer loyalty) is the highest not only within the banking sector, but also across other industries. Nevertheless, we are committed to continually improving our customer experience to further strengthen our leading position.

In 2017, we will focus on several objectives including:

- Streamline processes to make it easier for customers to do business with us
- Ensure a consistent customer experience in newly acquired entities (Bank Republic and TBC Insurance, former Kopenbur)
- Upgrade service skills of front-of-house employees to enable them to handle challenging situations more productively

Increase operational efficiency and automation

In line with our lean Banking model and our vision of becoming the best digital financial services company in the region¹, we are aiming to continue modernising and automating programmes and processes. In 2017, we plan to enhance key systems to strengthen our analytical and digital capabilities and also boost employee productivity by improving the interoperability and flexibility of certain components of core banking systems. In addition, we plan to introduce new tools and capabilities for businesses in order to achieve a higher level of automatization and to assist them with conducting more in-depth analysis and sophisticated forecasts.

In parallel, we will focus on increasing straight-through processes for our most important areas. This initiative will help us to achieve our cost-related financial targets, described below.

Updated medium term financial targets

- We will continue to grow our loan book at 15-20% a year
- We will maintain our medium term ROAE target of 20%+
- We will keep our medium term cost to income ratio below 40%
- We will continue to maintain a solid capital buffer, with a targeted equity Tier1 capital ratio (Basel II/III) of above 10.5%
- Regarding dividends, we will continue to disburse 25% of consolidated net income

¹ Region in this context comprises Armenia, Azerbaijan and Georgia
² According to data published by the National Bank of Georgia

TBC Bank uses a broad range of KPIs to measure how it is succeeding in implementing its long-term strategy and to ensure growth that delivers returns on a sustainable basis. These indicators reflect financial measures, such as return on investment, efficient cost control, increased collection of fees and commission income, proper management of risks, and proper capital management to optimise and maintain capital adequacy ratios. They also reflect operational measures, such as internet and mobile banking penetration ratios and the retail transaction offloading ratio.

In 2016, we delivered improvements across almost all of our KPIs. We made steady improvements in net profit, ROAE and net fee and commission income growth demonstrating continued solid profitability. The growth in the loan book and market shares combined with strong asset quality reflects our steady and sustainable development. In addition, we continue to successfully harness our remote channels and record improved levels of digitalisation.

Key productivity indicators

1. NET PROFIT (GEL MILLION)

2016	298.3
2015	218.7
2014	158.5

Net profit increased solidly by 36.4% YoY. Excluding the Bank Republic acquisition, growth was 31.5%.

3. NET INTEREST MARGIN (NIM, %)

2016	7.8
2015	7.8
2014	8.5

The net interest margin remained stable YoY. Compared with 2014, it was lower, in line with the overall market trend of declining loan yields.

5. COST-TO-INCOME RATIO (%)

2016	45.8
2015	43.9
2014	49.4

In 2016, we incurred significant one-off administrative expenses related to the premium listing of TBC PLC and Bank Republic acquisition, as well as certain other one-offs. Excluding all of these, cost-to-income ratio would have been 42.9%. The one-offs are discussed in details on page 67.

2. RETURN ON AVERAGE EQUITY (ROAE, %)

2016	22.4
2015	20.1
2014	18.4

Return on average equity reached a record of 22.4%, or 21.6% excluding the Bank Republic acquisition.

4. NET FEE AND COMMISSION INCOME GROWTH (% , YOY)

2016	24.9
2015	23.2
2014	17.2

Net fees and commissions continue to grow steadily, rising by 24.9% in 2016. Excluding the Bank Republic acquisition, the increase was 21.8%.

6. COST OF RISK (%)

2016	1.0
2015	1.7
2014	1.6

The cost of risk decreased due to the improved performance of the loan book, particularly in the corporate segment.





7. NON-PERFORMING LOAN RATIO (%)

2016	3.5
2015	4.8
2014	3.1

As of 31 December 2016, the non-performing loan ratio had decreased to 4.0%, excluding the Bank Republic acquisition. This was mainly driven by the improved performance of the corporate portfolio.

8. LOAN BOOK MARKET SHARE (%)

2016	38.9
2015	28.7
2014	27.7

In 2016, the market share of the loan book, excluding the Bank Republic acquisition, was 31.1%, up 2.4 percentage points.

9. TIER 1 CAPITAL ADEQUACY RATIO (%)

2016	10.4
2015	12.8
2014	12.4

In 2016, the Tier 1 capital decreased by 2.4 percentage points due to the Bank Republic acquisition.

10. NET STABLE FUNDING RATIO (%)

2016	108.4
2015	116.3
2014	114.6

Over the last three years, the net stable funding ratio has remained above the minimum guidance of 100%.

11. LOAN TO DEPOSIT PLUS IFI FUNDING RATIO (%)

2016	93.4
2015	94.8
2014	98.1

Over the last three years, the loan to deposit ratio has remained broadly stable.

12. LOAN DOLLARISATION (%)

2016	65.9
2015	64.9
2014	63.2

The loan dollarisation level has increased at the constant currency rate. However, over the last three years, it has remained stable in nominal terms.

13. PENETRATION RATIO OF INTERNET OR MOBILE BANKING USERS AMONG RETAIL ACTIVE CLIENTS (%)

2016	37
2015	32
2014	25

The penetration ratio of internet or mobile banking users among retail active clients is growing stably.

14. PENETRATION RATIO OF MOBILE BANKING USERS AMONG RETAIL ACTIVE CLIENTS (%)

2016	24
2015	15
2014	11

The mobile banking penetration ratio soared in 2016.

15. RETAIL TRANSACTION OFFLOADING RATIO (%)

2016	84
2015	79
2014	82

This ratio reflects the increasing migration of customers from branches to remote channels in line with our strategy. The ratio decreased in 2015 due to the Bank Constanta merger, without which it would have been 83%.

Tegeta Motors and TBC Bank have enjoyed 16 successful years of partnership.

Tegeta Motors began life as a small car service centre back in 1995 and has expanded substantially since. Today, it is a leader in Georgia's automotive industry and provides a full range of servicing for passenger and commercial vehicles nationwide. The company is an official distributor of more than 300 brands, including Toyota, Mazda, Porsche, MAN, JCB, Hyundai, Bridgestone, Michelin, Shell, Motul, Varta, Bosch, Philips and ZF parts. It sells both car parts and service and industrial equipment for factories and manufacturers. It has 19 branches throughout Georgia.

Tegeta Motors employs more than 1,200 people and serves around 10,000 corporate customers, 180,000 retail loyalty card holders and more than 2,000 wholesalers. Its clients are well known local and international names, as well as companies operating in the Caucasus, Central Asia, Russia and Turkey. Over its 20-year history, Tegeta Motors has become a well-known brand in the region. Its next plan is to launch franchises and branches outside Georgia; in Q1 2017, the company intends to open a branch in Baku.

"Tegeta Motors has been our client from the day of its incorporation and we have been reliable partners throughout all these years," says Tegeta's senior corporate banker, Zurab Gugushvili. "We have helped the company grow and develop, providing financing for several large projects, including a dealership with MAN Truck & Bus, Toyota and Shell. We also financed the construction of a head office and main central branch on Agmashenebili Alley in Tbilisi in 2008."

TBC Bank continues its close partnership with Tegeta Motors. This year, we helped the company to launch a new business line that envisages providing warranty service and complete maintenance for Tbilisi's new fleet of municipal buses. In total, the city hall plans to replace 144 old public buses with modern, environmentally friendly buses from Tegeta Motors' German partner, MAN Truck & Bus.

Tegeta Motors founder and general director, Temur Kokhodze, said: "TBC Bank has been our house bank for 16 years and has supported us with project financing at every stage of our development. We also have a revolving credit line for short-term working capital needs. TBC Bank has a professional and extremely helpful team with a good understanding of our business model and has therefore always offered solutions tailored to our needs. TBC Bank is our reliable partner and has played an important role in our success story, and we are sure that many more interesting projects lie ahead of us."



"Tegeta Motors has been our client from the day of its incorporation and we have been reliable partners throughout all these years."

Zurab Gugushvili
Senior Corporate Banker





#1

“TBC BANK HAS BEEN OUR HOUSE BANK FOR 16 YEARS AND HAS SUPPORTED US WITH PROJECT FINANCING AT EVERY STAGE OF OUR DEVELOPMENT.”

David Cheishvili

General Manager at Tegeta Truck & Bus
the daughter company of Tegeta Motors.

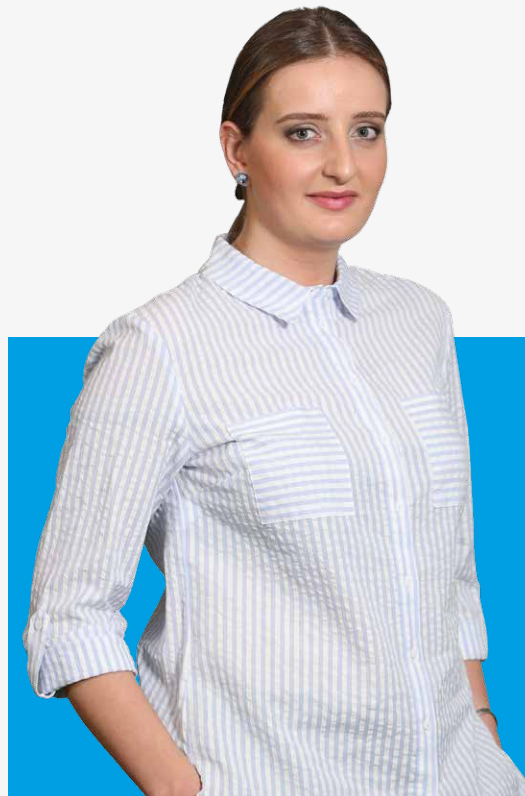
Entrée has grown rapidly due to its commitment to quality and customer service, values shared by TBC Bank, its partner.

Entrée is a popular artisan bakery chain in Tbilisi that offers a wide range of organic sourdough bread, delicious pastries, croissants, superfood sandwiches, soups, salads and homemade Italian-style ice creams, as well as aromatic coffees and freshly squeezed juices. All Entrée products are prepared under the watchful eye of French and Italian master chefs. The Western-style cuisine, friendly staff and cosy, smoke-free environment make Entrée a famous lifestyle brand and the perfect choice for breakfast, lunch, or just an afternoon coffee to drink in or take away in smart, recyclable packaging.

Georgian businessman Eugene Pichkhaia and his French partner, Jean Michel Charles, founded Entrée in 2008. They aspired to build a strong, internationally recognised Georgian brand. Since then, the company has grown organically to include 13 cafes in Tbilisi's best neighbourhoods. In 2014, Entrée expanded into Azerbaijan with four locations that have proven very successful. Additional international expansion is also in the pipeline.

Entrée's credit expert Nino Peradze commented: "Entrée became our customer in 2011 and it has been a joy to watch it grow and prosper over the years. On our part, we act as a trusted partner and have always supported the company's growth plans. We have provided financing for its expansion, both on the local market and in Azerbaijan. We hope that our partnership will only grow stronger in the years to come."

Entrée founder Eugene Pichkhaia said: "We chose TBC Bank as our partner bank due to our shared belief in adopting a customer-centric approach and striving for excellence. Doing business with TBC Bank is very convenient because most services are available through digital channels. Also, whenever I do have to go to a branch, employees welcome me warmly and make me feel at home."



"Entrée became our customer in 2011 and it has been a joy to watch it grow and prosper over the years."

Nino Peradze
Credit Expert





#1

“WE CHOSE TBC BANK AS OUR PARTNER BANK DUE TO OUR SHARED BELIEF IN ADOPTING A CUSTOMER-CENTRIC APPROACH AND STRIVING FOR EXCELLENCE.”

Jean Michel Charles
Business co-founder

For the partners at one of Georgia's top law firms, TBC Bank delivers a highly personalised and efficient service.

Levan Nikoladze, Archil Lezhava and David Kapanadze, the partners at the LPA law firm, are longstanding TBC Status clients. They have been with us for many years and have used the full range of our products, including consumer loans, mortgages, car loans and lifestyle services.

The partners highly value TBC Bank's mobile and internet banking services, since they travel extensively as part of their work, and being able to perform most transactions online is crucial for them. They also like the newly introduced concierge service, which provides them with special offers for flights and hotels. In addition, they appreciate TBC Bank's efforts to be a major sponsor of social and cultural activities that contribute to Georgia's development.

"TBC Bank has freed up a lot of valuable time for me for both personal and professional growth," Levan Nikoladze said. "I need to visit the branch rarely now. Communication with the bank is both efficient and easy, and I have one dedicated, qualified banker, who can resolve any issue. In my case, I am lucky to have Tamar Shonia as my personal banker, who is always understanding and diligent. At LPA, we always recommend TBC Bank to our clients."

"We like and continue working with TBC Bank because just like us, it is focused on the success of clients and staff," add Archil Lezhava and David Kapanadze. "This makes doing business with TBC Bank always enjoyable."



"The partners highly value TBC Bank's mobile and internet banking services, since they travel extensively, and being able to perform most transactions online is crucial for them."

Tamar Shonia
Personal Banker



#1

“TBC BANK HAS FREED UP A LOT OF VALUABLE TIME FOR ME, FOR BOTH PERSONAL AND PROFESSIONAL GROWTH.”

Levan Nikoladze
Partner, LPA

TBC Bank's microfinance segment provides crucial support for the development of agriculture in Georgia.

Cheese Hut, a cheese factory in the city of Bolnisi, is an outstanding example of the successful development of micro business in Georgia. Its success reflects the vital role played by our micro segment in helping Georgian agriculture, a crucial part of the overall economy, to achieve its full potential.

Badri Gogoladze, the owner of the company, started producing cheese as a family business in his hometown in 2012. In the beginning, he did not have any specialised facilities, but he did have a clear vision. Today, the firm has a small factory that employs 20 people and it produces around 625 kg of cheese a day for sale in the local area. The factory sources fresh milk from a local dairy farmer.

"Cheese Hut is a very successful business, it's developing rapidly and has ambitious development plans," said Mari Davitashvili, the microloan officer. "Beginning next year, it plans to start exporting its products and expand its range with cottage cheese and other dairy goods."

Badri Gogoladze commented: "I have been a TBC Bank customer since 2012, when I was only starting my business. Over these four years, I have taken several loans to expand my business. All products were always offered on the best terms and with great service. Apart from me, TBC Bank has also supported many agricultural businesses in our region. I am very grateful to TBC Bank for giving us the opportunity to develop the agricultural segment and turn our ideas into successful, profitable businesses."



"Cheese Hut is a very successful business, is developing rapidly and has ambitious development plans."

Mari Davitashvili
Microloan officer





#1

"I AM VERY GRATEFUL TO TBC BANK FOR GIVING US THE OPPORTUNITY TO DEVELOP THE AGRICULTURAL SEGMENT AND TURN OUR IDEAS INTO SUCCESSFUL, PROFITABLE BUSINESSES."

Badri Gogoladze
Business founder

RETAIL SEGMENT

Overview

In 2016, TBC Bank entrenched its leadership in Georgia's retail banking segment, ranking first in terms of both deposits and loans, with market shares of 41% and 44%, respectively¹. Our retail business is differentiated by our customer service, world-class multichannel platform, trusted brand, and unmatched customer-relationship management (CRM) and analysis. Last year, the acquisition of Bank Republic expanded our customer base and market share, giving additional opportunities to offer new products. At the same time, we continued to deliver organic growth, exploiting the key competitive advantages mentioned.

Performance in 2016²

Retail banking is our largest segment, accounting for 51% of loans and 57% of deposits of the bank. It consists of the VIP, non-resident wealth management clients, TBC Status (affluent and mass affluent customers) and mass retail sub-segments.

In 2016, we served around 1.7 million retail clients, including over 16,000 affluent banking and over 2,400 VIP and non-resident wealth management clients. We have 120 branches and our industry-leading multichannel platform includes Georgia's most advanced mobile and internet banking, a call centre, point of sale (POS) terminals and ATMs. By the end of 2016, 84% of all transactions were remote and 55% of total sales (for all products available through our remote channels) were conducted digitally or through call centre.

In 2016, retail loans increased by 34% YoY excluding the Bank Republic acquisition, or 86% YoY including the acquisition, to GEL 3,763 million. Deposits rose by 35% YoY excluding the Bank Republic acquisition, or 48% YoY including the acquisition, to GEL 3,666 million. Between 2013 and 2016, the retail loan book grew by a CAGR of 46% and the deposit portfolio by a CAGR of 32% including Bank Republic acquisition.

In 2016, retail loan yields averaged 14.1% and deposit rates 3.6%. NPL ratio stood at 2.3% at the year-end 2016 compared to 2.7% as of 31 December 2015.

The Bank Republic acquisition reinforced TBC Bank's position in consumer and mortgage lending in particular, as well as in affluent banking, creating substantial cross-selling opportunities. The acquisition adds around 357,000 retail clients, including some 5,000 affluent customers, as well as around 72,000 payroll clients to the existing base of approximately 209,000.

We have a strong presence in both the capital, Tbilisi, and the regions, with our multichannel platform allowing us to stay in touch with our customers anytime and anywhere. Through the Bank Republic acquisition, we acquired another 24 branches in Tbilisi and 17 in the regions.

We continued to deliver superior customer service in 2016, as demonstrated by our net promoter score (NPS)³ score of 60%, the highest across all major industries in Georgia.

We also remained an innovator in the card business and supported cashless transactions through new products and services, including mobile terminals, a loyalty programme and P2P payments. In addition, the launch of a mobile wallet is in the pipeline. The use of point-of-sale transactions is increasing rapidly: in 2016, the share of contactless transactions reached 88%⁴.

TBC Bank is a pioneer of private banking services in Georgia and continues to set the standard in the affluent banking segment. Our affluent clients strongly value time-saving initiatives, as they would rather spend time with family and friends than in a branch. Our aim is that they can bank with us as they prefer.





We offer dedicated relationship managers and a specially tailored multichannel platform for our affluent customers, TBC Status and VIP areas for these respective segments, and non-banking lifestyle and personalised services. Additionally, we offer exclusive wealth management products to clients both within and outside Georgia. Our representative office in Israel, TBC Invest, allows us to attract non-resident wealth management clients more effectively.

Outlook for 2017

Our goals in the retail segment for 2017 include maintaining our number one position and further increase our superior customer experience. Leadership in retail depends on having the right products and services. As such, we are developing several projects which aim to achieve significant improvements in lending process, introduce dedicated products for different retail sub-segments and enhance loyalty schemes.

We see significant potential for increasing the cross-selling ratio to both our and Bank Republic customers. We also aim to increase fee and commission income for the next years through bancassurance, credit cards, payroll and other fee income generating products.

In affluent banking, our strategic aims for 2017 are designed to reduce the share of pure-play banking services. We aim to make our personal bankers less salespeople and more financial advisers, offering products with a personal touch. This drive also includes the expansion of concierge and other non-banking services for our affluent banking customers. We will continue to invest in delivering an unrivalled customer experience and further improve our multichannel platform for reaching our affluent customers.

We are very much focused on differentiating our strategy to deliver results. The four main pillars of our retail strategy which ensure long-term and sustainable success are:

1) Best customer experience

High-quality service helps to retain existing clients and attract new ones. For us, the customer experience is all-encompassing, and we retain our customer-centric approach in all our initiatives, whether building a new product or implementing a new channel.

2) World-class multichannel platform

Banking has changed significantly in recent years, and customers are demanding new services across channels. We have rapidly adopted this global trend and started investing in our multichannel platform in 2012. Today, we are enjoying the benefits of being the clear leader in this segment and the growth of active digital users has been impressive over the last three years. In 2016, we observed a new trend of faster growth in mobile users, and the highest growth rate is among users that do all types of banking exclusively through mobile. This has driven our mobile-first banking strategy.

TBC Bank payment terminals remain a key channel for our customers. We offer a diverse range of services through them, including repaying loans, making utility payments and topping up mobiles. We have around 2,500 of these devices around Georgia. As our local market remains a primarily cash-based society, and 19% of all transactions are carried out via cash-in terminals, we see this as a continuing complement to our mobile and internet banking services.

3) Best CRM and analytical capabilities

We have implemented cutting-edge customer relationship management (CRM) systems to further enhance the service experience, retain and gain clients more efficiently, and increase cross-selling opportunities. We are able to utilise our vast database to develop propensity scores, or probability of purchase, for each customer. This helps us to effectively offer products they are more likely to purchase. We also calculate churn scores, which enable us to identify reasons for any decisions to leave, giving us the opportunity to win clients back.

4) Most trusted brand

Having been in the market for more than two decades, TBC Bank has one of Georgia's most trusted and recognised brands. As our brand represents reliability and stability, we can use it to promote novel products and services in Georgia.

- 1 According to data as of 31 December 2016 published by the National Bank of Georgia and including Bank Republic's market shares
- 2 All operating data refers to JSC TBC Bank standalone data unless otherwise stated
- 3 Based on research conducted by an independent company, IPM Research, in December 2016
- 4 Number of transactions conducted by contactless cards divided by the total number of card transactions

CORPORATE SEGMENT

Overview

TBC Bank remains a leader in the corporate segment and continued to increase loans and deposits in 2016. We have a comprehensive range of syndicated deals, energy efficiency programmes and trade finance products, offered by experienced professionals with many years of expertise across different sectors. We are also enhancing our brokerage, DCM and advisory services within our newly merged CIB unit. TBC Bank started out mainly in the corporate segment and has well established relationships with leading Georgian companies. Over more than two decades, we have grown up alongside many of our clients.

Performance in 2016

The corporate segment accounts for 28% of TBC Bank's overall loans and 28% of its deposits.

The segment continued to deliver strong growth in loans and deposits in 2016. Loans increased by 19% YoY excluding the Bank Republic acquisition, or 37% YoY including it, to GEL 2,060 million. The deposit portfolio expanded by 47% YoY excluding the Bank Republic acquisition, or 79% YoY including it, to GEL 1,796 million. Between 2013 and 2016, the corporate loan book grew by a CAGR of 21% and the deposit portfolio by a CAGR of 30% including Bank Republic acquisition.

In 2016, corporate loan yields averaged 10.7% and deposit rates 4.2%. The NPL ratio was 4.6%, compared with 7.9% in 2015. As of 31 December 2016, the corporate client base stood at around 2,500 customers.

This year, we continued to expand our product range for clients through single relationship contacts. Today, our offering includes: lending products, accounts and term deposits, corporate cards, foreign exchange operations, hedging, trade, factoring and project finance products, payroll products, escrow services, insurance products, and leasing (through the TBC Leasing subsidiary) and brokerage services (through the TBC Capital subsidiary).

We also maintain dedicated macroeconomic and sector coverage to stay on top of all trends and opportunities in the country.

Outlook for 2017

Our goal is to be the number one bank in Georgia for corporate clients. We aim to further strengthen our sector expertise to deliver better, tailor-made solutions for clients. We plan to strengthen our coverage in the mid-corporate segment as well as diversify our product offering. We will also work further to improve process efficiency and the customer experience.



MICRO, SMALL AND MEDIUM ENTERPRISE SEGMENT

SME segment

Overview

TBC Bank is the leader in the SME segment in Georgia. We are the only bank in the country to provide a specialised business support programme for our SME clients, offering free training in essential business skills. SME has been one of our fastest growing segments, and we have emerged as the bank of choice, with 56% of start-ups and 37% of all registered companies in Georgia choosing us as their business partner. SME is one of the powerhouses of the economy, and we are proud of our role in developing Georgian business.

Performance in 2016

The SME segment accounts for 12% of TBC Bank's overall loans and 14% of its deposits.

In 2016, SME loans increased by 28% YoY excluding the Bank Republic acquisition, or 37% YoY including the acquisition, to GEL 858 million. Deposits rose by 18% YoY excluding the Bank Republic acquisition, or 40% YoY including the acquisition, to GEL 888 million. Between 2013 and 2016, the SME loan book grew by a CAGR of 30% and the deposit portfolio by a CAGR of 25% including Bank Republic acquisition.

In 2016, SME loan yields averaged 10.5% and deposit rates 1.1%. NPL ratio stood at 5.6% at the year-end 2016 compared to 4.5% as of 31 December 2015.

In 2016, we continued to grow and gain market share through clear differentiation built on relationship banking, business support, superior products and services, and innovative customer offers. The number of SME transactions has risen rapidly, reaching 7 million¹ at the end of 2016, while the total number of SME customers reached around 82,000, or 90,000 including Bank Republic's customers. We also have the leading multichannel platform for business and 73%² of all transactions were handled through remote channels by the end of 2016.

TBC Bank remains the only player in Georgia to offer important education and value-added services to SME businesses through

its Business Support Programme. Using our expertise, we have been able to train leaders from over 9,000 companies in essential areas, such as budgeting, tax and business development. The SME Toolkit (www.tbcbusiness.ge), an educational web portal of the programme, has been steadily gaining in popularity and has attracted more than 1 million visitors since its launch in 2014.

Last year, around 3,000 representatives of our partner SMEs attended training and a further 60 received individual consultations as part of the programme, which is supported by the Asian Development Bank. We also sponsor major conferences and networking events, where SME representatives gather to gain and share knowledge and contacts.

In 2016, we launched another high-profile event that seeks to recognise excellence and success at micro, small and medium-sized (MSME) enterprises: the annual Business Awards Ceremony. Our aim is to motivate successful MSMEs to achieve more by benchmarking them against the best, simultaneously inspiring other Georgian

businesses. The awards are open to entrepreneurs from around Georgia and not limited to our customers.

The event was a clear success: there were more than 500 participants and winners in seven nominations, while the project reach was estimated at 4.5 million views. The final winners were announced at a gala ceremony in Tbilisi in November. It received strong social media support, with around 90,000 people "talking about" our project slogan #Sharesuccess and the media writing more than 300 articles about the event.

- 1 Based on JSC TBC Bank standalone data
- 2 Based on JSC TBC Bank standalone data



Microfinance segment

Overview

Microfinance (micro) has been one of the fastest growing segments of TBC Bank's core business. The 2015 acquisition of Bank Constanta made TBC Bank the leader in this area, a title retained ever since. We have a specialised branch network that has established strong coverage of rural areas through representatives in local communities. We also use technology that allows a loan to be issued on site, without a customer having to go into a branch.

Performance in 2016

The micro segment accounts for 9% of TBC Bank's overall loans and 2% of its deposits.

In 2016, the micro loan book grew by 24% excluding the Bank Republic acquisition, or 37% YoY including the acquisition, to GEL 678 million. Deposits increased by 20% excluding the Bank Republic acquisition, or 42% YoY including the acquisition, to GEL 105 million. Between 2013 and 2016, the micro loan book grew by a CAGR of 50% including Bank Republic acquisition.

In 2016, micro loan yields averaged 21.4% and deposit rates at 2.3%. NPL ratio was 3.8% at the year-end 2016 compared to 4.2% as of 31 December 2015.

In 2016, we implemented several initiatives to encourage growth in the micro segment. These included introducing credit limits for customers with a strong financial standing and simplifying collateral requirements for all micro loans. In addition, we offer low-interest agricultural loans through the Preferential Agro Credit Project, which is supported by the Georgian Ministry of Agriculture.

Our touch points, at which we serve our micro customers, include mobile and internet banking, mobile sales agents, branches and people in local communities, such as village consuls. These diverse channels help us to gain and recruit clients, as well as cross-sell to our base of around 447,000 active customers.

One of the successful initiatives in the micro segment in 2016 was Booklark. Through it, anyone could become a sales agent for TBC Bank by referring products to people and making commission on successful transactions. At present, we have 12,000 registered agents, of which 45% are active, and an overall lead conversion rate of 5%. Since the start of the project, there have been 7,000 successful leads.

Outlook for MSME for 2017

We are committed to being the number one bank for businesses in Georgia. Our strategic initiatives for 2017 are designed to extend our leadership and cement our image as the number one partner bank for MSMEs in the country. Areas of focus include enhancing our customer experience, further developing remote channels, digitising processes and adding new resources to our education web portal.



SUBSIDIARIES

Bank Republic

Our newly acquired, wholly-owned subsidiary, Bank Republic, is a large financial institution that has been historically well managed and financially strong. It has consistently maintained a return on average equity of over 18% since 2013 and the figure reached 23% in 2016. The acquisition's price-to-book value multiple, based on the 2016 year-end book value, was around 1.2 times. The acquisition creates opportunities for synergies and reinforces our commitment to offering our clients superior products and services and generating maximum value for all shareholders and other stakeholders. The increased scale of our operations following the acquisition is also expected to provide significant opportunities for cross-selling our products and services. The full merger is set for completion in Q3 2017.

Key transaction highlights:

- Bank Republic is a large and financially sound institution, having maintained a return on average equity of over 18% since 2013 and reaching 23% in 2016
- The acquisition makes TBC Bank the largest bank in Georgia and an undisputed leader in retail banking
- Bank Republic reinforces TBC Bank's position in key operating segments, including consumer and mortgage lending
- Attractive synergy potential and earnings accretion from the first year post closing, with total expected run-rate synergies post recurring costs of around GEL20.5 million, stemming primarily from a personnel optimisation, reduction in marketing and consulting costs, streamlining other operating expenses, as well as the optimisation of the branch network
- Transaction structure minimises shareholder dilution, while providing a potential to increase free float in the future
- One-off integration costs are estimated to total GEL 23.3 million
- Price to earnings multiple based on 2016 earnings of around 5.9 times

Key financial data:

	Bank Republic
Net loans	1,426,416
Total assets	2,058,677
Total deposits	813,826
Shareholder's equity	308,503
Net interest income	112,424
Net fee and commission income	10,164
Other operating non-interest income	28,583
Total revenue	151,171
Operating expenses	62,995
Pre-provision income	88,176
Loan-loss provision	19,866
Net income	3,210
Net interest margin	7.6%
Cost/income ratio	41.7%
Cost of risk	1.5%
ROAE	23.0%
ROAA	3.5%
Basel II/III tier 1 capital	10.4%
Basel II/III total capital	12.2%
NPLs	3.1%
NPL coverage ratio	112.0%
NPL coverage ratio with collateral	200.7%

Key operating data:

	Bank Republic
Branches	41
Employees	861
ATMs	164
POS terminals	487

TBC Insurance (former JSC Insurance Company Kopenbur)

TBC Bank acquired 100% stake of JSC Insurance Company Kopenbur in October 2016, in line with its strategy to enhance the product offering to customers. Kopenbur was focused on the retail segment in Georgia and particularly strong in motor insurance. It will soon become the main Bancassurance partner of TBC Bank, providing traditional insurance services with a focus on retail insurance products.

TBC Leasing

TBC Leasing, a wholly-owned subsidiary, was founded in 2003 and is the leading leasing company in Georgia, with a market share of over 69%. Its portfolio exceeded GEL102 million at the end of 2016, while over 600 companies were customers and there were around 1,500 active leasing agreements.

TBC Leasing clients are SMEs from medical, printing, transportation, food and beverage production, manufacturing, service, trade, agriculture, construction and other sectors across Georgia. The company is also involved in government projects, such as "Produce in Georgia" and "Cheap Agro-Leasing" and others. Since 2015, TBC Leasing has also been active in automobile financing.

Last year was a busy one for TBC Leasing, as it launched full-service, operational leasing. In addition, it obtained financing from international financial institutions on attractive terms and issued a US\$3 million private bond. It also launched a new credit risk analysis department to improve asset quality and launched new products.

TBC Leasing's ambition is to be the leading company on the market, one that offers top-quality service through multiple channels and environmentally friendly solutions (financing electric cars, solar systems) and tailored services for clients. Key tasks in 2017 include the launch of the leasing core software system and development of digital customer portals. Plans also include launching a full-service fleet financing and advisory service.

TBC Capital

TBC Capital is TBC Bank's wholly-owned investment banking subsidiary. Its main lines of business include debt and equity capital markets, brokerage, and corporate client advisory.

TBC Capital revamped its operations in 2016, bringing in two new directors, each with more than 20 years of industry experience at major investment banking institutions. During the year, TBC Capital completed several bond offerings, won advisory mandates and introduced an enhanced online platform that will enable its clients to trade securities online. The platform offers advanced search and chart analysis options, as well as portfolio monitoring functionality. TBC Capital also started to offer its clients customised solutions for the mitigation of foreign currency exposure risks, improving the efficiency of asset liability matching, as well as portfolio refinancing optionality.

Looking forward, TBC Capital plans to increase its footprint in Georgia's debt and equity capital markets. It intends to achieve this by attracting foreign clients and benefiting from TBC Bank's access to the large number of Georgian corporate clients. TBC Capital also expects to win an increasing number of advisory mandates from corporates.

In 2017, TBC Capital expects to enrich its brokerage services through its third-party operated electronic trading platform. It will be well positioned for responding to the increasing demand from Georgian and international clients who seek this service. In addition, TBC Capital is seeking to work with emerging local asset management companies to create new investment products.

TBC Capital is also a shareholder in the Georgian Stock Exchange and plays an active role in the development of its infrastructure.

International operations

Most of TBC Bank's operations are conducted in Georgia (99.6% of total assets). However, we have two international subsidiaries, one in Azerbaijan and one in Israel.

TBC Invest

TBC Invest is a wholly-owned subsidiary that acts as an intermediary with Israeli clients, and offers information regarding products, fees and interest rates on TBC Bank's products.

TBC Kredit

TBC Kredit is a non-banking credit organisation that has been in Azerbaijan since 1999. It focuses on the SME, consumer and mortgage lending sectors. TBC Bank has owned 75% of TBC Kredit since 2008.

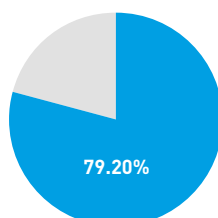
TBC Kredit's total portfolio was US\$17.6 million at 31 December 2016. SME lending accounted for 49%, while consumer and mortgage loans accounted for 33% and 18% respectively.

Other local subsidiaries

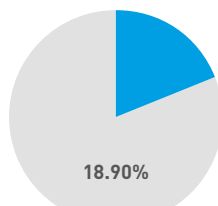
The Group also includes the following subsidiaries:

- United Financial Corporation and TBC Pay process card payments and supply payment collection services to providers of self-service machines and POS, WAP and Windows terminals;
- Real Estate Management Fund and Mali manage property that TBC Bank has repossessed for future sale; and
- Banking Systems Service Company provides technical services and software support for electronic banking systems (such as POS and cash machines).
- Merckhali Pirveli is involved in operating leasing

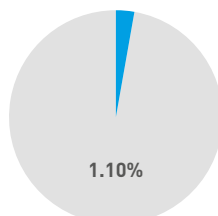
BREAKDOWN OF TOTAL ASSETS



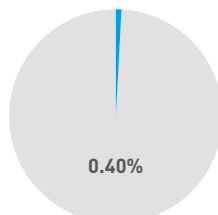
TBC (the Bank)



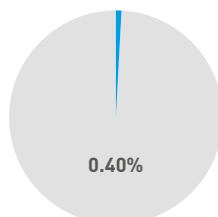
Bank Republic



TBC Leasing

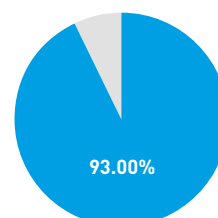


International Operations

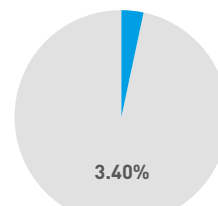


Other

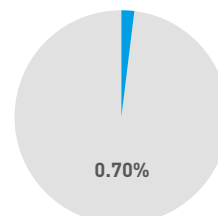
BREAKDOWN OF NET INCOME



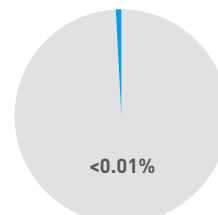
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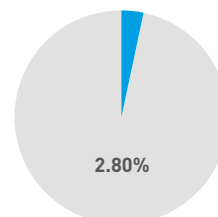
Bank Republic



TBC Leasing



International Operations



Other

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties

Risk management is a critical pillar of the Group's strategy and in order to perform it effectively it is essential to identify emerging risks and uncertainties. The following table presents the principal risks that could adversely impact the Group's performance, financial condition and future prospects. The Group's performance may be affected by additional risks and uncertainties other than the ones listed below and some yet unknown risks that emerge in the future. More details regarding risk management practices can be found in the Risk Management Section on page 46.

The Company's Board (hereafter the "Board") has reviewed entirely the principal risks in order to determine whether to adopt the going concern basis of accounting and during its assessment of the long-term viability of the Group's operations as set out in the Going Concern and Viability Statements on pages 94 and 95 respectively.

Principal risk	Risk description	Risk mitigation
<p>The Group faces currency induced credit risk due to the high dollarisation of the Group's portfolio.</p> <p>The risk of further depreciation of GEL is one of the most significant risks with negative impact on the portfolio quality. This is due to high dollarisation of the Group's balance sheet. Unhedged borrowers could suffer from increased debt burden when their FX denominated liabilities are amplified.</p>	<p>A significant share of the Group's loans (and by large of the total banking sector loans in Georgia) is denominated in currencies other than GEL, particularly US Dollar. As of 31 December 2016 the National Bank of Georgia (hereafter NBG) reported that, 65.4% of total banking sector loans were denominated in foreign currencies. As at the same date, 65.9% (66.3% without Bank Republic) of the Group's total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies.</p> <p>The income of a number of customers is directly linked to US Dollars via remittances, or exports in case of business borrowers, and some customers hedge their exposure through savings in US Dollars. Nevertheless, customers may not be protected against significant fluctuations of the exchange rates of the GEL against the currency of the loan.</p> <p>The GEL exchange rate has been consistent with those of Georgia's trading partners. However, it depreciated against the US Dollar by 28.5% in 2015 and by 10.5% in 2016 (the latter was largely offset by GEL appreciation in the first quarter of 2017).</p> <p>The NBG operates effectively under its inflation-targeting framework. However, GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in devaluation against the US Dollar.</p>	<p>Specific attention is paid to currency-induced credit risk due to the portfolio's high dollarisation. The vulnerability towards exchange rate depreciation is monitored on a frequent basis in order to promptly implement the action plan in case of need. Ability to withstand certain FX depreciation is incorporated into the credit underwriting standards which also include applying significant currency devaluation buffers for the uncharged borrowers. In addition, the Group holds significant capital against currency induced credit risk. Given the experience and knowledge built throughout the recent currency volatility, the Group is in a good position to promptly mitigate emerging FX depreciation risks.</p> <p>As a result, the level of the Group's non-performing loan portfolio decreased from 4.8% in 2015 to 4.0% (3.5% with Bank Republic) in 2016 year. The Group maintains a reserve coverage of 88% with cash (90% without Bank Republic) and 221% in cash, plus collateral (217% without Bank Republic).</p>

Principal risk	Risk description	Risk mitigation
<p>The Group's performance may be compromised by adverse developments in the economic environment.</p> <p>The slowdown of economic growth in Georgia will have an adverse impact on the repayment capacity of the borrowers, and restrain their future investment and expansion plans. These occurrences will be reflected in the Group's portfolio quality and profitability, and also impede the portfolio growth rates. Negative macroeconomic developments can compromise the Group's performance through different parameters such as higher unemployment rates, increasing retail sector default rates, falling property values, worsening loan collateralisation, lower debt service capabilities of companies suffering from decreasing sales.</p> <p>The political and economic instability in the neighbouring and main trading partner countries negatively impacts the economic outlook of Georgia through a worsening current account (e.g. decreasing exports, decreasing tourism inflows, lower remittances and foreign direct investments).</p>	<p>As the Group operates primarily in, and sources nearly all of its revenue from Georgia, its business, financial condition and results of operations are, and will continue to be, highly dependent on the general economic conditions in the country.</p> <p>During 2011-2016, the Georgian economy recorded an average real GDP growth of 4.5%¹ per annum. In 2016, despite challenges in the region and shrinking GDP growth in most of the regional economies, Georgia's economy grew by 2.7%¹.</p> <p>Georgian economy is open, liberal, well diversified, and reasonably reformed. While it showed resilience during international or regional crises, it is still exposed to many internal and external developments. These could result in lower growth or, in some severe circumstances, a contraction of the economy.</p>	<p>To decrease the vulnerability to the economic cycles and adverse economic developments, the Group identifies and limits its exposure to cyclical industries within its risk appetite framework.</p> <p>The Group has established a macroeconomic monitoring process. This enables a closely and recurrent observation of the economic developments in Georgia, as well as its neighbouring countries, and to identify early warning signals indicating imminent economic risks. The given system allows the Group to timely assess significant economic and political occurrences and analyse their implications for the loan portfolio. The identified implications are duly translated into specific action plans with regards to reviewing the underwriting standards, risk appetite metrics or limits including limits per each of the most vulnerable industries.</p> <p>Additionally, the stress testing and scenario analysis applied during the credit review and portfolio monitoring processes enable the Group to have an advance evaluation of the impact of macroeconomic shocks on the business and the portfolio.</p> <p>Resilience towards a changing macroeconomic environment is incorporated into credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through prudent financials, debt-servicing capabilities and conservative collateral coverage.</p>
<p>The Group encounters the capital risk of not meeting the minimum regulatory requirements that may compromise growth and strategic targets.</p> <p>The Bank is regulated by the NBG. The regulations and various terms of its funding and other arrangements require compliance with certain capital adequacy ratio and other ratios. Local regulatory requirements are more conservative than the current Basel standards. At the same time, the local regulator has the right to impose add-ons on a bank if it perceives excessive risks and uncertainties in that lender or in the market.</p>	<p>The NBG sets the minimum regulatory requirement for total capital adequacy ratio at 10.8% (Basel I) and 10.5% (Basel II/III). The Bank's capitalisation stands at 14.1% and 14.2% respectively as of year-end 2016. In terms of Tier 1 capital, TBC Bank's capital adequacy ratio is 10.4% per Basel II/III and 10.9% per Basel I, versus the minimum requirements of 8.5% and 7.2% respectively.</p> <p>The ratios are above the respective regulatory minimums and additional stress buffers set by the Bank.</p> <p>The NBG is gradually phasing out the Basel I capital adequacy standards and the regulations will be fully replaced by Basel II/III standards by the end of 2017.</p>	<p>The Group undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Based on such analyses, the Group holds extra capital buffers to steadily meet the minimum regulatory requirements.</p> <p>Capital forecasts, as well as the results of the stress tests and what-if scenarios, are actively monitored with the involvement of the Bank's Management Board (the "Management Board") and its risk committee to ensure prudent management and timely actions when needed.</p>

¹ Source: Geostat

PRINCIPAL RISKS AND UNCERTAINTIES continued

Principal risk	Risk description	Risk mitigation
<p>The Group is exposed to concentration risk.</p> <p>Banks operating in developing markets are typically exposed to both single name and sector concentration risks.</p> <p>The Group has large individual exposures to single name borrowers. Their eventual default will entail increased credit losses and high impairment charges.</p> <p>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.</p>	<p>The Group's loan portfolio is diversified, with maximum exposure to a single industry (i.e. energy and utility) standing at 7.3% (8.2% without Bank Republic effect). Considering the macroeconomic outlook, the figure is reasonable and demonstrates adequate credit portfolio diversification.</p> <p>The share of top 20 borrowers' exposure (including the Bank Republic effect) decreased from 15.6% to 11.3% YoY, being in line with the Bank's target of alleviating concentration risk.</p>	<p>The Group constantly checks its concentrations to single counterparties as well as sectors and common risk drivers, and introduces limits for risk mitigation.</p> <p>As part of the Risk Appetite Framework, the Group limits both name concentration as well as sectorial concentrations. Any considerable change in the economic or political environment, in Georgia or neighbouring countries, will trigger the Group's review of the risk appetite criteria in order to mitigate emerging risk concentrations. Stringent monitoring tools are in place to ensure the compliance with the set limits.</p> <p>In addition, the Bank has dedicated restructuring teams to manage weakened borrowers. When it is deemed necessary, clients are transferred to such teams for a more efficient handling and, ultimately, to limit resulting credit risk losses.</p> <p>According to the Basel II Pillar 2 guidelines, the Group has developed a model to estimate unexpected losses from single name borrowers and sector concentration. This model ensures that the Group remains adequately capitalised towards concentration risks.</p>
<p>Liquidity risk is inherent in the Group's operations.</p> <p>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 a number of factors. These include an overreliance on, or an inability, to access a particular source of funding, changes in credit ratings or market-wide phenomena, such as, for example, the global financial crisis that commenced in 2007.</p> <p>Access to credit for companies in emerging market is significantly influenced by the level of investor confidence and, as such, any factors affecting investor confidence (for example, a downgrade in credit ratings, central bank or state interventions or debt restructurings in a relevant industry) could influence the price or availability of funding for companies operating in any of these markets.</p>	<p>Throughout 2016 the Group was in compliance with Risk Appetite limits, as well as the minimum liquidity requirements set by the NBG.</p> <p>As of 31 December 2016, the net loan to deposits plus IFI funding ratio stood at 93.4%, liquidity coverage ratio was at 268% and net stable funding Ratio was at 108%. All of them are comfortably above the NBG's minimum requirements or guidance for such ratios.</p>	<p>To mitigate the risk, the Group holds a solid liquidity position. The Group performs an outflow scenario analysis for both normal and stress circumstances to make sure that they can be met by the Group's liquid assets and cash inflows. The Group maintains diversified funding structure to manage respective liquidity risk. The Board believes there is adequate liquidity to withstand significant withdrawals of customer deposits, but the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse impact on the Group's business, financial condition, and results of operations and/or prospects. As a part of liquidity risk management framework the Group has a Liquidity Contingency Plan in place outlining risk indicators for different stress scenarios and respective action plans.</p>
<p>Any decline in the Group's net interest income or net interest margin could lead to a reduction in profitability.</p> <p>The net interest income accounts for the majority of the Group's total income. Consequently, fluctuations in its net interest margin affect the results of operations. High competition on the local banking sector could drive interest rates down, compromising the Group's profitability. At the same time, the cost of funding is largely exogenous to the Group and is derived based on both the national and international markets.</p>	<p>The majority of Group's total income derives from net interest income. Consequently, the Group's results of operations are affected by fluctuations in its net interest margin ("NIM").</p> <p>In 2016 the NIM stood at 7.8% (including the Bank Republic effect), which is broadly unchanged from 2015. The acquisition of Bank Republic had a 0.1pp positive impact on the Group's Q4 2016 net interest margin.</p> <p>The Group tries to close direct exposure to LIBOR and the local refinancing rates or, where this is not feasible, price them appropriately. As of 31 December 2016, GEL 1,916 million in assets (17.8%) and GEL 1,276 million in liabilities (13.9%) were floating, related to the LIBOR/FED/ECB (deposit facility) rates. During the same period GEL 1,114 million of assets (10.3%) and GEL 1,420 million of liabilities (15.4%) were floating related to the NBG's refinancing rate.</p>	<p>High level of current margins and continuous efforts in cost optimisation represents a safeguard against margin declines posing profitability concerns for the Group.</p> <p>Pricing framework and profitability analysis assist the Group in decision making. In cases where loans are extended on fixed terms rather than floating, the interest rate risk is adequately translated into price premiums, safeguarding against increasing interest rates.</p> <p>Nevertheless, the Group expects margins to decrease in the medium term. The decrease has been included in the forecast which provides the basis for the Group's guidance. In addition, the Group expects that the decreasing effect will be compensated in practice by increased fee and commission income and decreased unit cost spent per transaction.</p>

Principal risk	Risk description	Risk mitigation
<p>The threat posed by cyber-attacks has increased in recent years and it continues to grow.</p> <p>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.</p>	<p>No major cyber-attack attempts have targeted a Georgian commercial banks in recent years. Nonetheless, the Group's increasing dependency on IT systems increases its exposure to potential cyber-attacks.</p>	<p>The Group actively monitors, detects and prevents risks arising from cyber-attacks. The Group's staff monitors developments on both local and international markets to increase awareness of emerging forms of cyber-attacks. Intrusion Prevention and DDoS protection systems are in place to protect the Group from external cyber-threats. Security incident and event monitoring system in conjunction with respective processes and procedures are in place to handle cyber-incidents effectively.</p> <p>Processes are continuously updated and enhanced in order to respond to new potential threats. The Data Recovery Policy is in place to ensure business continuity in case of serious cyber-attacks.</p>
<p>The Group is exposed to regulatory risk.</p> <p>The Group's activities are highly regulated and thus face regulatory risk. The local regulator, the National Bank of Georgia, can increase the prudential requirements across the whole sector as well as for specific institutions within it. Therefore, the Group's profitability and performance may be compromised by an increased regulatory burden, including higher capital requirements</p>	<p>The Bank is regulated by the NBG. In addition to mandatory capital adequacy ratios, the NBG sets lending limits and other economic ratios, including, inter alia, lending ratios, liquidity ratios and investment ratios. Under the Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. The Bank is also regulated by respective tax code or other relevant laws in Georgia.</p> <p>Following the Company's listing on the London Stock Exchange's premium segment, the Group became subject to increased regulations from the UK Listing Authority.</p> <p>In addition to its banking operations, the Group also offers other regulated financial services products, including leasing, insurance and brokerage services.</p> <p>The Group's current operations in Azerbaijan (through TBC Kredit) are required to comply with the Azerbaijani regulations.</p> <p>The Group's operations remain in full compliance with all relevant legislation and regulations.</p> <p>The Group is also subject to financial covenants in its debt agreements for more information see page 210 in the Account prepared in accordance with IFRS standards.</p>	<p>The Group has established systems and processes to ensure full regulatory compliance.</p> <p>The dedicated compliance department, reporting directly to the Chief Executive Officer is the primary responsible for the regulatory compliance. However, the compliance is embedded in all levels of the Bank.</p> <p>The Group's Risks, Ethics and Compliance Committee is responsible for the regulatory compliance at the Board level.</p> <p>In terms of banking regulations as well as 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.</p> <p>While the decisions made by the regulator are beyond the Group's control, significant regulatory changes are usually preceded by a consultative period that allows all lenders to provide feedback and adjust their business practice.</p>

RISK MANAGEMENT

Risk management

Overview

Risk management objectives and principles

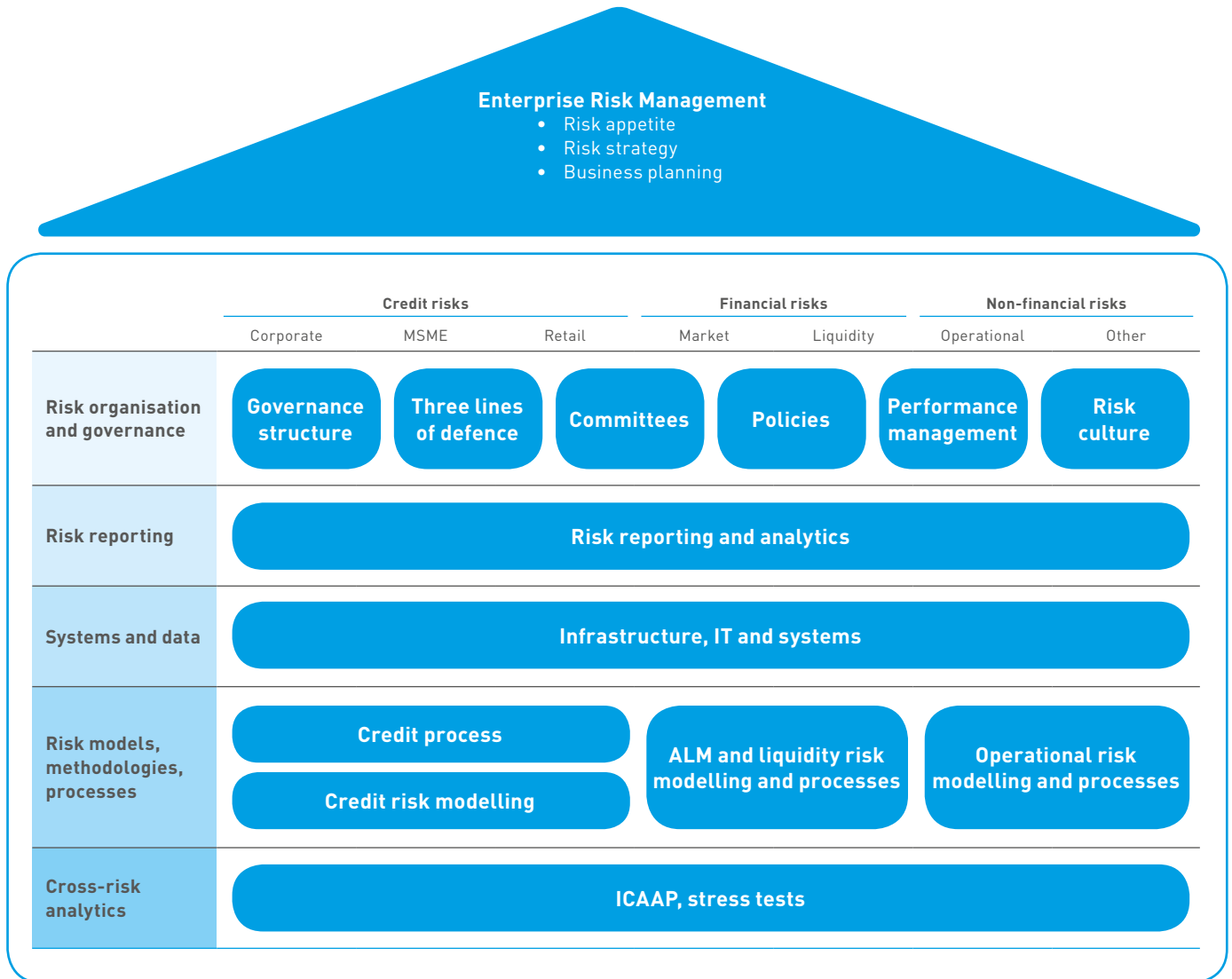
The Group operates a strong and independent, business-minded risk management system. Its main objective is to contribute to the sustainability of risk adjusted returns through implementation of an efficient risk management system. Four major principles in the course of risk management have been adopted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

- **Govern risks in a transparent manner to obtain understanding and trust.** Consistency and transparency in risk related processes and policies represent preconditions for gaining trust from various stakeholders. The communication of risk goals and strategic priorities to governing bodies and the provision of a comprehensive follow-up in an accountable manner are key priorities for staff responsible for risk management.
- **Promote sustainable growth and the Group's resiliency through prudent risk management.** Risk management represents a backstop against excessive risk-taking. Capital adequacy management and strong forward-looking tools and decision-making ensure the Group's sustainability and resiliency.
- **Ensure that risk management is an underpinning to implementation of the Group's strategy.** Staff responsible for risk management provides assurance on the feasibility of achieving of objectives through risk identification and management. Identification and the adequate pricing of risks, as well as risk mitigation actions, support generating desired returns and achieving planned targets.
- **Ensure that risk management represents a competitive advantage for the Group.** 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

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

Group risk management framework



RISK MANAGEMENT continued

Governance

The Group conducts its risk management activities within the framework of its unified risk management system. Involvement of all governance levels in risk management, clear segregation of authorities and effective communications between different structures facilitates clarity regarding the Group's strategic and risk objectives, adherence to the Group's risk appetite and sound risk management. The Group's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. The Board and the Supervisory Board have joint overall responsibility to set the tone at the top of the Group and monitor compliance with the established objectives, while the Management Board governs and directs the Group's daily activities.

Risk governance structure

Company Board	Company Board	Risk, Ethics and Compliance Committee	Audit Committee		
Supervisory Board	Supervisory Board	Risk, Ethics and Compliance Committee	Audit Committee		
Management Board	Risk Committee	Operational Risk Committee	ALCO		
Risk Management Structure	Functions:	ERM	Credit risk	Financial risk	Operational risk
	Committees:	Loan Approval Committees		Restructuring and Collections Committees	

All of the Boards, the Board, Supervisory Board and the Management Board have dedicated risk committees. The Risk, Ethics and Compliance Committees of the Supervisory Board and the Board supervise the risk profile and risk governance practice within the Group, while the Audit Committees are responsible for the implementation of key accounting policies and the facilitation of internal and external auditor activities. The Risk Committee of the Management Board was established to guide the Group-wide risk management activities and monitor major risk trends to ensure the risk profile complies with the Group's established risk appetite. The Operational Risk Committee of the Management Board 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 senior management of the Bank govern risk objectives through the Risk Appetite Statement ("RAS"), which establishes the desired risk profile and risk limits for different economic environments. RAS also 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 the Group's day-to-day operations, RAS metrics are cascaded into more granular limits at the business unit level, establishing risk allocation across different segments and activities. The process of risk appetite setting and cascading 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 primary owners of risks, risk teams assume the function of second line of defence by sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The Committees established at operational levels are in charge of making transaction-level decisions as part of a framework comprised of clear and sophisticated delegations of authority based on the four eyes principle. All new products and projects pass through risk teams to ensure risks are comprehensively analysed. These control arrangements 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 ("CRO"), the Compliance Department (which reports directly to the CEO) is specifically in charge of anti-money laundering ("AML") and compliance risk management. The Internal Audit department as a third line of defence is in charge of providing independent and objective assurance and recommendations to the Group to promote the further improvement of operations and risk management.

Enterprise risk management ("ERM")

The centralised ERM function established in 2016 ensures effective development, communication and implementation of risk strategy and risk appetite across the Group. The ERM function facilitates cross-risk activities such as aggregation and analytics, cross-risk 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.

Major ERM functions can be summarised as follows:

- Risk appetite development, cascading and monitoring are essential elements of the Group strategy. Risk budget is allocated to individual business lines in order to ensure achievement of aggregated metrics.
- Internal capital adequacy assessment process is a continuous process within the Group to ensure adequate calculation of unexpected losses and prompt respective mitigation actions to facilitate solvency. Economic capital is assessed for all material risks of the Group such as credit, financial, operational and market risks. Additionally, individual economic capital calculations are supplemented by the Enterprise Wide Stress Tests ("EWST"). Based on the selected stress scenarios, the Group calculates losses and projects capital adequacy ratios. As a result of this exercise, the Group defines the capital buffers that are to be held in order to meet the regulatory requirements under predefined stress scenarios.
- Stress-testing exercises are one of the crucial areas for effective risk identification, measurement and mitigation. In that regard, the Group continuously advances its stress-testing capabilities and tools. Both transaction and portfolio level stress tests form part of the regular risk management activities.
- Consistency of risk management practices within the Group is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that the risks are identified, measured and governed in an optimal manner within the Group and reported and understood on a consolidated basis. The Group-wide approach to risk management was underpinned and enhanced further due to recent acquisition of two significant financial institutions.
- Generating adequate return on risk plays a crucial role in 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 Group takes adequately priced risks.

Credit risk management

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

RISK MANAGEMENT continued

Due to high dollarisation of the economy, currency induced credit risk is one of the significant components of the credit risk, which relates to risks arising from foreign currency-denominated loans to un-hedged borrowers in the Group's portfolio. Credit risk also includes concentration risk, which is the risk related to credit portfolio quality deterioration due to large exposures provided to single borrowers or groups of connected borrowers, or loan concentration in certain economic industries.

Major objectives of credit risk management are to put in place 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, corporate, SME, retail and micro portfolios are managed separately to address the specifics of individual segments. Corporate and SME 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 credit granting criteria and building up an efficient process for assessment of a borrower's risk profile. A comprehensive credit risk assessment framework is in place with clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, being further differentiated across various product types reflecting different natures of these asset classes. corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision-making process for smaller retail and micro loans is largely automated.

Different loan approval committees approve credit exposures to corporate, SME, retail and micro customers. The Group sets up sophisticated delegation of authority for loan approval that is based on the four eyes principle, additionally higher senior level approval is required for increasing size of exposures. In particular, different tiers of Loan Approval Committees are responsible for reviewing credit applications and approving exposures, taking into account the borrower's aggregated liabilities and risk profile. A large or higher risk loan would be reviewed by a Loan Approval Committee with a higher approval authority, such as one including the Chief Executive Officer, Corporate Business Director and Chief Risk Officer. A loan to the top 20 largest borrowers or exceeding 5% of the Bank's regulatory capital would require review and approval of the Risk, Ethics and Compliance Committee.

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

Currency induced credit risks ("CIGR")

The Group faces currency-induced credit risk, given that a large part of its exposure is denominated in foreign currency in line with the dollarisation level of the economy. However, limits are established within the risk appetite framework to ensure that the Group continues its efforts toward minimising the portfolio dollarisation level. Various management tools and techniques are applied to mitigate the inherent CIGR risk in the loan book encompassing all phases of credit risk management.

The Group applies conservative lending standards to un-hedged borrowers with FX-denominated exposures to ensure that they can withstand a certain amount of FX depreciation without credit quality deterioration.

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

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

Credit concentration risk

The Group is exposed to concentration risk, defined as potential deterioration in portfolio quality due to large exposures or individual industries. Management tools are established by the Group to efficiently manage concentration risk and, in particular, concentrations of single name borrower and sectors. In addition, the unsecured lending limits are defined as part of the Group's risk appetite framework.

The Group is subject to single name borrower and top 20 borrowers' concentration limits and it focuses on optimisation of the structure and quality of the latter portfolio. Unsecured lending is capped by the regulatory requirements. 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 on a monthly basis. Trends in the risk positions are analysed in detail and corrective actions are recommended should new sources of risk or positive developments emerge.

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

Collateral policies

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

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

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

Collateral of significant value is re-evaluated annually through on-site visits by internal appraisers. Statistical methods are used to monitor the value of collateral of non-significant value.

Credit monitoring

The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react 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 encompassing individual credit exposures, overall portfolio performance and external trends that may impact the portfolio's risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

Reports relating to the credit quality of the credit portfolio are presented to the Board's Risk, Ethics and Compliance Committee on a quarterly basis. By comparing current data with historical figures and analysing forecasts, the management believes that it is capable of identifying risks and responding to them by amending its policies in a timely manner.

Restructuring and collections

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

Dedicated restructuring and recovery units manage weakened borrowers across all business segments, with collection and recovery strategies tailored for business segments and individual exposure categories. The primary goal of restructuring unit 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 possible extent or 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 monitoring team monitors retail borrowers in delinquency, which coupled with branches' efforts, are aimed at maximizing collection. The debt managed through FICO software is applied for early collection processes. Collection strategies are defined based on the size and type of exposure. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile.

Retail and micro loans are generally transferred to the recovery unit at 90 days past due. Collateralised loans are transferred to the internal recovery unit, whereas the Group collaborates with external collection agencies for unsecured loans. For recovery of collateralised loans, the recovery plan is outlined considering specifics of the individual borrower and may involve loan repayments under revised schedules or the sale of collateral. Collection agencies generally negotiate with the borrowers 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 and fast process with limited legal complications, and may include court, arbitration or notary procedures. Restructuring and recovery units are supported by qualified incumbent lawyers for efficient accomplishment of litigation and repossession processes.

RISK MANAGEMENT continued

Provision assessment

In assessing the credit risk and calculating provisions, the Group takes into account three components: (i) the 'probability of default' by the counterparty on its contractual obligations; (ii) current exposures to the counterparty and potential utilisation of undrawn credit liabilities, from which the Group assessed the 'exposure at default'; and (iii) the likely loss ratio on the defaulted obligations (the 'loss given default').

According to the Group's policy, asset and contingent liability loss reserves must be maintained at an adequate level to absorb all estimated incurred losses in the Group's credit portfolio at any given point in time.

The credit portfolio is assessed for impairment on an individual and collective basis. For provisioning purposes, borrowers or groups of borrowers are classified as "significant" or "non-significant". Borrowers with total liabilities of GEL 2 million or more are regarded as significant and assessed individually for impairment. In order to calculate the impairment allowance for collectively assessed loan pools, the Group estimates certain risk parameters, based on various statistical models.

The Group is in the process of implementation provisioning guidelines in line with IFRS 9 requirements. The project is undertaken with support from Deloitte and includes methodologies and model development and software implementation.

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 of its obligations and commitments as they fall due, or could only access those resources at a high cost.

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

Liquidity risk is managed by the Financial Risk Management and Treasury departments and is monitored by the Management Board Risk Committee ("MBRC") or Assets and Liabilities Management Committee ("ALCO") within their predefined functions.

The principal objectives of the Group's liquidity risk management policy are to:

- (i) ensure the availability of funds 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 the Group's statement of financial position and set monitoring ratios to manage funding in line with the Group's well balanced growth; and
- (iii) monitor liquidity and funding on an on-going basis to ensure that approved business targets are met without compromising the Group' risk profile.

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

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

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

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

Funding and maturity analysis

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

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

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

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

For further information on management of liquidity risk, please refer to note 35 of the Audited Consolidated Financial Statements.

Market risk

The Group follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. These risks are principally (a) risks pertaining to interest rate related instruments and equities in the "trading book" (financial instruments or commodities held for trading purposes); and (b) foreign exchange risk and commodities risk throughout the Group. The Group's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, the Group's only exposure to market risk is foreign exchange risk in its "structural book", comprising its regular commercial banking activities which have no trading, arbitrage or speculative intent.

Foreign exchange risk

Due to high dollarisation of the economy in Georgia, movements in foreign exchange rates can adversely affect the Group's financial position. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The 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 2016, the Bank maintained an aggregate balance open currency position of 3.2%.

In addition, the Board (the Supervisory Board where applicable) sets further limits on open currency positions. The Board has set limits on exposure levels by currency and for total aggregate position which are more conservative than those set by the NBG and the Board. The Group's compliance with these limits is monitored daily on both a standalone and consolidated basis in relation to significant subsidiaries (e.g. Bank Republic) by the heads of the Treasury and Financial Risk Management Departments and is reported daily to the Management Board, and periodically to the Board, the Supervisory Board, and their Risk, Ethics and Compliance Committees. On the Group-wide level, FX risk is monitored and reported on a monthly basis. VaR analysis following Basel guidelines is used to assess the Bank's minimum capital requirements under the ICAAP framework on a monthly basis.

Interest rate risk management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the Group's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. The deposits and most of the loans offered by the Group are at fixed interest rates, while a portion of the Group's borrowing is based on a floating rate of interest. The Group's floating rate borrowings are, to a certain extent, hedged as a result of the NBG paying a floating rate of interest on the minimum reserves that the Bank holds with the NBG. Furthermore, many of the Group's loans to and deposits from customers contain a clause allowing the Group to adjust the interest rate on the loan/deposit in case of adverse interest rate movements, thereby limiting the Group's exposure to interest rate risk. The management also believes that the Group's interest rate margins provide a reasonable buffer in order to mitigate the effect of a possible adverse interest rate movement.

The Group employs an advanced framework for the management of interest rate risk. To manage interest rate risk, the Group establishes appropriate limits, monitors compliance with the limits and prepares forecasts. Interest rate risk is managed by the Financial Risk Management department and is monitored by the ALCO. The ALCO decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Board, the Supervisory Board and their Risk, Ethics and Compliance committees.

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

The Group considers a number of stress scenarios, including different yield curve shift scenarios and behavioural adjustments to cash flows (such as deposit withdrawals or loan prepayments), to calculate the impact on one-year profitability and enterprise value. Appropriate limits are set by the Board (the Supervisory Board where applicable) and by the MBRC.

Under the ICAAP framework, the Group reserves capital in the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes. In addition, the Group has developed stress tests in accordance with Basel II requirements to ensure that the Bank can withstand severe but probable stress scenarios.

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 from external events. It includes legal risk, but excludes strategic and reputational risk. However, reputational risk management is also given high importance and priority and is an integral part of the overall risk culture in the organisation.

The Group is exposed to many types of operational risk which include: fraudulent and other internal and external criminal activities; breakdowns in processes, controls or procedures; and system failures or cyber-attacks from an external party with an intention to make the Group's services or supporting infrastructure unavailable to its intended users, which in turn may jeopardise sensitive information and financial transactions of the Group, its clients, counterparties or customers. Moreover, the Group is subject to the risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond the Group's control, for example, natural disasters, transport or utility failures, etc., which may result in losses or reductions in service to customers and/or economic loss 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 raised to ensure risk prevention and reduce the risk of loss to the Group.

RISK MANAGEMENT continued

To oversee and mitigate operational risk, the Group has established an Operational Risk Management Framework (“**ORMF**”), an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of various parties involved in the process. Policies and procedures enabling effective management of operational risks are an integral part of the ORMF.

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

The Operational Risk Management department (“**ORMD**”) acts as second line of defence and is responsible for the implementation of framework and appropriate policies and procedures enabling the Group to manage operational risks and monitoring operational risk events, risk exposures against risk appetite, and material control issues.

The ORMD is also responsible for the day-to-day management of operational risks using various techniques that include but are not limited to the running of risk and control self-assessment aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions; internal risk event database formation for further quantitative and qualitative analysis; performing internal control for detecting systematic errors in banking operations, internal fraud events and monitoring key risk indicators; scenario and root-cause analysis; business advisory with regard to nonstandard cases as well as new products and procedures assessment; IT incident occurrence monitoring and overseeing activities targeted at solving identified problems; and insurance policies to transfer the risk of losses from operational risk events. The ORMD reports to the Chief Risk Officer.

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

There are various policies, processes and procedures in place to control and mitigate material operational risks. These include:

- outsourcing risk management policy, which enables 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;
- implementation of procedures to analyse system flaws and take corrective measures to prevent the re-occurrence of significant losses;
- involvement of the Operational Risk department in the approval process of new products and services to minimise risks relating thereto; and
- development of a special Operational Risk Awareness programme for the Group’s employees and provision of regular training to further strengthen the Group’s internal risk culture.

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

Conduct risk management

Conduct risk is defined as the risk to the delivery of fair outcomes for customers and other stakeholders.

The Group’s business holds a unique place of trust in the lives of more than 2.2 million customers throughout Georgia. Therefore, preserving market confidence through the protection of our customers’ interests is of utmost importance for the financial stability of the Group and the attainment of its strategic objectives.

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

Additionally, the management of the Group 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 confidence of the investors and financial markets. The Group directors establish the “tone from the top”, which sets out the messages describing and illustrating the core components of good conduct.

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

1. Developing and maintaining policies and procedures that ensure that the respective departments and individual employees comply with the provisions set out by the regulatory provisions, the best practice and the internal handbook of the Group;
2. Maintaining a liaison with the compliance department regarding the administration of policies and procedures and the investigation of complaints regarding the conduct of the department, its manager and/or its employees;
3. Ensuring that product information provided to clients by the front-line employees is accurate and complete, and is conveyed (both in written and oral form) in a simple and understandable way regardless of the level of sophistication of a particular client;
4. Maintaining the records of client conversations and emails that contain sensitive and sales related information, including information pertaining to the acquisition of new clients and making complex product offers to existing and prospective clients;

5. Delivering timely on-boarding training for new employees with regard to 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 a fear of punishment. Specifically, this means setting up processes for prevention and detection of conflicts of interest, creating ethical incentives and bonus formulas, and aligning incentives and discipline practices to the Group's risk appetite; and
7. Employing qualified staff and sufficient human and technological resources to investigate, analyse, implement and monitor sales and after sales activities.

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

Viability statement

The assessment of principal risks underpins the Viability Statement in the Directors' Report for 2016, see page 95 . The process involved consideration of the Group's current financial position over three years of coverage ending 1 January 2020, which is relevant to the strategic considerations of the Group.

As Georgia's leading employer, we work hard every day to reinforce employee loyalty and attract the best talent

Overview

We are committed to being the best employer in the country and recruiting the best people in order to ensure our long-term leadership. We work in a highly competitive industry and our human resources (HR) policy is directed at attracting and retaining top talent. At the end of 2016, TBC Bank employed 6,292 people, compared with 5,262 people at the end of 2015. The Bank and Bank Republic accounted for 92% of the overall workforce.

The tables below show the number of years that employees have stayed with TBC Bank and the breakdown of employees by age.

Years with TBC Bank, 2016

0-1 years	23%
1-4 years	40%
4-10 years	28%
>10 years	9%

Breakdown of employees by age, 2016

<20	0.4%
20-29	54%
30-39	33%
40-49	10%
>50	3%

Commitment to equal opportunity

We are an equal opportunity employer. As part of our Code of Conduct and Code of Ethics, we do not discriminate in employment decisions based on gender, ethnicity, religion or disability. The table below shows the breakdown of employees by gender according to seniority and job function in 2016.

All employees

	Male	Female
All employees	35%	65%

Leadership

	Male	Female
Board of Directors	100%	0%
Top management	88%	12%
Middle management	65%	35%

Performance assessment and remuneration

We have developed and implemented performance assessment and remuneration systems that we believe are transparent and fair, giving all employees an opportunity to achieve their full potential within TBC Bank. We consider it crucial that our staff are aware of expectations from them while also having a chance to provide feedback.

We have a combination of a management-by-objectives (MBO) and a target-based systems. For most of the back office, we use a MBO system, as part of which an employee and a line manager agree on a set of objectives and goals that are closely aligned to the strategic objectives of TBC Bank as a whole. The progress is measured every six months through employee performance reviews.

To ensure that a performance assessment is fair and accurate, the bank uses an uniform scoring system. For most of the front office, we use a target-based system including both quantitative and qualitative components. The results evaluation takes place monthly, quarterly and/or annual basis depending on the position.

To further enhance the systems, we worked with one of the most experienced HR consultancies, Mercer, and are now in the process of implementing their recommendations.

In 2016, we also introduced a 360-degree evaluation system for middle managers to help them better understand their strengths and weaknesses and become more effective.

Part of a compensation package for mid-level managers is TBC PLC shares. This promotes to align their interests with those of our shareholders. In total, we aim to pay around 15-20% of total compensation in shares with a three-year vesting period. In 2016, around 64,000 shares were awarded as bonus shares. The remuneration system for directors is described in the Remuneration Report on page 108.

Employee benefits policy

We understand that non-wage compensation, in the form of benefits that go above and beyond statutory requirements, is a crucial tool for retaining employees and keeping them motivated. TBC Bank offers the leading benefits package in the Georgian market, including paid annual and sick leaves, fully paid six-month maternity and paternity leaves and attractive health insurance and pension schemes. We also provide monetary awards in case of marriage and childbirth as well as a compensation in case of serious illness or death. In addition, we offer special support for large families and grant GEL10,000 to our employees for the birth of each child after the third one.

We have also established a special TBC fund, which is used to finance medical treatment of employees or their close relatives suffering from serious health issues. Contributions to the fund are voluntary and employees can donate up to 1% of their salary each month. In 2016, the fund aided more than 100 people.

Training and leadership development

Our HR management system is designed to meet our strategic need to employ the best people on the market and to maximise their performance.

We use a digital, distance-learning system for many training programmes, allowing greater flexibility at a lower cost to TBC Bank. We also run the TBC Academy, an in-house educational resource that provides employees an opportunity to gain new banking skills and attend lectures given by our senior and middle

management. Classes range in subject and include financial institutions, capital markets, credit risks, financial risks, marketing and banking products. The academy was established in 2011 and we had more than 250 graduates at the end of 2016. We also use the academy as a platform to organise trainings and workshops for our staff across the country.

In addition to our in-house training options, we sponsor various training opportunities and international certifications including CFA,

ACCA and FRM for all employees. We also give an opportunity to our best and brightest talents to study MBA at the leading Georgian and the world's top 30 universities. In 2016, 17 managers received financial support for MBA.

We also offer middle managers individual executive coaching sessions with independent certified coaches to reveal their full potential, increase motivation and perform better.

TBC Academy Graduation



Our most recent survey, conducted in December 2016, generated a participation rate of 74% and an engagement index as high as 88%

Employee motivation and engagement

As one of the crucial goals of our HR policy is to constantly improve employee engagement and motivation levels, we organise a number of activities during the year for this purpose.

To improve internal communication and enhance TBC Bank spirit, we have created several clubs for employees to support their interests and pastimes. Clubs include groups for employees with more than three children; 'TBC Talents', for employees talented in sports, art and other skills; and those for employees with more than a decade of experience at TBC Bank. In 2016, we founded new clubs for photographers, football players and other interests. These clubs bring together employees with mutual interests from different departments and branches, leading to better communication and an opportunity to relax together and socialise after a hard day's work. To promote healthy lifestyle, the Bank has special discounts and family offers in various sport centres. We also offer free consultations and medical examinations for employees occasionally. In 2016, around 1,500 employees benefited from this offer. Furthermore, we care about the youngest members of TBC family and provide primary school children Back to School packages.

To boost team spirit, TBC Bank organises weekend fieldtrips and retreats at all levels. These fieldtrips reduce stress, improve job satisfaction and boost efficiency. In 2016, TBC Bank's senior management decided to take all middle managers of the TBC Bank to Scotland for a friendly match between the Georgian and Scottish national rugby teams. Apart from supporting the national team in a challenging game and getting together to have fun overseas, these initiatives bolster the involvement of our employees with the sport and is in line with our strategy of becoming the ambassadors for rugby in Georgia.

TBC Bank organises certain promotions during the year distributing free tickets for cinema, ballet and opera plays, and rugby games on first come first served principle. Besides, employees receive special discounts for various popular cultural events. We also host book fairs where our employees can buy books at special discount.

We are proud to have the first corporate online brand shop in Georgia, where employees can buy different stationary, clothing, accessories and gift items. We collaborate with Georgian designers and create exclusive collections for TBC Bank. The products in online store are subsidised by TBC Bank and sold at discount to make them more affordable for all employees. The online shop was a great success with more than 5,000 items sold during 2016, proving high brand loyalty among the employees.

Regular communication with employees is an integral part of TBC Bank's corporate culture. TBC Bank ensures that the entire team is informed about the latest developments of the Group's activities including strategy, performance, policies and procedures, new initiative and key events via presentations, intranet content, emails, social network groups, SMS notifications and different corporate events organised by our internal communication managers.

Employee feedback and engagement is very crucial for us. To this end, we started to monitor staff engagement levels in 2012. A special survey is conducted annually, in partnership with the leading international universities and a research firm, which provides a clear picture of our strengths and weaknesses as perceived by our employees. Our most recent survey, conducted in December 2016, generated a participation rate of 74% and an engagement index as high as 88%. The results of the survey are analysed thoroughly and the employee feedback is incorporated into the future actions taken by the management.

Student internships

Since 2012, the Bank has run an internship programme, intensive 12-month on-the-job training schemes for the best third and fourth-year students from Georgia's top universities. After the programme completion the best trainees receive permanent job offers from the Bank. This programme has proven to be very successful and helped us identify the brightest and most talented students who are part of our team today. In recognition of our efforts, we were named "Best Student Recruiter" in 2016 by Free University, Georgia's leading university.

Ethics and conduct

We have adopted a comprehensive range of policies and systems to ensure that TBC Bank complies with the highest corporate governance standards and prudent management principles, training and development. We consider it vital to provide clear guidelines on business ethics and conduct that apply to each member of TBC Bank team.

We strictly protect international and domestic laws of human rights and freedom. Significant attention is given to detection and elimination of discrimination revealed in any form or on any grounds (including gender, age, physical disability or religious affiliation), in respect of any employee.

We provide clear anti-bribery and anti-corruption policy that applies to all employees' of TBC Bank irrespective of location, function or grade. TBC Bank has zero tolerance of bribery and corruption, and all employees are required to act professionally, fairly and with integrity in all business dealings and relationships.

To support our corporate culture TBC Bank has implemented a whistleblowing policy, which is available to all employees. It identifies the rules and conduct requested of all individuals working for the Group and defines employee rights and responsibilities.

The policy encourages all employees to report on any suspected violations in an open manner without fear of retaliation. In addition, TBC Bank provides channels for anonymous whistleblowing for anyone who believes a violation of internal standards or law requirement has taken place, but refrains from reporting through normal reporting lines. Our guidelines seek to ensure that complaints are recorded and that employees are safe from any potential retaliation.

The following group policies can be found on our IR website at www.tcbankgroup.com

- Code of Ethics
- Code of Conduct
- Whistleblowing Policy
- Anti-Bribery and Anti-Corruption Policy

Internal photo contest – ‘Georgian Alphabet’



CORPORATE SOCIAL RESPONSIBILITY

We are committed to being a market leader for our businesses, our communities and our environment.

Overview

At TBC Bank, we believe that achieving and maintaining leadership in corporate social responsibility (CSR) is as vital as being number one in any part of our business, and this remains a core goal. As a LSE premium-listed company, we have pledged to uphold the highest international standards in conduct as an employer and corporate citizen, and we benchmark ourselves against global leaders.

At home, as one of Georgia's most recognised companies, we understand the impact of our actions. Our goal is to provide employees with a clear understanding of our CSR strategy and maximise their involvement as corporate citizens. We want to be perceived internally and externally as not only a business leader, but also a responsible group of companies. As always, we are open and transparent about our CSR projects.

Communities

Our investments in different communities are characterised by their long-term nature, as we concentrate on projects where we can amplify effect. We focus on supporting four main areas: business, young generations, rugby and culture.

Business

We believe that one of our main contributions to society is to encourage successful businesses across Georgia. To this end, we have devised a business support programme, which allows us to share the expertise of our people and partners with growing companies. It provides crucial support for developing micro, small and medium-sized enterprises (MSME), which are the backbone of the national economy. The programme includes an educational web portal (www.tbcbusiness.ge) and free training sessions and consultations, as well as networking events, conferences and masterclasses.

In 2016, around 4,500 MSME company representatives attended training sessions conducted by leading professionals on different topics, such as internet marketing, innovation, CVP analysis, budgeting, taxation and agricultural management.

For our borrowers, we also offer more in-depth individual consultations with experts in internet marketing, innovation, finance and taxation. Last year, 60 MSME company representatives attended these consultations free of charge.

In addition, we organise other events, such as annual masterclasses on popular topics and networking for MSME representatives. Around 1,000 people attended various events in 2016.

Last year, we extended the scope of our Business Support Programme, launching the annual Business Awards ceremony. It aims to encourage success and excellence among Georgia's businesspeople and bring innovative new products and services from around the country to the public's attention. The event was a resounding success, attracting over 500 companies, while the project reach was estimated at 4.5 million views. The awards were supported through traditional and social media, with more than 300 video reports and articles on the topic.

Young talent

In 2016, we continued to develop projects aimed at helping talented young people in their professional development. We backed new projects supporting young entrepreneurs and artists. We are particularly proud of Project 12, which used the work of 12 young Georgian artists on Visa Pay stickers. We also hosted the Da Vinci scientific festival, which aims to promote science and STEM-related fields among young people by encouraging schoolchildren to pursue their scientific interests. We plan to expand the event in 2017. In addition, we have also financed the renovation of Tbilisi's famous Mziuri Park and opening of the non-profit Mziuri Cafe, which hosts various literary evenings, exhibitions and presentations for children and students.

Rugby

We provide full-scale support for rugby in Georgia as part of a long-term partnership with the Georgian Rugby Union to promote the sport. In particular, we support our national team in its quest to succeed internationally and ultimately join the Six Nations. In 2016, we sponsored two major promotional campaigns across Georgia, which included a strong digital component to enable fans to support our players as much as possible.

To increase awareness about rugby and our leading players, we have created a short video about the game in Georgia (with over 600,000 views), its rules and individual bright stars. We also fund the development of the sport in the regions, including youth leagues. The youth rugby competition in Batumi has become a significant annual event with our continuing support. In short, TBC Bank is an ambassador for the sport. We are excited to watch our youth and adult teams emerging as serious competitors internationally.



Engineering

The ancient Georgian alphabet has long faced a challenge that disappeared many years ago from the English-speaking world, namely a lack of sophisticated fonts that work across IT platforms. In the information age, this has been an issue for Georgian businesses.

TBC Bank decided to try to tackle this problem by devising the #Writeingeorgian project. As part of this, we recruited both Georgian and foreign designers for a new role, font engineer.

One related initiative in 2016 was the "Georgian A" competition to design Georgian fonts for use in IT. There were 12 winners, whose fonts have been digitised and will soon be available to the public.

Translation database

In 2016, we developed a project to create a Georgian-English parallel translation database on the Microsoft platform. The aim is to carry out sentence-by-sentence translation of various texts for integration with Microsoft's machine-learning API. The ultimate goal is that the API will carry on its own learning of language forms so that it can eventually correctly translate any sentence between Georgian and English. In addition, Bing translation will be directly integrated within Microsoft applications like Office, Skype and Windows.

Mountain resorts

TBC Bank provides ongoing support to develop mountain resorts in Georgia. This is in line with our strategy to promote a healthy lifestyle among young generations and underscores our commitment to support businesses and economic development in the country. Developing the mountain resorts has a direct, two-fold effect on the economy, as it helps local businesses to prosper and encourages tourism.

Art and culture

TBC Bank has traditionally supported Georgia's arts through long-term, high-impact undertakings. We remain the partners of Georgian ballet, supporting the development of this exquisite art form and promoting local talent to international audiences.

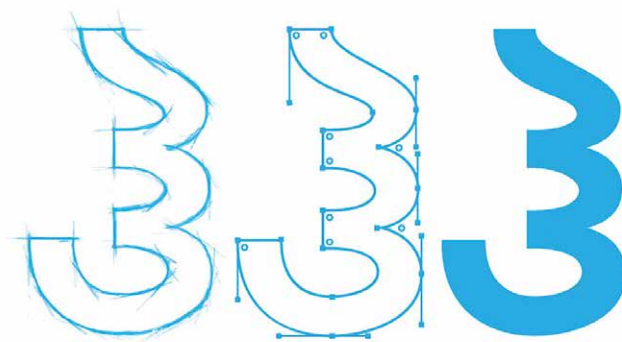
Another project is Artarea, which was the country's first online TV channel dedicated specifically to art and culture. Offering online lectures, exhibitions, concerts and other programmes, it is gaining popularity and is already watched in ten countries.

We also continue to support Georgian artists by showcasing their work in our TBC Bank galleries in three main cities: Tbilisi, Batumi and Kutaisi. The aim is to raise awareness and promote Georgian art. In 2016 we organised over 80 exhibitions.

Literature

TBC Bank continues to support the Saba literary prize, one of the most respected and anticipated literary events in Georgia. Since founding the programme in 2003, we have awarded 128 prizes in different categories totalling around GEL500,000. The satellite project is the SABA online platform (www.saba.com.ge). It has been gaining popularity among the local and expatriate communities, with more than 4,000 e-books and audio books.

In 2016, we started a new project, "City-Library", as part of which we have scattered over 300 free e-books in public places around the city, such as parks, green spots and bus stops. Anyone interested can download them to smartphones and tablets using QR readers and read popular literature using the Saba Reader mobile application.



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Environment

TBC Bank understands that even organisations operating outside the industrial sectors, such as financial institutions, have an impact on the environment, and we take our responsibility to take care of the surrounding environment seriously. We strive to minimise our environmental footprint from the most senior levels of management to the lowest level of the organisation. We understand that this stems from both our own direct activities and indirectly through projects that we choose to finance. Our responsibility includes managing the environmental and social risks associated with our operations to reduce our environmental impact.

The Bank has adopted the Environmental and Social Risk Management Policy to ensure compliance with local environmental legislation and applicable international guidelines. It outlines our liabilities in terms of impact on both the environment and communities. We apply it to our lending practices with customers and to our other banking activities.

We believe that we can foster an efficient management culture by complying with environmental, health and safety, and labour regulations, as well as by engaging in sustainable practices in these fields.

Waste management and energy conservation

We believe that our most visible environmental impact can be seen in the waste generated directly by our activities, such as used paper, printer cartridges, fluorescent lamps, etc. For increased accountability, we measured the waste generated in 2016 and designed a waste management programme to minimise our environmental impact with the guidance and approval of the Ministry of Environment and Natural Resources Protection of Georgia.

We shred non-hazardous waste paper from our office activities and exchange it with a recycling facility in return for books that we donate to orphanages, vulnerable families and libraries in remote villages in Georgia's many mountainous regions. Hazardous office waste includes printer cartridges, for which we use a service that supplies new cartridges and recycles the used ones to minimise our impact.

To reduce our environmental footprint, lower our energy costs and further cut our hazardous waste production, we also eliminated fluorescent lights throughout our offices and replaced them with more energy-efficient LED lighting. We recycled the old fluorescent bulbs and installed motion-sensitive light switches in areas where constant lighting is not necessary.

We are already seeing positive results from these energy efficiency initiatives, as electricity costs dropped significantly YoY in the beginning of 2017. We plan to expand our waste management programme by installing a waste separation system.

Greenhouse gas emissions

As one of the largest financial institutions in Georgia and a constituent of the LSE's premium segment, TBC Bank has a commitment to disclose its greenhouse gas (GHG) emissions; specifically, to calculate and report GHG emissions from the usage of fuel and electricity for its direct operations. To this end, we commissioned the Energy Efficiency Centre Georgia to prepare a report on GHG emissions from activities for which TBC Bank is responsible. This report allowed us to obtain a more complete picture of our direct impact in 2016, including by calculating GHG emissions from TBC Bank's business activities in tonnes of carbon dioxide (CO₂) equivalent, based on the GHG protocol's concept of "scopes" (Scopes 1, 2 and 3).

Total CO₂e emissions data for the FY 2016

	Tonnes
Scope 1*	1,804
Scope 2	1,147
Scope 3	268
Total emissions	3,219
Total emissions per full time employee	0.52

* Scope 1 – 1,209 CO₂e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank);
533 CO₂e emissions in tonnes (from owned vehicles of TBC Bank);
63 CO₂e emissions in tonnes (from owned generators of TBC Bank).

Calculation methodology

This report, which has been prepared by the Energy Efficiency Centre Georgia (EECG), 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 our business. In preparing the emissions data, the World Resources Institute (WRI) "Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition)", emissions factors from the UK government's Greenhouse Gas Conversion Factors for Company Reporting 2016 and national Provider, Intergovernmental Panel on Climate Change (IPCC) emission factors for electricity (tCO₂*/MWh) were used. The required data was collected and the report developed for the boundaries of TBC Bank's main banking activities, which includes all service offices and/or retail branches where it has operational control, as follows:

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

Scope 2 (purchased electricity for own use, i.e. lighting, office appliances, cooling, etc) includes emissions from used electricity at owned and controlled sites. To calculate the emissions, the conversion factor for Non-OECD Europe and Eurasia (average) conversion from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2016 and national IPCC emission factors for electricity (tCO₂*/MWh) have been used.

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



FINANCIAL REVIEW

Overview

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

In Q4 2016, TBC Bank acquired Bank Republic, which is consolidated into these results for the first time.

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

Financial highlights

Financial highlights (including effect of Bank Republic acquisition)

FY 2016 P&L highlights

- Net profit for 2016 up by 36.4% YoY to GEL 298.3 million
- Return on average equity (ROAE) amounted to 22.4% (20.6% without one-off effects) and return on average assets (ROAA) to 3.9% (3.6% without one-off effects)
- Total operating income for 2016 up by 18.0% YoY to GEL 681.1 million
- Cost to income ratio stood at 45.8% (42.9% without one-off effects), compared to 43.9% in 2015
- Cost of risk on loans stood at 1.0%, down by 0.7pp YoY
- Net interest margin (NIM) stood at 7.8% in 2016, unchanged from 2015

Balance sheet highlights 31 December 2016

- Total assets reached GEL 10,769.0 million as of 31 December 2016, up by 55.3% YoY and up by 42.0% QoQ
- Gross loans and advances to customers increased to GEL 7,358.7 million as of 31 December 2016, up by 58.6% YoY and by 47.1% QoQ
- Net loans to deposits plus IFI funding stood at 93.4% and net stable funding ratio (NSFR) at 108.4%
- NPLs stood at 3.5%, down by 1.3pp YoY and 1.1pp QoQ
- NPLs coverage stood at 88.4%, (221.4% with collateral), compared to 84.3% as of 30 September 2016
- Total customer deposits stood at GEL 6,454.9 million as of 31 December 2016, up by 54.5% YoY and up by 40.5% QoQ
- Tier I and total capital adequacy ratios per Basel II/III stood at 10.4% and 14.2% respectively
- Tier I and total capital adequacy ratios per Basel I stood at 21.3% and 28.1% respectively

4Q 2016 P&L highlights

- Net profit for 4Q 2016 up by 31.6% YoY to GEL 88.0 million and up by 24.0% QoQ
- Return on average equity (ROAE) amounted to 24.2% (23.5% without one-off effects) and return on average assets (ROAA) to 3.7% (3.5% without one-off effects)
- Total operating income in 4Q 2016 up by 39.0% YoY and by 34.9% QoQ to GEL 218.3 million
- Cost to income ratio stood at 51.2% (47.0% without one-offs), compared to 49.3% in 4Q 2015 and 40.5% in 3Q 2016
- Cost of risk on loans stood at 0.6%, up by 0.5pp YoY and down by 0.5pp QoQ
- Net interest margin (NIM) stood at 7.9% in 4Q 2016, compared to 8.3% in 3Q 2016 and 7.4% in 4Q 2015

Financial highlights (excluding effect of Bank Republic acquisition)

FY 2016 P&L highlights

- Net profit for 2016 up by 31.5% YoY to GEL 287.6 million
- Return on average equity (ROAE) amounted to 21.6% (19.7% without one-off effects) and return on average assets (ROAA) to 3.9% (3.6% without one-off effects).
- Total operating income for 2016 up by 11.4% YoY to GEL 643.0 million
- Cost to income ratio stood at 46.1% (43.4% without one-off effects), compared to 43.9% in 2015.
- Cost of risk on loans stood at 0.8%, down by 0.9pp YoY.
- Net interest margin (NIM) stood at 7.9% in 2016, up by 0.1pp

Balance sheet highlights 31 December 2016

- Total assets reached GEL 9,212.5 million as of 31 December 2016, up by 32.8% YoY and up by 21.5% QoQ
- Gross loans and advances to customers increased to GEL 5,911.2 million as of 31 December 2016, up by 27.4% YoY and by 18.1% QoQ
- Net loans to deposits plus IFI funding stood at 90.7%
- NPLs stood at 4.0%, down by 0.8pp YoY and 0.6pp QoQ
- NPLs coverage stood at 90.5%, (216.8% with collateral), compared to 84.3% as of 30 September 2016.
- Total customer deposits stood at GEL 5,641.1 million as of 31 December 2016, up by 35.0% YoY and 22.8% QoQ

4Q 2016 P&L highlights

- Net profit for 4Q 2016 up by 15.6% YoY and up by 9.0% QoQ to GEL 77.4 million
- Return on average equity (ROAE) amounted to 21.4% (20.0% without one-off effects) and return on average assets (ROAA) to 3.7% (3.4% without one-off effects).
- Total operating income in 4Q 2016 up by 14.8% YoY and up by 11.4% QoQ to GEL 180.2 million
- Cost to income ratio stood at 53.5% (49.7% without one-offs), compared to 49.3% in 4Q 2015 and 40.5% in 3Q 2016.
- Cost of risk on loans stood at -0.1%, down by 0.3pp YoY and down by 1.2pp QoQ.
- Net interest margin (NIM) stood at 7.8% in 4Q 2016, compared to 8.3% in 3Q 2016 and 7.4% in 4Q 2015.

Description of one-off incomes and expenses incurred during 2016

- Recovery of previously written off principal and interest (FY 2016: GEL 35.8 million; Q4: GEL 35.8 million)
- Tax credit (FY 2016: GEL 17.9 million; Q4: GEL 0 million)
- Premium Listing costs (FY 2016: GEL 16.2 million; Q4: GEL 0.3 million)
- Currency effect on provisions (FY 2016: GEL 9.6 million; Q4: GEL 16.8 million): or the excluding Bank Republic acquisition (FY 2016: GEL 8.7 million; Q4: GEL 16.0 million)
- Gain on sale of investment securities (FY 2016: GEL 8.8 million; Q4: GEL 0 million)
- Bank Republic's acquisition related consulting costs (FY 2016: GEL 8.0 million; Q4: GEL 8.0 million)
- Interest income related to one large corporate customer (FY 2016: GEL 4.2 million; Q4: GEL 0 million)
- Interest expense related to prepayment of subordinated loans (FY 2016: GEL 2.5 million; Q4: GEL 2.5 million)
- Staff redundancy provision (FY 2016: GEL 2.2 million; Q4: GEL 2.2 million)
- Impairment of intangible assets of Bank Republic (FY 2016: GEL 2.0 million; Q4: GEL 2.0 million)

Market Shares¹

- As of 31 December 2016 TBC Bank's market share of total assets was 30.0% (36.7% with Bank Republic's total assets), up by 3.3pp YoY and 1.6pp QoQ
- TBC Bank's market share of total loans was 31.1% (38.9% with Bank Republic's total loans) as of 31 December 2016, up by 2.4pp YoY and 1.4pp QoQ.
- In terms of individual loans, the Bank had a market share of 32.9% (44.2% with Bank Republic's total individual loans) as of 31 December 2016, up by 1.3pp YoY and 0.6pp QoQ. The market share for legal entity loans was 29.4% (33.6% with Bank Republic's total legal entity loans), up by 3.2pp YoY and 2.1pp QoQ.
- TBC Bank's market share of total deposits stood at 33.0% (37.8% with Bank Republic's total deposits) as of 31 December 2016, up by 4.0pp YoY and 2.4pp QoQ.
- The Bank maintains its longstanding leadership in individual deposits with a market share of 37.2% (40.8% with Bank Republic's total individual deposits), up by 2.9pp YoY and 1.7pp QoQ. In terms of legal entity deposits, TBC Bank holds a market share of 28.0% (34.2% with Bank Republic's legal entity deposits), up by 4.6pp YoY and 2.9pp QoQ.

¹ Market share figures are based on data from the National Bank of Georgia (NBG)

Results overview, FY and 4Q 2016

Income statement highlights

Thousands of GEL	FY16 w/o BR acq.	FY16	FY15	Change in %	4Q16 w/o BR acq.	4Q16	3Q16	4Q15	Change YoY %	Change QoQ %
Net interest income	466,576	490,453	412,174	19.0%	129,811	153,689	120,227	106,519	44.3%	27.8%
Net fee and commission income	88,076	90,268	72,291	24.9%	26,200	28,392	22,194	19,807	43.3%	27.9%
Gross insurance profit	256	256	-	100%	256	256	-	-	100%	100%
Other operating non-interest income	88,102	100,085	92,529	8.4%	23,933	35,916	19,398	30,636	18.1%	86.5%
Provisioning charges	-41,597	-53,395	-75,992	-29.7%	2,131	-9,668	-15,059	-5,318	81.8%	-35.8%
Operating income after provisions for impairment	601,413	627,667	501,002	25.3%	182,331	208,586	146,759	151,644	37.5%	42.1%
Operating expenses	-296,686	-311,988	-253,129	23.3%	-96,483	-111,785	-65,536	-77,394	44.4%	70.6%
Profit before tax	304,727	315,679	247,873	27.4%	85,849	96,801	81,223	74,251	30.4%	19.2%
Income tax expense	-17,146	-17,421	-29,176	-40.3%	-8,492	-8,767	-10,235	-7,331	19.6%	-14.3%
Profit for the period	287,581	298,258	218,697	36.4%	77,356	88,034	70,988	66,920	31.6%	24.0%

FINANCIAL REVIEW continued

Balance sheet and capital highlights

Millions of GEL	Dec-16				Sep-16		Change QoQ, %	Dec-15		Change YoY, %
	GEL w/o BR acquisition	GEL	USD w/o BR acquisition	USD	GEL	USD		GEL	USD	
Total assets	9,213	10,769	3,481	4,069	7,584	3,255	42.0%	6,935	2,896	55.3%
Gross loans	5,911	7,359	2,233	2,780	5,004	2,148	47.1%	4,639	1,937	58.6%
Customer deposits	5,641	6,455	2,131	2,439	4,593	1,972	40.5%	4,178	1,745	54.5%
Total equity	1,576	1,583	595	598	1,389	596	14.0%	1,218	509	29.9%
Basel I tier I capital	-	1,486	-	561	1,322	568	12.4%	1,157	483	28.4%
Basel I risk weighted assets	-	6,974	-	2,635	5,162	2,216	35.1%	4,680	1,954	49.0%
Basel II/III tier I capital	-	1,041	-	393	1,125	483	-7.4%	953	398	9.2%
Basel II/III risk weighted assets	-	10,022	-	3,786	8,428	3,618	18.9%	7,476	3,122	34.0%

Key Ratios

	FY16 w/o BR acquisition	FY16	FY15	Change in pp	4Q16 w/o BR acquisition	4Q16	3Q16	4Q15	Change YoY, pp	Change QoQ, pp
ROAE	21.6%	22.4%	20.1%	2.3	21.4%	24.2%	20.6%	23.1%	1.1	3.6
ROAA	3.9%	3.9%	3.4%	0.5	3.7%	3.7%	4.0%	3.9%	-0.2	-0.3
Pre-provision ROAE	24.7%	26.4%	27.1%	-0.7	20.8%	26.8%	25.1%	24.9%	1.9	1.7
Cost to income	46.1%	45.8%	43.9%	1.9	53.5%	51.2%	40.5%	49.3%	1.9	10.7
Cost of risk	0.8%	1.0%	1.7%	-0.7	-0.1%	0.6%	1.1%	0.2%	0.5	-0.5
NPL to gross loans	4.0%	3.5%	4.8%	-1.3	4.0%	3.5%	4.6%	4.8%	-1.3	-1.1
Basel I total CAR	-	28.1%	31.0%	-2.9	-	28.1%	31.5%	31.0%	-2.9	-3.4
Basel II/III total CAR	-	14.2%	16.0%	-1.8	-	14.2%	16.2%	16.0%	-1.8	-2.1
Leverage (times)	5.8	6.8	5.7	1.1	5.8	6.8	5.5	5.7	1.1	1.3

Income statement discussion

Net interest income

Thousands of GEL	FY16 w/o BR acquisition	FY16	FY15	Change	4Q16 w/o BR acquisition	4Q16	3Q16	4Q15	Change YoY	Change QoQ
Loans and advances to customers	653,512	688,724	582,327	18.3%	186,904	222,116	164,235	155,292	43.0%	35.2%
Investment securities available for sale	23,101	25,707	20,927	22.8%	5,241	7,847	5,679	5,862	33.9%	38.2%
Due from other banks	4,604	4,550	7,638	-40.4%	1,013	959	1,055	1,425	-32.7%	-9.1%
Bonds carried at amortized cost	30,714	30,714	22,950	33.8%	7,460	7,460	7,039	7,803	-4.4%	6.0%
Investment in leases	16,566	16,566	15,217	8.9%	4,895	4,895	3,950	3,791	29.1%	23.9%
Other	165	165	-	NMF	67	67	98	-	NMF	-31.7%
Interest income	728,663	766,426	649,059	18.1%	205,581	243,344	182,056	174,172	39.7%	33.7%
Customer accounts	147,270	154,840	137,489	12.6%	40,316	47,886	36,501	36,156	32.4%	31.2%
Due to credit institutions	78,702	85,030	70,834	20.0%	23,198	29,526	17,040	23,482	25.7%	73.3%
Subordinated debt	34,337	34,325	26,363	30.2%	11,774	11,762	7,847	7,438	58.1%	49.9%
Debt securities in issue	1,778	1,778	2,105	-15.5%	482	482	442	550	-12.5%	9.0%
Other	-	-	94	-100.0%	-	-	-	28	-100.0%	NMF
Interest expense	262,087	275,973	236,885	16.5%	75,769	89,655	61,830	67,654	32.5%	45.0%
Net interest income	466,576	490,453	412,174	19.0%	129,811	153,689	120,227	106,519	44.3%	27.8%
Net interest margin	7.9%	7.8%	7.8%	0.0pp	7.8%	7.9%	8.3%	7.4%	0.5pp	-0.4pp

NMF - Not meaningful figure

2016 to 2015 comparison

Without Bank Republic's acquisition effect, net interest income grew by 13.2% YoY to GEL 466.6 million, resulting from 12.3% higher interest income and 10.6% higher interest expense. The increase in interest income by GEL 79.6 million was mainly driven by the rise in interest income from loans to customers by GEL 71.2 million, or 12.2%, which is primarily related to the 27.4% gross loan portfolio increase, while loan yield declined from 13.6% to 13.5%, due to a decrease in GEL-denominated loans yield. The rise in interest income from investment securities was GEL 10.0 million, or 22.7%. This was primarily due to the increase in yields on such securities from 7.3% to 8.6% mainly due to the higher average refinancing rate through 2016. The rise in interest income included a one-off interest income gain of a GEL 9.6 million from the recovery of previously written-off loan interest from large borrower in 4Q 2016 as well as one-off interest income related to a corporate customer amounting to GEL 4.2 million in 3Q 2016. The yield on average interest earning assets amounted to 12.3%.

Without Bank Republic's acquisition effect, interest expense increased by GEL 25.2 million, or 10.6%, mainly due to a GEL 7.9 million, or 11.1% higher interest expense on amounts due to credit institutions, a GEL 9.8 million, or 7.1% higher expense on amounts due to customer accounts and a GEL 8.0 million, or 30.3% higher interest expense on subordinated debt. The rise in interest expense on amounts due to credit institutions mainly resulted from the increase in the respective portfolio by GEL 365.7 million, or 32.8% and the increase of the cost of borrowing from 7.2% to 7.4%. The increased cost of GEL-denominated borrowings from 8.0% to 9.2% offset the decrease in the cost of foreign-currency denominated borrowings from 6.5% to 6.0%. The rise in interest expense on amounts due to customer accounts resulted from the increase in the respective average portfolio, despite the decrease in the cost of deposits from 3.5% to 3.3% YoY. The rise in subordinated debt was mainly caused by a GEL 2.5 million one-off expense related to the prepayment of costly subordinated loans.

Bank Republic's acquisition effect increased net interest income by GEL 23.9 million, resulting from a GEL 37.8 million, or 5.8% contribution to interest income and a GEL 13.9 million, or 5.9% contribution to interest expense. Bank Republic's interest income is mainly attributable to a GEL 35.2 million income from loans to customers. Bank Republic's increased interest expense resulted from a GEL 7.6 million, or 5.5% contribution to interest expense on customer accounts and a GEL 6.3 million, or 8.9%, contribution to interest expense on amounts due to credit institutions. While Bank Republic's acquisition had a significant effect on balance sheet item growth, its effect on interest income was relatively limited due to limited number of days of financial result consolidation (72 days in the full year after 20 October 2016).

Consequently, with Bank Republic's acquisition effect, net interest income grew by 19.0% YoY to GEL 490.5 million, resulting from 18.1% higher interest income and 16.5% higher interest expense. As a result, the NIM was 7.8% (7.6% without one-offs) in 2016, unchanged from 2015. Without Bank Republic's acquisition effect, the NIM was 7.9% (7.7% without one-offs).

4Q 2016 to 4Q 2015 comparison

Without Bank Republic's acquisition effect, net interest income increased by GEL 23.3 million, or 21.9% to GEL 129.8 million, as a result of a GEL 31.4 million, or 18.0% increase in interest income and a GEL 8.1 million, or 12.0% increase in interest expense, compared to 4Q 2015. Interest income increased due to a GEL 31.7 million, or 20.4% increase from loans including a one-off interest income of GEL 9.6 million from the recovery of previously written-off loan of a large borrower. This effect more than offset the decrease in loan yields which eventually grew from 13.6% to 13.8%. The yields on foreign currency-denominated loan yields grew from 10.5% to 11.1%. However, the yields on GEL-denominated loans decreased from 19.2% to 18.5%.

Without Bank Republic's acquisition effect, interest expense increased by GEL 8.1 million, or 12.0%, which is mainly explained by the increase in interest expense on customer accounts by a GEL 4.2 million, or 11.5%, and by the increase in interest expense on subordinated debt by GEL 4.3 million, or 58.3%. The rise in interest expense on customer deposits resulted from the increase in customer deposit portfolio by 35.0%, despite the decrease in the cost of deposit by 0.3%. The rise in interest expense on subordinated debt increased due to an increase in the respective portfolio by 29.9% and a GEL 2.5 million one-off expense, which was attributable to the prepayment of costly subordinated loans.

Bank Republic's acquisition effect increased net interest income by GEL 23.9 million in 4Q, resulting from a GEL 37.8 million, or 21.7% contribution to interest income and a GEL 13.9 million, or 20.5% contribution to interest expense. Bank Republic's interest income was primarily due to the interest income from loans to customers in the amount GEL 35.2 million. Bank Republic's acquisition effect increased interest expense by GEL 13.9 million, or 20.5%, resulting from a GEL 7.6 million, or 20.9%, contribution to interest expense on customer accounts and a GEL 6.3 million, or 26.9%, contribution to interest expense on amounts due to credit institutions.

Consequently, with Bank Republic's acquisition effect, net interest income grew by 44.3% to GEL 153.7 million, resulting from 39.7% higher interest income and 32.5% higher interest expense. The NIM increased from 7.4% to 7.9% (7.5% without one-offs) on a YoY basis. Without Bank Republic's acquisition effect, the NIM stood at 7.8% (7.4% without one-offs).

4Q 2016 to 3Q 2016 comparison

Without Bank Republic's acquisition effect, net interest income increased by GEL 9.6 million, or 8.0%, as a result of GEL 23.5 million, or 12.9%, in higher interest income and GEL 13.9 million, or 22.5%, in higher interest expense. Interest income from loans increased by GEL 22.7 million, or by 13.8%, due to the 18.1% increase in the respective portfolio and a gain of GEL 9.6 million from the recovery of previously written-off loan interest from one large borrower. Interest income from investment securities remained broadly stable, while yield on securities decreased by 0.9pp to 7.5%, due to the slightly lower average refinancing rate in 4Q 2016 compared to 3Q 2016. Yields on average interest earning assets amounted to 12.3%.

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Without Bank Republic's acquisition effect interest expense increased by GEL 13.9 million, or 22.5%, which is mainly explained by a GEL 3.8 million, or 10.5% increased expense on customer accounts, by a GEL 6.2 million, or 36.1%. Increased expense on amounts due to credit institutions and by a GEL 3.9 million, or 50.0% increased expense on subordinated debt. The increase in interest expense on customer accounts was primarily caused by a GEL 1,047.9 million, or 22.8%, increase in respective portfolio. The effect was partly offset by a 0.2% lower deposit cost in 4Q 2016. The increase in interest expense on amounts due to credit institutions was mainly caused by an increase in the respective portfolio by GEL 284.2 million, or 23.8%, and by an increase in yields on amounts due to credit institutions from 6.9% to 7.0%. The increase in interest expense on subordinated debt was primarily due to a GEL 2.5 million one-off expense related to a prepayment of a costly subordinated loan and the increase in the respective portfolio by a GEL 84.7 million. As a result, the cost of funding amounted to 4.4%.

Bank Republic's acquisition effect increased net interest income by GEL 23.9 million in 4Q, resulting from a GEL 37.8 million, or 20.7%, contribution to interest income and a GEL 13.9 million, or 22.5%, contribution to interest expense. Bank Republic's interest income was primarily due to interest income from loans to customers of GEL 35.2 million. Bank Republic's acquisition effect increased interest expense by a GEL 13.9 million, or 22.5%, which resulted from a GEL 7.6 million, or 20.7%, contribution to interest expense on customer accounts and a GEL 6.3 million, or 37.1% contribution to interest expense on amounts due to credit institutions.

Consequently, with Bank Republic's acquisition effect, net interest income grew by 27.8% to GEL 153.7 million, resulting from 33.7% higher interest income and 45.0% higher interest expense net. As a result, NIM dropped by 0.4pp to 7.9% (7.5% without one-offs). Without Bank Republic's acquisition effect, NIM dropped by 0.5pp to 7.8%.

Fee and commission income

Thousands of GEL	FY16 w/o BR acquisition	FY16	FY15	Change in %	4Q16 w/o BR acquisition	4Q16	3Q16	4Q15	Change YoY, %	Change QoQ, %
Card operations	60,081	61,115	49,424	23.7%	17,799	18,832	15,434	13,964	34.9%	22.0%
Settlement transactions	41,731	43,434	31,218	39.1%	12,886	14,590	10,730	9,225	58.2%	36.0%
Guarantees issued	10,982	11,699	8,949	30.7%	2,591	3,308	2,259	2,611	26.7%	46.4%
Issuance of letters of credit	5,999	6,215	5,859	6.1%	2,093	2,310	1,353	1,396	65.4%	70.7%
Cash transactions	12,911	13,013	10,930	19.1%	3,828	3,930	3,594	3,122	25.9%	9.4%
Foreign exchange operations	1,227	1,277	1,410	-9.4%	434	484	239	306	58.1%	102.5%
Other	5,815	6,047	6,048	0.0%	1,775	2,006	1,502	1,944	3.2%	33.6%
Fee and commission income	138,746	142,800	113,837	25.4%	41,406	45,460	35,112	32,567	39.6%	29.5%
Card operations	33,805	34,906	27,169	28.5%	10,039	11,140	8,856	8,778	26.9%	25.8%
Settlement transactions	5,667	5,795	3,904	48.4%	1,594	1,722	1,476	1,273	35.2%	16.7%
Guarantees received	668	796	957	-16.9%	192	320	210	187	71.2%	52.4%
Letters of credit	1,624	1,624	2,208	-26.4%	297	297	424	532	-44.2%	-30.0%
Cash transactions	2,462	2,633	2,707	-2.7%	580	751	614	561	33.7%	22.3%
Foreign exchange operations	146	190	5	NMF	79	123	-	1	NMF	NMF
Other	6,298	6,587	4,597	43.3%	2,427	2,717	1,339	1,427	90.4%	102.9%
Fee and commission expense	50,670	52,532	41,546	26.4%	15,206	17,068	12,918	12,760	33.8%	32.1%
Net fee and commission income	88,076	90,268	72,291	24.9%	26,200	28,392	22,194	19,807	43.3%	27.9%

NMF – Not meaningful figure

2016 to 2015 comparison

Without Bank Republic's acquisition effect, net fee and commission income amounted to GEL 88.1 million, up by a GEL 15.8 million, or 21.8%, which resulted from a GEL 24.9 million, or 21.9% higher fee and commission income and a GEL 9.1 million, or 22.0%, higher fee and commission expense. This rise resulted from a GEL 8.8 million, or 32.0% increase in net settlement transactions, which mainly resulted from the increased scale of operations in the subsidiary TBC Pay; a GEL 4.0 million, or 18.1%, increase in net card operations, a GEL 2.3 million, or 29.1% increase in net guarantees; and a GEL 2.2 million, or 27.1%, increase in net cash transactions.

Bank Republic's acquisition effect increased net fee and commission income by GEL 2.2 million, or 3.0%, which resulted from a GEL 4.1 million, or 3.6%, contribution to fee and commission income and a GEL 1.9 million, or 4.5% contribution to fee and commission expense.

As a result, net fee and commission income grew by GEL 18.0 million, or 24.9%. The net fee and commission income represented 13.3% of the total operating income.

4Q 2016 to 4Q 2015 comparison

Without Bank Republic's acquisition effect, net fee and commission income amounted to GEL 26.2 million, up by GEL 6.4 million, or 32.3%, resulting from a GEL 8.8 million, or 27.1%, higher fee and commission income and a GEL 2.4 million, or 19.2%, higher fee and commission expense. The increase in net fee and commission income resulted from a GEL 3.3 million, or 42.0% rise, in net fee and commission income from settlement transactions, which was mainly driven by the increased scale of operations in the subsidiary TBC Pay from a GEL 2.6 million, or 49.7% increase in net card operations and a GEL 0.7 million, or 26.9% increase in net cash transactions.

Bank Republic's acquisition effect increased net fee and commission income by GEL 2.2 million, or 11.1%, resulting from a GEL 4.1 million, or 12.4%, contribution to fee and commission income and a GEL 1.9 million, or 14.6%, contribution to fee and commission expense.

As a result, net fee and commission income grew by GEL 8.6 million, or 43.3%.

4Q 2016 to 3Q 2016 comparison

Without Bank Republic's acquisition effect, net fee and commission increased by GEL 4.0 million, or 18.1%, resulting from a GEL 6.3 million, or 17.9% higher fee and commission income and a GEL 2.3 million, or 17.7% higher fee and commission expense. The increase in net fee and commission income was primarily driven by a GEL 2.0 million, or 22.0% increase in net settlement transactions, which resulted from the increased scale of operations in subsidiary TBC Pay, a GEL 1.2 million, or 18.0% increase in net card operations; and a GEL 0.9 million increase in income from letters of credit. This increase was slightly offset by a GEL 0.8 million decrease in net other fee and commission income.

Bank Republic's acquisition effect increased net fee and commission income by a GEL 2.2 million, or 9.9%, resulted from a GEL 4.1 million, or 11.5%, contribution to fee and commission income and a GEL 1.9 million, or 14.4% contribution to fee and commission expense.

As a result, net fee and commission income grew by GEL 6.2 million, or by 27.9%.

FINANCIAL REVIEW continued

Gross insurance profit and other operating non-interest income

Thousands of GEL	FY16 w/o BR acq.	FY16	FY15	Change in %	4Q16 w/o BR acq.	4Q16	3Q16	4Q15	Change YoY %	Change QoQ %
Gross insurance profit	256	256	-	100%	256	256	-	-	100%	100%
Gains less losses from trading in foreign currencies and foreign exchange translations	60,413	67,762	67,221	0.8%	15,604	22,952	16,724	18,447	24.4%	37.2%
Gains less losses/ (losses less gains) from derivative financial instruments	-206	-206	-575	-64.2%	94	94	173	276	-66.1%	-45.8%
Gain less losses from disposal of investment securities available for sale	8,795	9,293	-	NMF	-	498	-	-	NMF	NMF
Revenues from cash-in terminal services	1,100	1,100	777	41.5%	300	300	292	237	26.3%	2.8%
Recovery from repayment of purchased impaired loans	1,323	4,995	-	100%	1,323	4,995	-	-	100%	100%
Revenues from operational leasing	5,772	5,772	8,539	-32.4%	1,158	1,158	1,086	1,590	-27.1%	6.6%
Gain from sale of investment properties	2,470	2,623	4,896	-24.7%	2,239	2,393	0	4,516	-47.0%	NMF
Gain from sale of inventories of repossessed collateral	2,382	2,382	1,836	29.8%	991	991	222	371	167.5%	NMF
Administrative fee income from international financial institutions	644	644	708	-9.0%	139	139	147	158	-11.8%	-5.1%
Revenues from non-credit related fines	635	658	286	129.9%	188	211	46	218	-3.3%	NMF
Gain on disposal of premises and equipment	208	208	118	77.0%	110	110	3	19	NMF	NMF
Gain from sale of financial option	-	-	4,692	NMF	-	-	-	4,692	NMF	NMF
Other	4,565	4,854	4,031	118.0%	1,787	7,070	706	112	NMF	NMF
Other operating income	19,099	23,236	25,883	-10.2%	8,235	12,372	2,501	11,912	3.9%	NMF
Other operating non-interest income	88,357	100,341	92,528	8.4%	24,189	36,172	19,398	30,636	18.1%	86.5%

NMF - not meaningful figure

2016 to 2015 comparison

Without Bank Republic's acquisition effect, other operating non-interest income decreased by GEL 4.2 million, or by 4.5%, to GEL 88.4 million. The decline was mainly driven by a GEL 6.8 million, or 10.1%, decline in gains less losses from trading in foreign currencies and foreign exchange translations. This was mainly caused by elevated income from FX operations in 2015, broadly related to the currency depreciation, volatility and related increased margins of the currency rate during 2015, as well as due to a one-off FX gain in 1Q 2015 estimated at GEL 6.7 million. The decline in other operating income was a GEL 6.5 million, or 25.2%. It was partly due to the two one-off incomes in 4Q 2015: one from the sale of financial option related to one corporate client of GEL 4.7 million and the other one from the sale of an earlier foreclosed asset classified as an investment property of GEL 4.3 million. The further decrease was due to a GEL 2.8 decline in income from operational leasing. The decrease was largely offset by a one-off gain of a GEL 8.8 million in gains from the disposal of investment securities available for sale.

Bank Republic's acquisition effect increased other operating non-interest income by a GEL 12.0 million, or 13.0%, resulting from a GEL 7.3 million, or 10.9% contribution to gains less losses from trading in foreign currencies and foreign exchange translations and a GEL 4.1 million, or 16.0% increase in other operating income.

As a result, net other operating income grew by GEL 7.8 million or 8.4%.

4Q 2016 to 4Q 2015 comparison

Without Bank Republic's acquisition effect, other non-interest operating income decreased by GEL 6.5 million, or 21.0%, to GEL 24.2 million. The decline was driven by a GEL 2.8 million, or 15.4% decrease in gains less losses from trading in foreign currencies and foreign exchange translations, which was driven by the decreased margins for foreign currency translation. The decline in other operating income was a GEL 3.4 million, or 28.7% which mainly related to the one-off incomes mentioned above.

Bank Republic's acquisition effect increased other operating non-interest income by GEL 12.0 million, or 39.1%, resulting from a GEL 7.3 million, or 39.8% contribution to gains less losses from trading in foreign currencies and foreign exchange translations and a GEL 4.1 million, or 34.7% increase in other operating income.

As a result, other operating non-interest income increased by GEL 5.5 million, or 18.1%.

4Q 2016 to 3Q 2016 comparison

Without Bank Republic's acquisition effect, other operating non-interest income increased by GEL 4.8 million, or 24.7%. The increase was primarily driven by a GEL 2.2 million increase in gains from the sale of investment properties and a GEL 0.8 million increase in gains from the sale of inventories of repossessed collateral. This increase was partly offset by a GEL 1.1 million, or 6.7% decrease in gains less losses from trading in foreign currencies and foreign exchange translations, resulting from a lower FX margin compared to 3Q 2016.

Bank Republic's acquisition effect increased other operating non-interest income by GEL 12.0 million, or 61.8%, resulting from a GEL 7.3 million, or 43.9% contribution to gains less losses from trading in foreign currencies and foreign exchange translations and a GEL 4.1 million increase in other operating income.

As a result, other operating non-interest income increased by GEL 16.8 million, or 86.5%.

Provision for impairment

Thousands of GEL	FY16 w/o BR acquisition	FY16	FY15	Change	4Q16 w/o BR acquisition	4Q16	3Q16	4Q15	Change YoY	Change QoQ
Provision for loan impairment	-36,997	-49,202	-72,791	-32.4%	1,799	-10,405	-13,518	-2,055	NMF	-23.0%
Provision for impairment of investments in finance lease	-558	-558	-967	-42.3%	2,341	-322	-126	-344	-6.4%	156.3%
Provision for/(recovery of provision) Performance guarantees and credit related commitments	-1,217	-771	1,117	-169.0%	-322	2,787	-1,481	-1,945	NMF	NMF
Provision for impairment of other financial assets	-2,814	-2,853	-3,351	-14.8%	-1,686	-1,727	66	-974	77.4%	NMF
Impairment of investment securities available for sale	-11	-11	-	NMF	-	-	-	-	NMF	NMF
Total provision charges for impairment	-41,597	-53,395	-75,992	-29.7%	2,131	-9,668	-15,059	-5,318	81.8%	-35.8%
Operating income after provisions for impairment	601,413	627,667	501,002	25.3%	182,331	208,586	146,759	151,644	37.5%	42.1%
Cost of risk	0.8%	1.0%	1.7%	-0.7 pp	-0.1%	0.6%	1.1%	0.2%	0.5 pp	-0.5 pp

NMF - Not meaningful figure

2016 to 2015 comparison

Without Bank Republic's acquisition effect, total provision charges declined by GEL 34.4 million to a GEL 41.6 million. This decrease was driven by the decreased charges on loans by a GEL 35.8 million. Decreased charges on loans were mainly driven by the recovery of a provision expense in the amount of GEL 26.2 million in 4Q 2016 on a previously written-off corporate exposure and the overall improved performance of the corporate book, which more than offset the negative effect of currency devaluation GEL 8.7 million. The effect was magnified by a GEL 0.4 million decrease in the provision for impairment of investments in financial leases, more than offsetting a GEL 2.3 million increase in provision charges on performance guarantees and credit related commitments as a result of the increase in the respective portfolios.

Bank Republic's acquisition effect increased total provision charges for impairment by GEL 11.8 million, which was mainly caused by the increase in provision for loan impairment. Consequently, in 2016, total provision charges declined by GEL 22.6 million to GEL 53.4 million, compared to FY 2015.

As a result, in 2016, the cost of risk stood at 1.0%, compared to 1.7% in 2015. Without Bank Republic's acquisition effect, the cost of risk stood at 0.8% down by 0.9pp compared to FY in 2015. The cost of risk without one-off effect and currency effect stood at 1.1% in 2016 or 1.3% without Bank Republic's acquisition effect. With Bank Republic but without fair value adjustment required by the IFRS consolidation rules, the cost of risk without both one-offs would amount to 1.0% in Q4 and 1.2% in FY 2016

4Q 2016 to 4Q 2015 comparison

Without Bank Republic's acquisition effect, total provision charges decreased by GEL 7.4 million. This decrease was caused by a GEL 3.9 million decrease in provision for loan impairment and GEL 4.3 million decrease in provision for performance guarantees and credit related commitments. The decrease in loan provision expenses was driven by a large recovery in the corporate segment, which more than offset a technical rise in provisions related to the local currency depreciation in the amount of GEL 16.0million.

With Bank Republic's acquisition effect, in 4Q 2016 total provision charges increased by GEL 4.4 million to a GEL 9.7 million. This increase is explained by a GEL 8.4 million increase in provision for loan impairment. This effect was partly offset by a GEL 4.8 million decrease in provision for performance guarantees and credit related commitments.

In 4Q 2016, the cost of risk stood at 0.6%, compared to 0.2% in 4Q 2015. Without the Bank Republic acquisition effect, the cost of risk stood at -0.1%, down by 0.3pp compared to 4Q 2015. The cost of risk without one-off effect and currency effect stood at 1.2% in 4Q 2016 or 0.6% without Bank Republic acquisition effect.

4Q 2016 to 3Q 2016 comparison

Without Bank Republic's acquisition effect, total provision charges decreased by GEL 17.2 million. This decrease was caused by a GEL 15.3 million decrease in provision for loan impairment, and GEL 3.8 million decrease in provision for performance guarantees and credit related commitments. Decrease in loan provision expenses was driven by a large recovery in the corporate segment, which more than offset by technical rise in provisions related to the local currency depreciation as explained above.

With Bank Republic's acquisition effect, on a QoQ basis, total provision charges decreased by a GEL 5.4 million, or 35.8%. This decrease was explained by a GEL 4.3 million decrease in provision for performance guarantees and credit related commitments and a GEL 3.1 million decrease in provision for loan impairment. This effect was partly offset by a GEL 1.8 million increase in provision for impairment of other financial assets.

The cost of risk on loans stood at 0.6%, compared to 1.1% in 3Q 2016. Without Bank Republic's acquisition effect, the cost of risk stood at -0.1% down by 1.2pp compared to 3Q 2016.

Further details on asset quality can be found under balance sheet discussion section.

Operating expenses

Thousands of GEL	FY16 w/o BR acquisition effect	FY16	FY15	Change	4Q16 w/o BR acquisition effect	4Q16	3Q16	4Q15	Change YoY	Change QoQ
Staff costs	164,604	172,221	142,777	20.6%	54,927	62,544	40,205	42,445	47.4%	55.6%
Depreciation and amortization	28,141	28,082	26,286	6.8%	7,494	7,435	7,037	7,347	1.2%	5.7%
Provision for liabilities and charges	2,210	2,210	1,102	100.6%	2,210	2,210	-	1,102	100.6%	NMF
Professional services	29,178	29,926	8,418	NMF	10,227	10,976	2,143	3,464	NMF	NMF
Advertising and marketing services	13,352	13,796	11,451	20.5%	5,824	6,268	2,682	3,627	72.8%	133.7%
Rent	17,308	18,294	16,468	11.1%	4,654	5,639	4,257	4,319	30.6%	32.5%
Utility services	4,896	5,108	4,501	13.5%	1,261	1,474	1,212	1,262	16.8%	21.6%
Intangible asset enhancement	7,446	7,446	6,062	22.8%	1,840	1,840	1,905	1,886	-2.5%	-3.4%
Taxes other than on income	4,440	4,699	4,598	2.2%	763	1,022	1,185	1,204	-15.1%	-13.8%
Communications and supply	3,127	4,183	3,433	21.9%	880	1,937	742	839	130.9%	161.1%
Stationary and other office expenses	3,262	3,448	3,471	-0.7%	856	1,041	773	1,176	-11.4%	34.7%
Insurance	2,635	2,687	2,301	16.8%	681	733	684	382	91.8%	7.1%
Security services	1,814	1,883	1,622	16.1%	491	560	442	414	35.1%	26.5%
Premises and equipment maintenance	2,799	3,889	2,959	31.4%	860	1,949	671	973	100.2%	190.6%
Business trip expenses	1,823	1,880	1,589	18.3%	597	654	350	417	56.9%	86.7%
Transportation and vehicles maintenance	1,320	1,386	1,328	4.3%	359	425	319	359	18.3%	33.0%
Charity	884	884	928	-4.7%	185	185	214	139	32.9%	-13.5%
Personnel training and recruitment	1,207	1,272	1,230	3.4%	439	504	259	462	9.0%	94.2%
Write-down of current assets to fair value less costs to sell	-4,424	-4,424	-178	NMF	-2,779	-2,779	-1,697	297	NMF	63.8%
Loss on disposal of inventory	1,690	1,690	86	NMF	1,038	1,038	115	22	NMF	NMF
Loss on disposal of investment properties	-	61	3	NMF	-	61	-	-	NMF	NMF
Loss on disposal of premises and equipment	423	423	34	NMF	90	90	259	34	167.3%	-65.1%
Impairment of intangible assets	19	19	4,982	-99.6%	-	-	-	2,862	-100.0%	NMF
Gains/(losses) on initial recognition of assets at rates above/below market	-	-	-	NMF	-	-	-	-	NMF	NMF
Acquisition costs	207	207	-	NMF	207	207	-	-	NMF	NMF
Gross change in IBNR	-	-	-	NMF	-	-	-	-	NMF	NMF
Other	8,324	10,718	7,679	39.6%	3,377	5,771	1,776	2,361	144.4%	NMF
Administrative and other operating expenses	101,731	109,475	82,964	32.0%	31,851	39,595	18,294	26,500	49.4%	116.4%
Operating expenses	296,686	311,988	253,130	23.3%	96,483	111,785	65,536	77,394	44.4%	70.6%
Profit before tax	304,727	315,679	247,873	27.4%	85,849	96,801	81,223	74,251	30.4%	19.2%
Income tax expense	-17,146	-17,421	-29,176	-40.3%	-8,492	-8,767	-10,235	-7,331	19.6%	-14.3%
Profit for the period	287,581	298,258	218,697	36.4%	77,356	88,034	70,988	66,920	31.6%	24.0%
Cost to income	46.1%	45.8%	43.9%	1.9 pp	53.5%	51.2%	40.5%	49.3%	1.9 pp	10.7 pp
ROAE	21.6%	22.4%	20.1%	2.3 pp	21.4%	24.2%	20.6%	23.1%	1.1 pp	3.6 pp
ROAA	3.9%	3.9%	3.4%	0.5 pp	3.7%	3.7%	4.0%	3.9%	-0.2 pp	-0.3 pp

NMF – Not meaningful figure

2016 to 2015 comparison

Without Bank Republic's acquisition effect, total operating expenses increased to GEL 296.7 million, or 17.2% compared to FY 2015. This increase primarily resulted from a GEL 21.8 million, or 15.3% increase in staff costs, related to the increased scale, performance of the business and the changing environment, and GEL 18.8 million or 22.6% increase in administrative expenses. The administrative expense increased due to one-off expenses related to professional services out of which a GEL 16.2 million is attributable to Premium Listing expenses (GEL 0.3 million in 4Q 2016) and a GEL 8.0 million related to consulting and investment bank fees in connection with Bank Republic's acquisition. The increase in provision for liabilities and charges included one-off expense mainly related to staff redundancy provision related to Bank Republic's acquisition in the amount of GEL 2.2 million above due to upcoming merger. Without one-off expenses mentioned above, administrative and other operating expense decreased by 7.8% due to GEL 5.0 million higher impairment of intangible assets in 2015 and overall increased efficiency across various units.

Bank Republic's acquisition effect increased total operating expenses by GEL 15.3 million, or 6.0%, out of which staff costs accounted for was GEL 7.6 million, or 5.3%. Consequently, total operating expenses, grew by a GEL 58.9 million, or 23.3%. Bank Republic administrative expenses included one-off effect of impairment of intangible asset in the amount of GEL 2.0 million related to the upcoming merger.

As a result, the cost to income ratio was 45.8% (42.9% without one-off effects) in 2016, compared to 43.9% in 2015. Without Bank Republic's acquisition effect, the cost to income ratio was 46.1% in 2016 (43.4% without one-off effects).

4Q 2016 to 4Q 2015 comparison

Without Bank Republic's acquisition effect, total operating expenses increased to GEL 96.5 million, up by a GEL 19.1 million, or 24.7%. The increase resulted primarily from a GEL 12.5 million, or 29.4%, increase in staff costs related to the increased scale and performance of the business and the changing environment as well as GEL 5.4 million or 20.2% increase in administrative expenses mainly due to one-off expenses mentioned above. The increase in provision for liabilities and charges included one-off expense mainly related to staff redundancy provision related to Bank Republic's acquisition in the amount of GEL 2.2 million mentioned above due to upcoming merger.

Bank Republic's acquisition effect increased total operating expenses by GEL 15.3 million, or 19.8%. The contribution to staff cost was GEL 7.6 million, or 17.9%. Consequently, total operating expenses grew by a GEL 34.4 million, or 44.4%. Bank Republic's administrative expenses included one-off effect of impairment of intangible asset in the amount of GEL 2.0 million mentioned above.

As a result, the cost to income ratio stood at 51.2% (47.0% without one-offs) in 4Q 2016, compared to 49.3% in 4Q 2015. Without Bank Republic's acquisition effect, the cost to income ratios was 53.5% (49.7% without one-offs) in 4Q 2016.

4Q 2016 to 3Q 2016 comparison

Without Bank Republic's acquisition effect, operating expenses increased by GEL 30.9 million, or 47.2%, to GEL 96.5 million. The increase primarily resulted from a GEL 14.7 million, or 36.6% increase in staff expenses related to the increased scale, performance of the business and the changing environment and GEL 13.6 million or 74.1% increase in administrative expenses mainly due to one-off expenses mentioned above. Further increases in administrative cost is mostly seasonal. The increase in provision for liabilities and charges included one-off expense related to staff redundancy provision related to Bank Republic's acquisition in the amount of GEL 2.2 million as mentioned above.

Bank Republic's acquisition effect increased operating expenses by GEL 15.3 million, or 23.3%. The increase mainly stemmed from a GEL 7.6 million, or 18.9% increase in staff cost expenses. Consequently, total operating expenses grew by a GEL 46.2 million, or 70.6%.

As a result, the cost to income ratio stood at 51.2% (47.0% without one-offs) in 4Q 2016, compared to a 40.5% in 3Q 2016. Without Bank Republic's acquisition effect, the cost to income ratios was 53.5% (49.7% without one-offs) in 4Q 2016.

Net income

In 2Q 2016 the Bank re-measured its deferred tax assets/liability per IFRS in order to reflect the change in Georgian Tax Code in relation to corporate income tax. The deferred tax assets/liabilities were re-measured to the amount that will be estimated to be utilised in the period from 1 July 2016 to 31 December 2016/31 December 2018. The effect of re-measurement on P&L was GEL 17.9 million.

As a result, in 4Q net income grew by 31.6% to GEL 88.0 million YoY and up by 24.0% QoQ. ROAE stood at 24.2% (23.5% without one-offs), up by 1.1pp YoY and up by 3.6pp QoQ. ROAA stood at 3.7% (3.5% without one-offs), down by 0.2pp YoY and 0.3pp QoQ. Without Bank Republic's acquisition effect net income in 4Q increased by 15.6% to a GEL 77.4 million YoY and up by 9.0% QoQ. ROAE stood at 21.4% (20.0% without one-offs), down by 1.7pp YoY and up by 0.8pp QoQ.

Net income for 2016 stood at GEL 298.3 million, up by 36.4% YoY. ROAE stood at 22.4% (20.6% without one-offs), up by 2.3pp YoY. ROAA stood at 3.9% (3.6% without one-offs), up by 0.5pp YoY. Without Bank Republic's acquisition effect, net income for 2016 stood at GEL 287.6 million, up by 31.5% YoY and ROAA stood at 3.9% up by 0.5pp YoY.

Balance sheet discussion

Millions of GEL	Dec-16 w/o BR Acquisition	Dec-16	Sep-16	Dec-15	Change QoQ, %	Change YoY, %
Cash, due from banks and mandatory cash balances with NBG	1,767	1,961	1,532	1,203	27.9%	63.0%
Loans and advances to customers (net)	5,697	7,134	4,810	4,445	48.3%	60.5%
Financial securities	652	803	606	679	32.5%	18.2%
Fixed and intangible assets and investment property	379	471	375	350	25.5%	34.6%
Other assets	717	401	261	258	53.9%	55.5%
Total assets	9,213	10,769	7,584	6,935	42.0%	55.3%
Due to credit institutions	1,479	2,198	1,195	1,114	83.9%	97.3%
Customer accounts	5,641	6,455	4,593	4,178	40.5%	54.5%
Debt securities in issue	24	24	24	22	-3.0%	8.3%
Subordinated debt	368	368	284	284	29.9%	29.9%
Other liabilities	125	142	99	120	43.5%	18.6%
Total liabilities	7,637	9,186	6,195	5,717	48.3%	60.7%
Total equity	1,576	1,583	1,389	1,218	14.0%	29.9%

Assets

Without Bank Republic's acquisition effect, the Bank's total assets amounted GEL 9,212.5 million, up by GEL 2,277.5 million, or 32.8%, YoY. This hike primarily resulted from a GEL 1,252.4 million, or 28.2%, rise in net loans to customers and a GEL 564.3 million or 46.9% increase in liquid assets (cash, due from banks and mandatory and mandatory cash balances with NBG).

Bank Republic's acquisition effect increased total assets by GEL 1,556.5 million, or 22.4%. The increase primarily resulted from a GEL 1,436 million, or 32.3% increase in net loans to customers. Consequently, with Bank Republic's acquisition effect, as of 31 December 2016, TBC Bank's total assets amounted a GEL 10,769.0 million, up by GEL 3,834.0 million, or 55.3%, YoY.

Without Bank Republic's acquisition effect, the Bank's total assets increased by a GEL 1,628.8 million, or 21.5%, on a QoQ basis. The increase was primarily due to a GEL 887.8 million, or 18.5% increase in net loans and advances to customers.

Bank Republic's acquisition effect increased total assets by 20.5%, which was explained by a 29.9% increase in net loans to customers. Consequently, with Bank Republic's acquisition effect on a QoQ basis, total assets expanded by GEL 3,185.3 million, or 42.0%. The rise was mainly due to a GEL 2,324.2 million, or 48.3%, hike in net loans to customers and a GEL 428.1 million, or 27.9% increase in liquid assets (cash, due from banks and mandatory cash balances with NBG).

The liquid assets to liability ratio stood at 30.1%, compared to 32.7% as of 31 December 2015 and 33.5% as of 31 September 2016. Without Bank Republic's acquisition effect, the liquid assets to liability ratio stood at 31.7%.

As of 31 December 2016, the gross loan portfolio amounted to GEL 7,358.7 million, up by 58.6% YoY and by 47.1% QoQ. Gross loans denominated in foreign currency accounted for 65.9% of total gross loans, compared to 64.9% as of 31 December 2015 and 63.4% as of 30 September 2016. Without Bank Republic's acquisition effect, the gross loan portfolio amounted to GEL 5,911.2 million, up by 27.4% YoY and by 18.1% QoQ. Gross loans denominated in foreign currency accounted for 66.3% of total gross loans.

As of 31 December 2016, NPLs stood at 3.5%, compared to 4.8% and 4.6% as of 31 December 2015 and 30 September 2016, respectively. The NPLs provision coverage ratio stood at 88.4% (221.4% including collateral), compared to 87.4% as of 31 December 2015 and 84.3% as of 30 September 2016. Without Bank Republic's acquisition effect, NPLs stood at 4.0%. The NPLs provision coverage ratio stood at 90.5% (216.8% including collateral).

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Asset quality

Foreign currency income linked borrowers without Bank Republic effect¹

Segments	31-Dec-16		30-Sep-16	
	FC share	FC linked income borrowers share	FC share	FC linked income borrowers share
Retail	60.5%	32.6%	58.2%	32.9%
Consumer	26.2%	21.8%	25.1%	21.1%
Mortgage	89.8%	24.9%	89.5%	24.4%
Pawn	68.4%	95.5%	66.5%	93.7%
Corporate	78.1%	58.4% ²	75.2%	60.6% ³
SME	80.6%	23.9%	80.8%	25.3%
Micro	38.6%	4.0%	33.1%	4.0%
Total loan portfolio	66.3%	38.9%	63.4%	39.6%

PAR 30 by segments and currencies

Par 30	Dec-16						Sep-16			Dec-15		
	GEL wo BR	GEL	FC w/o BR	FC	Total w/o BR	Total	GEL	FC	Total	GEL	FC	Total
Corporate	0.0%	0.0%	1.2%	1.2%	0.9%	0.9%	0.1%	1.0%	0.8%	0.1%	1.1%	0.9%
Retail	2.1%	1.9%	2.6%	2.3%	2.4%	2.2%	2.3%	2.8%	2.6%	2.1%	2.5%	2.3%
SME	0.6%	0.6%	4.0%	4.2%	3.3%	3.5%	1.2%	3.9%	3.4%	1.8%	3.8%	3.5%
Micro	4.8%	4.6%	3.7%	3.7%	4.4%	4.2%	3.7%	4.3%	3.9%	2.7%	5.6%	3.5%
Total	2.1%	1.9%	2.4%	2.3%	2.3%	2.2%	2.1%	2.4%	2.3%	1.8%	2.3%	2.1%

Total

Without Bank Republic's acquisition effect, PAR 30 stood at 2.3% and remained broadly stable both YoY and QoQ basis. With Bank Republic's acquisition effect, PAR 30 stood at 2.2%.

Retail segment

Without Bank Republic's acquisition effect, PAR 30 stood at 2.4% down by 0.2pp QoQ. The decrease was driven by both GEL and FC denominated loans. On YoY basis PAR30 remained broadly stable. With Bank Republic's acquisition effect, PAR 30 stood at 2.2%, down by 0.4pp QoQ and 0.2pp YoY.

Corporate

Without Bank Republic's acquisition effect, PAR 30 stood at 0.9% increased by 0.2pp QoQ and remained unchanged YoY. With Bank Republic's acquisition effect, PAR 30 stood at 0.9% increased by 0.1pp QoQ and remained unchanged YoY.

SME

Without Bank Republic's acquisition effect, PAR 30 stood at 3.3% down by 0.1pp QoQ and 0.2pp YoY driven by improved performance of SME standalone portfolio. With Bank Republic's acquisition effect, PAR 30 stood at 3.5% up by 0.1pp QoQ and remained unchanged YoY.

Micro

Without Bank Republic's acquisition effect, PAR 30 stood at 4.4% up by 0.5pp QoQ and 0.8 YoY. The increase was mainly due to particular sub-segment of agro loans for which overdue loans have increased due to one-off event related to animal farming. With Bank Republic's acquisition effect, PAR 30 stood at 4.2% increased by 0.3pp QoQ and 0.7pp YoY.

¹ Based on TBC Bank's internal estimates

² Pure exports account for 12.1% of total Corporate USD denominated loans

³ Pure exports account for 11.0% of total Corporate USD denominated loans

NPLs by segments and currencies

NPLs	Dec-16					Sep-16			Dec-15			
	GEL*	GEL	FC*	FC	Total*	Total	GEL	FC	Total	GEL	FC	Total
Corporate	1.0%	0.7%	6.4%	6.0%	5.2%	4.6%	1.1%	9.1%	7.1%	0.6%	10.2%	7.9%
Retail	1.5%	1.4%	3.5%	2.8%	2.7%	2.3%	1.7%	3.6%	2.8%	1.8%	3.3%	2.7%
SME	1.8%	1.7%	6.5%	6.5%	5.6%	5.6%	1.7%	6.7%	5.7%	5.0%	4.4%	4.5%
Micro	3.5%	3.4%	5.0%	4.3%	3.5%	3.8%	3.0%	6.2%	4.1%	2.5%	8.5%	4.2%
Total	1.8%	1.6%	5.1%	4.4%	4.0%	3.5%	1.9%	6.2%	4.6%	1.9%	6.4%	4.8%

* without BR acquisition effect

Total

Without Bank Republic's acquisition effect, NPL decreased by 0.6pp QoQ and 0.8pp YoY to 4.0%. Decrease in NPLs is mainly driven by improved performance of the corporate loan book. With Bank Republic's acquisition effect, NPL stood at 3.5%, down by 1.1pp QoQ and 1.3pp YoY.

Retail segment

Without Bank Republic's acquisition effect, NPL decreased by 0.1pp QoQ to 2.7% and remained unchanged YoY. With Bank Republic's acquisition effect, NPL stood at 2.3%, down by 0.5pp QoQ and 0.4pp YoY.

Corporate

Without Bank Republic's acquisition effect, NPL stood at 5.2% decreased by 1.9pp QoQ and 2.7pp YoY. Decrease in NPLs is driven by recovery of several corporate borrowers. With Bank Republic's acquisition effect NPL stood at 4.6% decreased by 2.5pp QoQ and 3.2pp YoY.

SME

Without Bank Republic's acquisition effect, NPL decreased by 0.1pp QoQ and increased by 1.1pp YoY. NPLs in GEL denominated loans remain low at 1.8%, while FC denominated NPL increased by 2.1pp YoY due to local currency depreciation in 2015 and macro developments in Azerbaijan. With Bank Republic's acquisition effect, NPL stood at 5.6% decreased by 0.1pp QoQ and increased by 1.1 YoY.

Micro

Without Bank Republic's acquisition effect, NPL stood at 4.1% unchanged from QoQ and down by 0.1 YoY. With Bank Republic's acquisition effect, NPL stood at 3.8% decreased by 0.3pp QoQ and 0.4pp YoY.

NPLs coverage

NPLs coverage	Dec-16				Sep-16		Dec-15	
	Exc. Collateral*	Exc. Collateral	Incl. Collateral*	Incl. Collateral	Exc. Collateral	Incl. Collateral	Exc. Collateral	Incl. Collateral
Corporate	94.5%	93.5%	252.5%	257.5%	79.6%	223.5%	91.3%	222.3%
Retail	103.5%	98.4%	200.2%	202.6%	106.2%	200.9%	101.5%	199.5%
SME	49.1%	48.1%	169.7%	184.7%	47.5%	164.3%	44.1%	193.7%
Micro	111.7%	111.5%	216.5%	217.7%	106.0%	200.3%	87.5%	188.8%
Total	90.5%	88.4%	216.8%	221.4%	84.3%	205.0%	87.4%	209.9%

* without BR acquisition effect

As of December 2016 the NPLs provision coverage ratio stood at 88.4% (221.4% with collateral), compared to 84.3% as of 30 September 2016 and 87.4% as of 31 December 2015. Without Bank Republic's acquisition effect NPLs provision coverage ratio stood at 90.5% (216.8% with collateral).

Liabilities

Without Bank Republic's acquisition effect, the Bank's total liabilities amounted to GEL 7,636.9 million, up by 33.6% YoY and 23.3% QoQ. The YoY growth of GEL 1,920.3 million was primarily due to increase in customer accounts in the amount of a GEL 1,463.2 million, or 35.0%. The QoQ growth of GEL 1,441.8 million, or 23.3% mainly resulted from a GEL 1,047.9, million, or 22.8%, increase in customer deposits.

Bank Republic's acquisition effect increased the Bank's total liabilities by GEL 1,550 million, or 25.0% QoQ. The increase resulted from a GEL 718.3 million, or 60.1% rise in amounts due to credit institutions and by a GEL 831.8 million, or 17.7% rise in customer accounts. Consequently, with Bank Republic's acquisition effect, TBC Bank's total liabilities amounted to GEL 9,186.4 million, up by 60.7% YoY and by 48.3% QoQ.

Without Bank Republic's acquisition effect, liabilities grew by GEL 1,441.8 million, or 23.3% QoQ. This mainly resulted from a GEL 1,047.9 million or 22.8% increase in customer deposits.

Bank Republic's acquisition effect increased the Bank's total liabilities by a 27.1% YoY, which resulted from an increase in the amounts due to credit institutions by 64.5% and the increase in customer accounts by 19.5%. Consequently, with Bank Republic's acquisition effect liabilities grew by GEL 2,991.3 million, or 48.3%.

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Liquidity

The Bank's average liquidity ratio, as defined by the National Bank of Georgia, stood at 30.8% as of 31 December 2016, compared to 34.4% and 34.9% as of 31 December 2015 and 30 September 2016 respectively.

Total equity

Without Bank Republic's acquisition effect, total equity amounted to GEL 1,575.6 million, up by GEL 357.2 million, or 29.3% YoY as of 31 December 2015 and by GEL 187.0 million, or 13.5%, increase as of 30 September 2016, mainly due to the increase in net profits.

As a result, with Bank Republic's acquisition effect, TBC Bank's total equity amounted to GEL 1,582.6 million, up by a GEL 364.2 million, or 29.9% as of 31 December 2015 and GEL 194.0 million, or 14.0% QoQ, as of 30 September 2016.

Regulatory capital

As of 31 December 2016, the Bank's Basel II/III¹ tier 1 and total capital adequacy ratios (CAR) stood at 10.4% and 14.2%, respectively, compared to 12.8% and 16.0% as of 31 December 2015, and 13.3% and 16.2% as of 30 September 2016. The minimum capital requirements set by the NBG for Basel II/III Tier 1 and total capital adequacy ratios are 8.5% and 10.5%, respectively.

Tier 1 capital decreased by GEL 83.3 million or by 7.4% QoQ mainly due to investment in Bank Republic, which despite a total investment of GEL 351.0 million decreases the tier 1 capital only by GEL 266.2 million until the full merger. This decrease was partially offset by increase in net profit per local accounting standard in the amount of GEL 72.5 million (out of which GEL 27.0 million was related to the dividend income from subsidiaries), and the increase in the share capital of JSC TBC Bank in the amount of GEL 100.0 million by TBC Bank Group PLC for the purpose of optimization of the group's capital structure.

In terms of total capital, in addition to the above, the Bank has drowned down the ADB subordinated loan with the amount of US\$50.0 million. As a result, the increase in tier 2 capital more than offset the decrease in tier 1 capital and eventually total capital grew by GEL 53.3 million or 3.9%.

Risk weighted assets stood at GEL 10,021.5 million as of 31 December 2016, up by GEL 2,545.0 million YoY and up by GEL 1,593.7 million QoQ. The increase in risk weighted assets was mainly related to the increase in loan portfolio and devaluation of the local currency against US Dollar.

As a result, tier 1 and total capital adequacy ratios (CAR) decreased by 2.9pp and 2.1pp respectively, out of which -2.3pp change in tier 1 and -1.2pp change in total capital is directly attributable to Bank Republic's acquisition.

The table below shows the theoretical impact of Bank Republic's merger on capital ratios if applied to December figures (the actual merger is planned in 3Q 2017). As a result, tier 1 capital adequacy ratio increased by 0.1pp and total capital adequacy ratio decreases by 0.5pp.

GEL million	31-Dec-16	Merger impact if applied to December
Tier 1 capital	1,041	1,283
Total capital	1,422	1,664
Risk weighted assets	10,021	12,193
Tier 1 capital adequacy ratio	10.4%	10.5%
Total capital adequacy ratio	14.2%	13.7%

As of 31 December 2016 the Bank's Basel I consolidated tier 1 capital ratio stood at 21.4% and total consolidated capital ratio stood at 28.2% compared to 25.6% and 31.5% as of 30 September 2016 and 24.7% and 30.9% as of 31 December 2015.

1 The National Bank of Georgia enforced Basel II/III regulation in June 2014.

Results by segments and subsidiaries

The segment definitions are as per below:

- The corporate segment includes business customers that have annual revenues of GEL 8.0 million or more, or have been granted a loan in an amount equivalent to US\$1.5 million or more. Some other business customers may also be assigned to the corporate segment on a discretionary basis;
- The micro segment business customers with loans below US\$70,000, as well as pawn loans, credit cards and cash cover loans granted in TBC Bank Constanta branches, and deposits up to US\$20,000 in urban areas and up to US\$100,000 in rural areas of the customers of TBC Bank Constanta branches. Some other customers may also be assigned to the micro segment on a discretionary basis;
- The SME segment includes business customers that are not included in either the corporate or micro segments. Some other legal entity customers may also be assigned to the SME segment on a discretionary basis;
- The retail segment includes individuals that are not included in the other categories.
- Corporate centre and other operations comprise the treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The following table sets out the information on the financial results of TBC Bank's segments for 2016

2016 to 2015 comparison

FY16	Retail	SME	Corporate	Micro	Corp. Centre	Total
Interest income	341,577	68,693	162,277	116,177	77,702	766,426
Interest expense	-99,664	-7,796	-45,586	-1,794	-121,133	-275,973
Net transfer pricing	-29,236	-2,480	-22,186	-39,092	92,994	-
Net interest income	212,677	58,417	94,505	75,291	49,563	490,453
Fee and commission income	92,989	15,506	23,050	7,263	3,992	142,800
Fee and commission expense	-40,467	-3,908	-3,395	-3,763	-999	-52,532
Net fee and commission income	52,522	11,598	19,655	3,500	2,993	90,268
Gains less losses from trading in foreign currencies	16,367	25,845	23,945	1,876	2,236	70,269
Foreign exchange translation gains less losses/(losses less gains)	-	-	-	-	-2,507	-2,507
Net losses from derivative financial instruments	-	-	-	-	-206	-206
(Losses less gains)/gains less losses from disposal of investment securities available for sale	-	-	-	-	9,293	9,293
Gross insurance profit	-	-	-	-	256	256
Other operating income	5,714	783	9,837	351	6,551	23,236
Other operating non-interest income	22,081	26,628	33,782	2,227	15,623	100,341
Provision for loan impairment	-56,835	-15,774	49,548	-26,141	-	-49,202
(Provision)/recovery of provision for liabilities, charges and credit related commitments	-834	456	-388	-5	-	-771
Recovery of provision/(provision) for impairment of investments in finance lease	-	-	-	-	-558	-558
(Provision)/recovery of provision for impairment of other financial assets	-91	-92	-863	-62	-1,745	-2,853
Recovery of impairment/(impairment) of investment securities available for sale	-	-	-	-	-11	-11
Profit before G&A expenses and income taxes	229,520	81,233	196,239	54,810	65,865	627,667
Staff costs	-87,918	-17,591	-23,995	-30,116	-12,601	-172,221
Depreciation and amortisation	-16,941	-2,126	-1,066	-6,053	-1,896	-28,082
Provision for liabilities and charges	-	-	-	-	-2,210	-2,210
Administrative and other operating expenses	-54,329	-8,673	-6,763	-15,977	-23,733	-109,475
Operating expenses	-159,188	-28,390	-31,824	-52,146	-40,440	-311,988
Profit before tax	70,332	52,843	164,415	2,664	25,425	315,679
Income tax expense	-8,561	-8,707	-25,010	-459	25,316	-17,422
Profit for the year	61,771	44,136	139,405	2,205	50,741	298,258

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The following table sets out the information on the financial results of TBC Bank's segments for 2016 without Bank Republic's acquisition effect.

FY16	Retail	SME	Corporate	Micro	Corp. Centre	Total
Interest income	315,158	67,839	157,098	113,417	75,151	728,663
Interest expense	-97,889	-7,795	-39,793	-1,792	-114,817	-262,087
Net transfer pricing	-29,236	-2,480	-22,186	-39,092	92,994	-
Net interest income	188,033	57,564	95,119	72,533	53,328	466,576
Fee and commission income	92,006	15,011	20,520	7,260	3,949	138,746
Fee and commission expense	-38,984	-3,853	-3,155	-3,755	-922	-50,670
Net fee and commission income	53,021	11,158	17,364	3,505	3,027	88,076
Gains less losses from trading in foreign currencies	15,650	24,702	21,726	1,876	2,236	66,190
Foreign exchange translation gains less losses/(losses less gains)	-	-	-	-	-5,777	-5,777
Net losses from derivative financial instruments	-	-	-	-	-206	-206
(Losses less gains)/gains less losses from disposal of investment securities available for sale	-	-	-	-	8,795	8,795
Gross insurance profit	-	-	-	-	256	256
Other operating income	2,771	602	9,043	146	6,537	19,099
Other operating non-interest income	18,421	25,304	30,769	2,022	11,842	88,358
Provision for loan impairment	-47,895	-14,708	50,910	-25,304	-	-36,997
(Provision)/recovery of provision for liabilities, charges and credit related commitments	-833	10	-388	-5	-	-1,217
Recovery of provision/(provision) for impairment of investments in finance lease	-	-	-	-	-558	-558
(Provision)/recovery of provision for impairment of other financial assets	-91	-92	-863	-62	-1,706	-2,814
Recovery of impairment/(impairment) of investment securities available for sale	-	-	-	-	-11	-11
Profit before G&A expenses and income taxes	210,656	79,236	192,911	52,688	65,922	601,413
Staff costs	-83,530	-17,381	-23,063	-28,184	-12,446	-164,604
Depreciation and amortisation	-16,905	-2,125	-1,062	-6,037	-2,012	-28,141
Administrative and other operating expenses	-48,917	-8,487	-5,943	-14,755	-25,839	-103,941
Operating expenses	-149,353	-27,992	-30,069	-48,976	-40,297	-296,686
Profit before tax	61,303	51,243	162,842	3,712	25,625	304,727
Income tax expense	-6,839	-8,438	-24,733	-548	23,413	-17,146
Profit for the year	54,464	42,805	138,109	3,165	49,038	287,581

The following table sets out the loans and customer deposits' portfolios of TBC Bank's business segments as of 31 December 2016, 31 September 2016 and 31 December 2015.

Portfolios by segments

In thousands of GEL	Dec 16 w/o BR Acquisition effect	Dec 16	Sep 16	Dec 15
Loans and advances to customers				
Consumer	1,152,700	1,663,550	1,025,120	871,996
Mortgage	1,272,057	1,811,695	1,015,550	905,274
Pawn	288,010	288,010	266,889	242,699
Retail	2,712,767	3,763,255	2,307,559	2,019,969
Corporate	1,789,309	2,060,172	1,471,931	1,500,104
SME	799,714	857,552	670,248	625,628
Micro	609,363	677,746	553,827	493,328
Total loans and advances to customers (gross)	5,911,153	7,358,725	5,003,564	4,639,029
Less: provision for loan impairment	-213,856	-225,023	-194,035	-194,143
Total loans and advances to customers (net)	5,697,296	7,133,702	4,809,530	4,444,886
Customer accounts				
Retail deposits	3,336,914	3,666,385	2,734,133	2,469,878
Corporate deposits	1,468,771	1,795,503	1,006,739	1,001,341
SME deposits	747,203	888,475	769,968	633,211
Micro deposits	88,235	104,586	82,397	73,501
Total customer accounts	5,641,123	6,454,949	4,593,237	4,177,931

Retail banking

Without Bank Republic's acquisition effect, retail loans stood at GEL 2,712.8 million, up by 34.3% YoY and 17.6% QoQ. The YoY increase was mainly explained by a GEL 366.8 million increase in mortgage loans and a GEL 280.7 million increase in consumer loans. TBC Bank's retail loans accounted for 32.9% market share of total individual loans. As of 31 December 2016, foreign currency loans represented 60.5% of the total retail loan portfolio.

With Bank Republic's acquisition effect, as of 31 December 2016, retail loans stood at GEL 3,763.3 million, up by 86.3% YoY and by 63.1% QoQ. The YoY increase was mainly related to a GEL 791.6 million increase in consumer loans and a GEL 906.4 million increase in mortgage loans. TBC Bank's and Bank Republic's combined retail loans accounted for a 44.2% market share of total individual loans. As of 31 December 2016, foreign currency loans represented 62.0% of the total retail loan portfolio.

Without Bank Republic's acquisition effect, retail deposits stood at GEL 3,336.9 million, up by 35.1% YoY and 22.0% QoQ and accounted for a 37.2% market share of total individual deposits. The increase in retail deposits was mainly attributable to the increase in current deposits by 52.3% YoY and 27.5% QoQ. Term deposits accounted for 58.5% of the total retail deposit portfolio as of 31 December 2016. Foreign deposits accounted for 87.8% of the total retail deposit portfolio.

With Bank Republic's acquisition effect, in the same period, retail deposits increased to GEL 3,666.4 million, up 48.4% YoY and 34.1% QoQ and accounted for a 40.8% market share of total individual deposits. The increase in retail deposits was mainly attributable to the increase in current deposits by 72.2% YoY and 44.2% QoQ. Term deposits accounted for 57.3% of the total retail deposit portfolio as of 31 December 2016. Foreign currency deposits accounted for 86.9% of the total retail deposit portfolio.

Without Bank Republic's acquisition effect, retail loan yields and deposit rates stood at 14.3% and 3.7% respectively, and the segment's cost of risk on loans was 2.2%. The retail segment contributed 18.9%, or GEL 54.5 million, to TBC Bank's total net income in 2016. With Bank Republic's acquisition effect, retail loan yields and deposit rates stood at 14.1% and 3.6% respectively, and the segment's cost of risk on loans was 2.3%. The retail segment contributed 20.7%, or GEL 62.0 million, to TBC Bank's total net income in 2016.

Corporate banking

Without Bank Republic's acquisition effect, corporate loans amounted GEL 1,789.3 million, up by 19.3% YoY and 21.6% QoQ. Foreign currency loans accounted for 78.1% of the total corporate loan portfolio. With Bank Republic's acquisition effect, corporate loans amounted to GEL 2,060.2 million, up by 37.3% YoY and up by 40.0% QoQ. Foreign currency loans accounted for 74.3% of the total corporate loan portfolio.

Without Bank Republic's acquisition effect, corporate deposits totalled GEL 1,468.8 million, up by 46.7% YoY and 45.9% QoQ. Foreign currency corporate deposits represented 60.6% of the total corporate deposit portfolio. With Bank Republic's acquisition effect corporate deposits totalled GEL 1,795.5 million, up by 79.3% YoY and up by 78.3% QoQ. Foreign currency corporate deposits represented 57.9% of the total corporate deposit portfolio.

Without Bank Republic's acquisition effect loan yield and deposit rates stood at 10.8% and 3.9%, respectively. In the same period, the cost of risk on loans was -3.5%. In terms of profitability, the corporate segment's net profit reached GEL 138.1 million, or 48.0% of the Bank's total net income. With Bank Republic's acquisition effect, corporate loan yields and deposit rates stood at 10.7% and 4.2%, respectively. In the same period, the cost of risk on loans was -3.3%. In terms of profitability, the corporate segment's net profit reached GEL 139.5 million, or 46.8% of the Bank's total net income.

SME banking

Without Bank Republic's acquisition effect, SME loans amounted to GEL 799.7 million, up by 27.8% YoY and 19.3% QoQ. Foreign currency loans accounted for 80.6% of the total SME portfolio. With Bank Republic's acquisition effect, SME loans amounted to GEL 857.6 million, up by 37.1% YoY and up by 27.9% QoQ. Foreign currency loans accounted for 81.3% of the total SME portfolio.

Without Bank Republic's acquisition effect, SME deposits stood at GEL 747.2 million, up by 18.0% YoY and down by 3.0% QoQ. Foreign currency SME deposits accounted for 61.2% of the total SME deposit portfolio. Consequently, with Bank Republic's acquisition effect SME deposits stood at GEL 888.5 million, up by 40.3% YoY and 15.4% QoQ. Foreign currency SME deposits accounted for 58.6% of the total SME deposit portfolio.

Without Bank Republic's acquisition effect SME loan yields and deposit rates stood at 10.5% and 1.2%, respectively, while the cost of risk on loans was 2.3%. In terms of profitability, net profit for the SME segment amounted to GEL 42.8 million, or 14.9%, of TBC Bank's total net income. Consequently, SME loan yields and deposit rates stood at 10.5% and 1.1%, respectively, while the cost of risk on loans was 2.4%. In terms of profitability, net profit for the SME segment amounted to GEL 44.1 million, or 14.8% of TBC Bank's total net income.

Micro banking

Without Bank Republic's acquisition effect micro loans totalled GEL 609.4 million, up by 23.5% YoY and 10.0% QoQ. Foreign currency loans represented 38.6% of the total micro loan portfolio. Consequently, with Bank Republic's acquisition effect micro loans totalled GEL 677.7 million, up by 37.4% YoY and 22.4% QoQ. Foreign currency loans represented 42.5% of the total micro loan portfolio.

Without Bank Republic's acquisition effect micro deposits totalled GEL 88.2 million, up by 20.0% YoY and 7.1% QoQ. Foreign currency loans represented 60.7% of the total micro loan portfolio. Consequently, with Bank Republic's acquisition effect micro customer deposits amounted to GEL 104.6 million, up by 42.3% YoY and 26.9% QoQ. Foreign currency micro deposits represented 59.2% of the total micro deposit portfolio.

Without Bank Republic's acquisition effect micro loan yields and deposit rates stood at 21.4% and 2.4%, respectively. In the same period, the cost of risk on loans was 4.8%. In terms of profitability, the micro segment's net profit reached GEL 3.2 million, or 1.1% of TBC Bank's total net income. Consequently, with Bank Republic's acquisition effect micro loan yields and deposit rates stood at 21.4% and 2.3%, respectively. In the same period, the cost of risk on loans was 4.8%. In terms of profitability, the micro segment's net profit reached GEL 2.2 million, or 0.7% of TBC Bank's total net income.

FINANCIAL REVIEW continued

Consolidated financial statements of TBC Bank Group PLC

Consolidated balance sheet

In thousands of GEL	Dec 16 w/o BR Acquisition effect	Dec 16	Sep 16	Dec 15
Cash and cash equivalents	875,862	945,180	843,431	720,347
Due from other banks	31,818	24,725	12,284	11,042
Mandatory cash balances with National Bank of Georgia	859,508	990,642	676,780	471,490
Loans and advances to customers (net)	5,697,296	7,133,702	4,809,530	4,444,886
Investment securities available for sale	280,200	430,703	252,736	307,310
Repurchase receivables	-	-	57,232	-
Investment securities held to maturity	372,956	372,956	295,901	372,092
Investments in subsidiaries and associates	351,041	-	-	-
Investments in finance leases	95,031	95,031	77,496	75,760
Investment properties	67,245	95,615	71,122	57,600
Goodwill	4,491	28,658	2,726	2,726
Intangible assets	56,283	60,957	49,663	44,344
Premises and equipment	255,650	314,032	254,214	247,767
Other financial assets	90,765	94,627	62,799	64,317
Deferred tax asset	3,511	3,511	2,181	1,546
Current income tax prepayment	7,430	7,430	9,515	9,856
Other assets	163,443	171,263	106,103	103,912
TOTAL ASSETS	9,212,532	10,769,032	7,583,712	6,934,995
LIABILITIES				
Due to credit institutions	1,479,270	2,197,577	1,195,031	1,113,574
Customer accounts	5,641,123	6,454,949	4,593,237	4,177,931
Current income tax liability	479	2,577	551	912
Debt securities in issue	23,508	23,508	24,227	21,714
Deferred income tax liability	1,716	5,646	1,822	29,244
Provisions for liabilities and charges	14,529	16,026	13,908	9,461
Other financial liabilities	43,900	50,998	42,732	39,435
Subordinated debt	368,381	368,381	283,637	283,648
Other liabilities	63,984	66,739	39,917	40,627
TOTAL LIABILITIES	7,636,889	9,186,401	6,195,063	5,716,546
EQUITY				
Share capital	1,581	1,581	1,494	19,587
Share premium	677,211	677,211	572,780	407,474
Retained earnings	944,496	955,173	943,629	712,743
Group reorganisation reserve	-162,166	-162,166	-162,166	-162,166
Share based payment reserve	23,327	23,327	20,398	12,755
Revaluation reserve for premises	70,038	70,460	70,038	59,532
Revaluation reserve for available-for-sale securities	419	(3,681)	2,024	5,759
Cumulative currency translation reserve	(7,539)	(7,538)	(7,686)	(6,590)
TOTAL EQUITY	1,547,367	1,554,367	1,357,808	1,211,260
Non-controlling interest	28,264	28,264	30,842	7,189
TOTAL EQUITY	1,575,643	1,582,631	1,388,649	1,218,449
TOTAL LIABILITIES AND EQUITY	9,212,532	10,769,032	7,583,712	6,934,995

Consolidated statement of profit or loss and other comprehensive income

In thousands of GEL	Y'16 w/o BR acquisition effect	Y'16	Y'15	4Q'16 w/o BR acquisition effect	4Q'16	3Q'16	4Q'15
Interest income	728,663	766,426	649,059	205,581	243,344	182,056	174,172
Interest expense	-262,087	-275,973	-236,885	-75,769	-89,655	-61,830	-67,654
Net interest income	466,576	490,453	412,173	129,811	153,689	120,227	106,519
Fee and commission income	138,746	142,800	113,837	41,406	45,460	35,112	32,567
Fee and commission expense	-50,670	-52,532	-41,546	-15,206	-17,068	-12,918	-12,760
Net fee and commission income	88,076	90,268	72,291	26,200	28,392	22,194	19,807
Net insurance premium earned	1,222	1,222	-	1,222	1,222	-	-
Net insurance claims incurred	-966	-966	-	-966	-966	-	-
Gross insurance profit	256	256	-	256	256	-	-
Gains less losses from trading in foreign currencies	66,190	70,269	64,642	21,392	25,472	15,713	17,536
Foreign exchange translation gains less losses	-5,777	-2,507	2,579	-5,789	-2,519	1,012	912
Gains less losses/(losses less gains) from derivative financial instruments	-206	-206	-575	94	94	173	276
(Losses less gains) / gains less losses from disposal of investment securities available for sale	8,795	9,293	-	-	498	-	-
Other operating income	19,099	23,236	25,883	8,236	12,372	2,501	11,912
Other operating non-interest income	88,102	100,085	92,529	23,933	35,916	19,398	30,636
Provision for loan impairment	-36,997	-49,202	-72,791	1,799	-10,405	-13,518	-2,055
Provision for impairment of investments in finance lease	-558	-558	-967	-322	-322	-126	-344
Provision for/ (recovery of provision) performance guarantees and credit related commitments	-1,217	-771	1,117	2,341	2,787	-1,481	-1,945
Provision for impairment of other financial assets	-2,814	-2,853	-3,351	-1,686	-1,727	66	-974
Impairment of investment securities available for sale	-11	-11	-	-	-	-	-
Operating income after provisions for impairment	601,413	627,667	501,002	182,331	208,586	146,759	151,644
Staff costs	-164,604	-172,221	-142,777	-54,927	-62,544	-40,205	-42,445
Depreciation and amortisation	-28,141	-28,082	-26,286	-7,494	-7,435	-7,037	-7,347
Provision for liabilities and charges	-2,210	-2,210	-1,102	-2,210	-2,210	-	-1,102
Administrative and other operating expenses	-101,731	-109,475	-82,964	-31,851	-39,595	-18,294	-26,500
Operating expenses	-296,686	-311,988	253,129	-96,483	-111,785	-65,536	-77,394
Profit before tax	304,727	315,679	247,873	85,849	96,801	81,223	74,251
Income tax expense	-17,146	17,421	-29,176	-8,492	-8,767	-10,235	-7,331
Profit for the period	287,581	298,258	218,697	77,356	88,034	70,988	66,920
Other comprehensive income:							
Items that may be reclassified subsequently to profit or loss:							
Revaluation	2,122	522	-2,436	-1,605	-3,196	573	1,252
Gains less losses reclassified to profit or loss upon disposal	-8,853	-11,611	-	-	-2,757	-	-
Income tax recorded directly in other comprehensive income	1,401	1,649	-479	-	247	-	-149
Exchange differences on translation to presentation currency	-948	-948	-12,075	147	147	-770	-10,864
Items that will not be reclassified to profit or loss:							
Revaluation of premises and equipment	-	-	28,755	-	-	-	28,755
Income tax recorded directly in other comprehensive income	10,506	10,928	-4,319	-	422	-	-4,319
Other comprehensive income for the year	4,217	540	9,446	-1,458	-5,136	-197	14,674
Total comprehensive income for the year	291,798	298,798	228,143	75,898	82,898	70,791	81,594

FINANCIAL REVIEW continued

Consolidated statement of profit or loss and other comprehensive income continued

Thousands of GEL	Y'16 w/o BR acquisition effect	Y'16	Y'15	4Q'16 w/o BR acquisition effect	4Q'16	3Q'16	4Q'15
Profit attributable to:							
- Owners of the Bank	288,631	299,145	218,879	78,845	89,359	69,526	67,563
- Non-controlling interest	-1,050	-887	-182	-1,489	-1,326	1,462	-643
Profit for the period	287,581	298,258	218,697	77,356	88,034	70,988	66,920
Total comprehensive income is attributable to:							
- Owners of the Bank	292,848	299,685	228,324	77,387	84,223	69,238	82,237
- Non-controlling interest	-1,050	-887	-182	-1,489	-1,326	1,462	-643
Total comprehensive income for the year	291,798	298,798	228,142	75,898	82,898	70,791	81,594

Key ratios

Average balances

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

Key ratios

Ratios (based on monthly averages, where applicable)	FY 16 w/o BR acquisition effect	FY 16	FY 15	4Q'16 w/o BR acquisition effect	4Q'16	3Q'16	4Q'15
ROAE	21.6%	22.4%	20.1%	21.4%	24.2%	20.6%	23.1%
ROAA	3.9%	3.9%	3.4%	3.7%	3.7%	4.0%	3.9%
Pre-provision ROAE	24.7%	26.4%	27.1%	20.8%	26.8%	25.1%	24.9%
Pre-provision ROAA	4.5%	4.6%	4.6%	3.6%	4.1%	4.8%	4.2%
Cost to income	46.1%	45.8%	43.9%	53.5%	51.2%	40.5%	49.3%
Cost of risk	0.8%	1.0%	1.7%	-0.1%	0.6%	1.1%	0.2%
NIM	7.9%	7.8%	7.8%	7.8%	7.9%	8.3%	7.4%
Loan yields	13.5%	13.4%	13.6%	13.8%	13.8%	13.5%	13.6%
Deposit rates	3.3%	3.3%	3.5%	3.1%	3.3%	3.3%	3.4%
Yields on interest earning assets	12.3%	12.2%	12.3%	12.3%	12.5%	12.5%	12.1%
Cost of funding	4.5%	4.5%	4.6%	4.4%	4.5%	4.3%	4.8%
Spread	7.8%	7.8%	7.7%	7.9%	8.0%	8.2%	7.3%
PAR 90 to gross loans	1.3%	1.3%	1.0%	1.3%	1.3%	1.5%	1.0%
NPLs to gross loans	4.0%	3.5%	4.8%	4.0%	3.5%	4.6%	4.8%
NPLs coverage	90.5%	88.4%	87.4%	90.5%	88.4%	84.3%	87.4%
NPLs coverage with collateral	216.8%	221.4%	209.9%	216.8%	221.4%	205.0%	209.9%
Provision level to gross loans	3.6%	3.1%	4.2%	3.6%	3.1%	3.9%	4.2%
Related party loans to gross loans	N/A	0.1%	0.1%	N/A	0.1%	0.1%	0.1%
Top 10 borrowers to total portfolio	N/A	7.6%	9.9%	N/A	7.6%	8.6%	9.9%
Top 20 borrowers to total portfolio	N/A	11.3%	15.6%	N/A	11.3%	13.4%	15.6%
Net loans to deposits plus IFI funding	90.7%	93.4%	94.8%	90.7%	93.4%	93.8%	94.8%
Net stable funding ratio	N/A	108.4%	116.3%	N/A	108.4%	114.1%	116.3%
Liquidity coverage ratio	268%	268%	288%	268%	268%	248%	288%
Leverage	5.8	6.8	5.7	5.8	6.8	5.5	5.7
BIS Tier 1	25.7%	21.3%	24.7%	25.7%	21.3%	25.6%	24.7%
Total BIS CAR	32.0%	28.1%	31.0%	32.0%	28.1%	31.5%	31.0%
NBG Basel II/III Tier 1 CAR	10.4%	10.4%	12.8%	10.4%	10.4%	13.3%	12.8%
NBG Basel II/III Total CAR	14.2%	14.2%	16.0%	14.2%	14.2%	16.2%	16.0%

Ratio definitions

1. Return on average total equity (ROAE) equals net income attributable to owners divided by monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period; Pre-provision ROAE excludes all provision charges. Annualised where applicable.
2. Return on average total assets (ROAA) equals net income of the period divided by monthly average total assets for the same period. Pre-provision ROAE excludes all provision charges. Annualised where applicable.
3. Cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
4. Cost of risk equals provision for loan impairment divided by monthly average gross loans and advances to customers. Annualised where applicable.
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets. Annualised where applicable.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers. Annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits. Annualised where applicable.
8. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets. Annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities. Annualised where applicable.
10. Spread equals difference between yields on interest earning assets (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).
11. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
12. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
13. NPLs coverage ratio equals total loan loss provision divided by the NPL loans.
14. NPLs coverage with collateral ratio equals loan loss provision plus total collateral amount of NPL loans (excluding third party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
15. Provision level to gross loans equals loan loss provision divided by the gross loan portfolio for the same period.
16. Related party loans to total loans equals related party loans divided by the gross loan portfolio.
17. Top 10 borrowers to total portfolio equals total loan amount of top 10 borrowers divided by the gross loan portfolio.
18. Top 20 borrowers to total portfolio equals total loan amount of top 20 borrowers divided by the gross loan portfolio.
19. Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
20. Net stable funding ratio equals available amount of stable funding divided by required amount of stable funding as defined in Basel III.
21. Liquidity coverage ratio equals high-quality liquid assets divided by total net cash outflow amount as defined in Basel III (calculated according to NBS standards).
22. Leverage equals total assets to total equity.
23. BIS tier 1 capital adequacy ratio equals tier 1 capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
24. Total BIS CAR equals total capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
25. NBS Basel II/III tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the pillar 1 requirements of NBS Basel II/III standards. The reporting started from the end of 2012.
26. NBS Basel II/III total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the pillar 1 requirements of NBS Basel II/III standards. The reporting started from the end of 2012.

Exchange rates

To calculate the balance sheet items' QoQ growth without currency exchange rate effect, we used USD/GEL exchange rate of 2.3297 as of 30 September 2016. For calculations of YoY growth without currency exchange rate effect, we used USD/GEL exchange rate of 2.3949 as of 31 December 2015. The USD/GEL exchange rate as of 31 December 2016 equaled 2.6468. For P&L items growth calculations without currency effect, we used the average USD/GEL exchange rate for the following periods: FY 2016 of 2.3667, FY 2015 of 2.2702, 4Q 2016 of 2.4958, 3Q 2016 of 2.3224, 4Q 2015 of 2.3979.

DIRECTORS' GOVERNANCE STATEMENT

CHAIRMAN'S GOVERNANCE OVERVIEW



Dear Shareholders,

In August 2016, the Company was listed on the premium segment of the London Stock Exchange (the "LSE"). As a listed company, we are committed to the highest standard of corporate governance. The Board aims to promote the Company's long-term success and is responsible to the shareholders for creating and delivering high shareholder value by establishing and overseeing the strategic direction of the Company and its business as a whole.

In our short time as a premium-listed Company, we have achieved the highest standards of corporate governance. We understand that the Board requires the right balance of skills, expertise, independence and country-specific knowledge to achieve maximum effectiveness. Our Board is comprised of nine members, of which five (namely, Nikoloz Enukidze, Stefano Marsaglia, Nicholas Haag, Eric Rajendra and Stephan Wilcke) are considered independent non-executive Directors. The Board views each of these non-executive Directors to be independent of management judgment and character, and free from any business or other relationship that could materially interfere with their exercise of independent judgment. Nikoloz Enukidze has been appointed as the Company's senior independent non-executive Director. In accordance with the UK Corporate Governance Code (the "Code"), we intend to comply with the annual re-election of all the Directors.

We have implemented a strong corporate governance framework with an experienced Board and full committee structure. We have also adopted terms of references for each of the Board committees (the "Committees") that are compliant with the Code requirements, including the composition of the Committees. All Directors are fully aware of their duties and responsibilities under the Code, Listing Rules and the Disclosure Guidance and Transparency Rules.

We understand that sound corporate governance structure and strong oversight by the Board of the Company's business are key to the Company's overall success and to increasing shareholder value. We are committed to further develop and strengthen our governance structure to achieve the highest level of effectiveness.

A handwritten signature in black ink, appearing to be in Georgian script, written over a horizontal line.

Mamuka Khazaradze

Chairman

31 March 2017

Corporate governance framework

The 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 2016.

Compliance statement

As a premium-listed company on the LSE, the Company complies with the Code. At the date of this report, the Company has applied the principles and complied with the provisions of the Code except as disclosed below:

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

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

The role of the Board

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

As envisaged by the Code, the Board has established three principal Committees: (i) the Audit Committee; (ii) the Corporate Governance and Nomination Committee; and (iii) the Remuneration Committee. The Board has also established the Risks, Ethics and Compliance Committee. The members of these Committees are appointed by the Board. These Committees have been delegated specific responsibilities and each Committee has its own terms of reference approved by the Board.

Division of responsibilities

There is a clear division of responsibilities between the Chairman, the Chief Executive Officer and the senior independent non-executive Director. As Chairman, Mamuka Khazaradze is responsible for leading the Board to ensure that the Board as a whole performs a full and constructive role in the development and determination of the Group's strategy and overall commercial objectives. He also oversees the Board's decision-making processes. The Chief Executive Officer, Vakhtang Butskhrikidze, is responsible for the Company's day-to-day management and has the principal

responsibility for running the Group's business. He is responsible for proposing, developing and implementing the Group's strategy and overall commercial objectives, which is done in close consultation with the Chairman and the Board. In addition, the Board has appointed, in line with the requirements of the Code, Nikoloz Erukidze as the senior independent non-executive Director, who provides a sounding board for the Chairman. He serves as an intermediary for the other Directors where necessary and meets with investors to discuss 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 are available on our website at www.tbcbankgroup.com.

Board composition

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

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

Mamuka Khazaradze is the Company's Chairman and he is, for the purposes of the Code, not considered to have been independent on his appointment as the Chairman due to his role as founder of the Group.

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



















Details of the individual Directors and their biographies are set out on pages 97 to 99.

Board Committees

To assist the Board in carrying out its functions and to ensure independent oversight of financial, audit, internal control and risk issues, review of remuneration, as well as oversight and review of Board and executive succession planning, the Board has delegated certain responsibilities to the Committees. Currently, the Board has four Committees: (i) the Audit Committee; (ii) the Remuneration Committee; (iii) the Corporate Governance and Nomination Committee; and (iv) the Risks, Ethics and Compliance Committee. Each Committee has agreed Terms of Reference, which are approved by the Board and reviewed annually. Each Committee's Terms of Reference can be found on our website at www.tbcbankgroup.com.

DIRECTORS' GOVERNANCE STATEMENT continued

Committee membership

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

 Chairperson  Member

Time commitment

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

Board and Committee meeting attendance

Following its listing on the premium segment of the LSE, the Company has held one scheduled meeting with the Directors attending in person. Matters that require decisions outside the scheduled meetings are dealt with through additional meetings and conference calls. The company has held 10 additional meetings. Also, the Chairman and the Chief Executive Officer maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

In addition, the affairs of the Company's main subsidiary, JSC TBC Bank (the "Bank"), are supervised by a supervisory board (the "Supervisory Board") with the same composition as the Board and equivalent committees of the Supervisory Board to the Committees with the same composition. 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 committees that have common membership. However, we carefully balance the work of the Board, the Supervisory Board and their respective committees, dividing functions according to whether they are supervising the topics that impact the Company or solely the Bank.

Attendance of meetings of the Board and its Committees in 2016 are set out below:

	Board meetings eligible to attend/attended	Audit Committee meetings eligible to attend/attended	Remuneration Committee meetings eligible to attend/attended	Corporate Governance and Nomination Committee meetings eligible to attend/attended	Risks, Ethics and Compliance Committee meetings eligible to attend/attended
Vakhtang Butskhrikidze (Chief Executive Officer)	11/11				
Giorgi Shagidze (Chief Financial Officer)	11/10				
Non-Executive Directors					
Mamuka Khazaradze (Chairman) ¹	11/8				
Badri Japaridze	11/8			5/5	
Eric J. Rajendra	11/7	4/4	4/4	5/5	1/1
Nikoloz Enukidze	11/11	4/4	4/4	5/5	1/1
Nicholas Dominic Haag	11/10	4/4	4/4		1/1
Stefano Marsaglia	11/5	4/4	4/4		1/1
Stephan Wilcke ²	11/6	4/4		5/3	1/1

¹ When Mr. Khazaradze was unable to attend the meetings, he discussed all matters on the agenda with the senior independent non-executive Director and the CEO and provided feedback on materials, as required, in advance of the meetings.

² Although Mr. Stephan Wilcke was unable to attend a number of Board and Committee meetings, including three (3) Board and respective Committee meetings held on 29 December 2016, he discussed all matters on the agenda with the Board and Committee members via teleconference calls and has also expressed his opinion by email correspondence for each non attended Board and Committee meeting.

Attendance of meetings of the Supervisory Board and its committees (including scheduled and additional meetings) in 2016 is set out below:

	Supervisory Board meetings eligible to attend/attended	Audit Committee meetings eligible to attend/attended	Remuneration Committee meetings eligible to attend/attended	Corporate Governance and Nomination Committee meetings eligible to attend/attended	Risks, Ethics and Compliance Committee meetings eligible to attend/attended
Mamuka Khazaradze (Chairman)	73/73				
Vakhtang Butskhrikidze ¹ (Chief Executive Officer)	33/33				
Giorgi Shagidze ² (Chief Financial Officer)	33/33				
Badri Japaridze ³	72/72			9/9	18/18
Eric J. Rajendra ⁴	96/96	14/13	17/17	9/9	19/17
Nikoloz Enukidze	94/94	14/14	17/17	9/9	30/30
Nicholas Dominic Haag	96/96	14/14	17/17		30/30
Stefano Marsaglia ⁵	96/94	14/12	8/8		12/11
Stephan Wilcke ⁶	33/32	4/3		5/4	12/11

1 Vakhtang Butskhrikidze joined the Supervisory Board in September 2016.

2 Giorgi Shagidze joined the Supervisory Board in September 2016.

3 Badri Japaridze was a member of Risks, Ethics and Compliance Committee until September 2016.

4 Eric J. Rajendra was appointed as a member of the Risks, Ethics and Compliance Committee in June 2016.

5 Stefano Marsaglia was appointed as a member of Risks, Ethics and Compliance Committee in September 2016.

6 Stephan Wilcke joined the Supervisory Board and respective Committees in September 2016.

Diversity policy

We value diversity and the Group takes account of diversity when recruiting, including when considering Board appointments. We see significant benefit to our business in having a Board drawn from a diverse range of backgrounds, since this brings the required expertise, cultural diversity and different perspectives to the Board discussions. However, we do not believe this is achieved through simple quotas, whether it be gender or otherwise. Accordingly, the Group will continue to appoint candidates based on merit and relevant experience in accordance with the requirements of the Code.

Induction

As set out in the Code, 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 exchange 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.

Prior to the Company's listing on the premium segment of the LSE, all Directors received a comprehensive induction and guidance as to their duties, responsibilities and liabilities as a Director of a public limited company.

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

Evaluation of Board and Committees' performance

The Board together with the Committees continually strive to improve their effectiveness and recognise that their annual evaluation process is an important tool in reaching that goal. The performance evaluation of the Board, the Committees and the individual Directors has been conducted by the company secretary and the Company in January 2017. The evaluation was based around the following key areas:

- Board composition, role, skills, diversity, balance and experience;
- Board decision-making and leadership;
- Risk management and role of the Board with respect to the Group's strategy; and
- Monitoring Company performance.

The review process involved the company secretary attending meetings of the Board and the Committees in November 2016 in London as an observer and company secretary. In addition, each Director was requested to fill out questionnaires on the effectiveness of the Board and Committees.

The company secretary subsequently produced a report on the review process findings that was shared with all members of the Board.

Having assessed the findings of the effectiveness review, the Directors were satisfied that the Board and each of its Committees operated effectively during 2016. Nevertheless, the Board defined several actions to help maintain and improve its effectiveness in the following areas:

- Enhancing the strategic planning by setting up a strategy committee;
- Focusing on audit-related peer analysis;
- Refining the quality of meetings by increasing the length of meetings to provide sufficient debating time to ensure depth of discussions; and
- Further refining the Board succession planning aligned with the Company's priorities.

DIRECTORS' GOVERNANCE STATEMENT continued

Directors' commitments

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

Re-election of Directors

As mentioned above, we intend to comply with the annual re-election of all Directors in accordance with the Code. Biographical details of the Directors are included on pages 97 to 99.

Remuneration Committee

Information on the Remuneration Committee is included in the Directors' Remuneration Report on pages 108 to 123.

Engagement with shareholders

The Board understands the importance of and is committed to promoting communication with all its shareholders. The Chief Executive Officer and the Chief Financial Officer, together with the Deputy Chairman and/or the Chairman, are in very close engagement with institutional investors. They have participated in deal and non-deal roadshows across numerous geographic locations to promote the awareness and understanding of the Company's business. In addition to roadshows, the Bank's senior executive team and Directors were involved in hosting the capital markets day in London, where they, together with the Georgian government, promoted the awareness of Georgian business and economic environment. The Bank was engaged in discussions with existing and potential investors to promote better understanding of the Bank's operational business, corporate governance and other areas of interest to investors in light of its listing on the premium segment of the LSE.

In addition, the Company is committed to its investor relations (the "IR") activities and has a permanent representative in London, who is always available for investor meetings and updates. Our IR website offers transparent and timely information to the investors.

The Board are provided with shareholder feedback at Board meetings. The Chief Executive Officer, the Chairman and the senior independent non-executive Director are available to discuss the concerns of shareholders at any point during the year.

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

Annual General Meeting

The Company, since its short time as a premium-listed company, has not yet held an Annual General Meeting. The 2017 Annual General Meeting is scheduled for 5 June 2017 in London. The Notice of Annual General Meeting will be circulated to all the shareholders at least 21 working days before the Annual General Meeting and it will also be made available on our IR website www.tcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our IR website www.tcbankgroup.com.

DIRECTORS' REPORT

Directors' report

The Directors present their Annual Report together with the audited consolidated accounts for the year ended 31 December 2016, which can be found on pages 133 to 223.

The Strategic Report on pages 2 to 87 was approved by the Board, and signed on behalf of the Board by Vakhtang Butskhrikidze, the Company's Chief Executive Officer, on 31 March 2017.

The Management Report together with the Strategic Report on pages 2 to 87 form the Management Report for the purposes of DTR 4.1.5. R.

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

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Risks, Ethics and Compliance Committee report	106
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Directors' conflicts of interests

The Company, in accordance with the requirements of the Companies Act 2006 and the Company's articles of association (the "**Articles of Association**"), requires the 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. The Directors have a continuing duty to update any changes to these conflicts.

Directors' indemnities and insurance

The Group maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also granted indemnities to each of its Directors and the company secretary 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.

Political donations

The Group did not make any political donations or incur any political expenditure during 2016.

Relationship Agreement

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

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

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

Share capital

As of 31 March 2017, the Company had issued ordinary share capital comprised of 52,682,843 ordinary shares with a nominal amount of £0.01 each and carrying one vote per ordinary share at general meetings of the Company. There were no shares held in treasury. The Company has in issue one class of ordinary shares, all of which are fully paid up, and it does not have preference shares in issue. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles of Association. There are no voting restrictions on the issued ordinary shares and each ordinary share carries one vote.

Details of the movements in share capital during the year are provided in Note 25 to the consolidated financial statements on page 182 of this Annual Report.

Profit and dividends

The profit for the financial year ending 31 December 2016 attributable to the Company's shareholders, after taxation, amounts to GEL 299,145,866. The Board intends to recommend 25% of this figure (i.e. GEL 74,786,467) to be distributed to the Company's shareholders as dividend, (which represents GEL 1.42 per share), payable in British Pounds Sterling at an official exchange rate of the National Bank of Georgia for 15 June 2017. If approved, the final dividend will be paid on 14 July 2017 to shareholders on the Register of Members at the close of business in the UK (i.e. 6pm London time) on 9 June 2017. Subject to shareholder approval at the AGM, shareholders will also be offered a scrip dividend alternative.

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 2016, 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.

Shareholder	As of 31 December 2016	
	% of voting rights	# of voting rights
Mamuka Khazaradze	14.08%	7,343,936
Badri Japaridze	7.03%	3,669,878
European Bank for Reconstruction and Development	12.15%	6,336,406
Schroder Investment Management	7.44%	3,879,075
JPMorgan Asset Management	7.07%	3,687,656
Dunross & Co	5.75%	3,000,441
Societe Generale SA	5.38%	2,807,734
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden	4.16%	2,171,000

Source: RD:IR research

During the period 31 December 2016 to 31 March 2017 the Group did not receive any notifications under Rule 5 of the DTRs. Any future regulatory filings by shareholders will be available on the Group's website at www.tbcbankgroup.com and the LSE website at www.londonstockexchange.com.

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

The Companies Act 2006 and the Articles of Association determine the powers of Directors in relation to share issues and buy backs of shares in the Company. The Directors are authorised to issue and allot shares subject to approval at a General Meeting of Shareholders. Such authorities were granted to the Directors by shareholders at the general meeting of the Company held on 12 May 2016 authorising the Directors to allot ordinary shares in the capital of the Company up to an aggregate nominal value of £163,702.40. The Company did not repurchase any of its ordinary shares during 2016.

This authority will apply until the conclusion of the 2017 AGM. Shareholders will be requested to renew these authorities at the 2017 AGM.

Appointment/replacement of Directors and amendment of Articles of Association

The appointment and retirement of Directors is governed by the Company's Articles of Association, the Code and the Companies Act 2006 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 AGM. Vakhtang Butskhrikidze and Giorgi Shagidze have service contracts with the Company, which have come into effect on 10 August 2016 and will continue until terminated by either party to such contracts giving the other not less than seven month's written notice. Further details on the Directors' service contracts are available in the Remuneration Report on pages 122 to 123. Biographical details of the Directors are included on pages 97 to 99.

Change of control

There are no significant agreements to which the Company is a party 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 case of change of control.

Employee disclosures

The Company's disclosures relating to the employee engagement and policies, as well as human rights, are included in the Employee matters section of the Strategic Report on pages 56-59 of this Annual Report.

Disclosure information to the auditor

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

Going Concern statement

The Board has fully reviewed the available information pertaining to the principal risks, strategy, financial health, liquidity and solvency of

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

Viability statement

In compliance with the Code, the Directors have assessed the viability of the Group over a three-year period beginning on 1 January 2017. In considering the longer-term viability of the Group and its operations, the Directors have carried out a robust and thorough assessment of the following:

- Principal risks and uncertainties of the Group, and the risks that the senior management believe could cause the Group's actual financial condition, operations and prospects to differ materially from current expectations.
- The effectiveness of current and proposed mitigating actions that address the principal risks and uncertainties.
- Current financial and operational condition of the Group, including capital, funding and liquidity profile of the Bank .
- Current business position and future prospects of the Group.
- Strategic plans of the Group.
- Macroeconomic stress tests to determine external shock tolerance of the Group.
- Consideration of the regional economic and political stability and prospects.
- The effectiveness of the Group's risk management framework, practice and internal control mechanisms.
- The Board's risk appetite and the Group's adherence to the RA metrics and risk budget.

The Directors have determined the three-year period ending on 1 January 2020 to be appropriate, as it is consistent with the Group's planning cycle, covering, financial forecasts and strategic considerations of the Group.

The Board closely scrutinises the risk management practices of the Group, sets risk objectives and culture from the top and consistently monitors the performance of the risk function and its adherence to international standards. The Directors have determined that the Group's risk management framework is adequate for managing the principal risks and uncertainties set out in the Annual Report and reducing their likelihood and impact wherever possible.

The use of various quantitative models, including the Enterprise Wide Stress Test, ensures that the Group maintains adequate buffers to withstand a combination of various quantifiable risks if they materialise.

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 2020 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 2017 to 1 January 2020.

Directors' responsibilities

The following statement, which should be read together with the Auditor's report set out on pages 133 to 223, 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 94 of this Annual Report.

The Directors have a responsibility that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and enable the Directors to ensure that the accounts comply with the Act.

The Directors are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

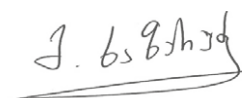
In addition, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

Each of the Directors, whose names and functions are listed on pages 97-99 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 as adopted by EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and Director's report contained in this Annual Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the shareholders to assess the Company's performance, business and strategy.

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



Mamuka Khazaradze

Chairman
31 March 2017

BOARD OF DIRECTORS





Mamuka Khazaradze

Chairman

Mamuka Khazaradze graduated from the Technical University of Georgia in 1988 and holds a diploma from Harvard Business School. Between 1988 and 1989, he worked as an engineer at the Projecting-Technological Scientific Research Institute in Tbilisi. In 1991 and 1992, respectively, he founded and became the president of TBC Bank. In 1995, he founded IDS Borjomi Georgia, Borjomi Beverages Co. N.V., where he held the position of president until 2004, and between 1999 and 2002, he acted as vice chairman of the Supervisory Board of Microfinance Bank of Georgia. In 2004, Mr Khazaradze also founded the Georgian Reconstruction and Development Company, of which he is still the president. Between 1997 and 2007, he was also vice president of the Olympic Committee of Georgia. Since 2000, he has been a partner and the president of NGO New Movement, and since 2010 has served as the chairman of the Board of the American Academy in Tbilisi and the chairman of the Supervisory Board of Lisi Lake Development. In 2014, Mr Khazaradze was recognised as Entrepreneur of the Year in Georgia by Ernst & Young, the year this prestigious awards programme was launched in the country. Mr Khazaradze has been the chairman of TBC Bank's Supervisory Board since its incorporation in 1992 and was appointed as a chairman of the Board in May 2016.



Badri Japaridze

Deputy Chairman

Badri Japaridze graduated from the faculty of psychology of Tbilisi State University in 1982 and holds a postgraduate qualification from the Faculty of Psychology of Moscow State University. In 2001, he also completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr Japaridze was a member of the Parliament of Georgia. In 1992, he was appointed as head of the foreign relations department at TBC Bank and was appointed as vice president of TBC Bank in 1993. In 1996, he was elected as chairman of the Board of TBC TV LLC, a position he still retains. Since 1995, he has held the position of vice president of IDS Borjomi Georgia, a Georgian branch of IDS Borjomi Beverages Co. N.V., of which he is a co-founder, and acted as a member of the Board of that company between 2004 and 2010. In 1995, Mr Japaridze was elected to the Bank's Supervisory Board and has held the position of vice chairman of the Bank's Supervisory Board since 1996. Since 2004, he has also acted as a member of the Supervisory Board of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is co-founder. Mr Japaridze was elected to the Supervisory Board of the EU-Georgian Business Council in 2006 and later became the vice chairman. In 2008, he was elected to the Supervisory Board of Geoplant, a position he retains today. Mr Japaridze is also the chairman of the Supervisory Board of TBC Kredit and the vice chairman of the Supervisory Board of TBC Leasing. Mr Japaridze was appointed as a deputy chairman of the Board in May 2016.



Nikoloz Enukidze

Senior independent non-executive Director

Nikoloz Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996. Mr Enukidze has served as managing director of corporate finance for Concorde Capital, a leading Ukrainian investment banking firm; assistant director at ABN AMRO Corporate Finance in London for four years; senior manager of business development of Global One Communications LLC based in Reston, Virginia; and three years at ABN AMRO Corporate Finance in Moscow. After years of experience in the financial services industry, Mr Enukidze served as vice chairman of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank to a successful IPO on the LSE, the first ever IPO in London for a company from the Caucasus region. In 2008, Mr Enukidze was appointed as chairman of the Bank of Georgia Board and he led the bank through the international and local financial crisis. Prior to joining TBC, Mr Enukidze also served as chairman of the Supervisory Board of Galt & Taggart Securities. At present, as founder of Nine Oaks Advisors, Mr Enukidze acts as financial adviser and investor on projects in Central and Eastern Europe. Since 2011, he has also served as an independent director of the Supervisory Board and member of the Audit Committee of TMM Real Estate Development PLC, a Ukrainian real estate development company listed on the Deutsche Börse since 2007, and since 2014 as the chairman of the Supervisory Board of JSC Caucasus Minerals. Mr Enukidze was born and raised in Tbilisi and is a Georgian and British national. Mr Enukidze was appointed to the Bank's Supervisory Board as an independent member in 2013 and to the Board as a senior independent non-executive Director in May 2016.



Stefano Marsaglia

Non-executive Director

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



Nicholas Haag

Non-executive Director

Nicholas Haag earned an M.A. from the University of Oxford with a degree in modern studies in geography in 1980. Mr Haag has 32 years of experience working in the financial services industry, with a significant emphasis on equity capital markets. His experience includes seven years at Barclays Bank between 1980 and 1987 in various capital markets and project finance roles, including as the head of equity syndicate, Barclays de Zoete Wedd (BZW); ten years at Banque Paribas, Paribas Capital Markets between 1989 and 1999, initially as deputy head of global equity capital markets and later senior banker and head of European client coverage (ex-France); two years at ING Barings between 1999 and 2001 as managing director and global head of technology banking group; six years at ABN AMRO between 2001 and 2007 based in London as the global head of technology banking, member of Global TMT Management Committee, senior managing director and member of the Senior Credit Committee; four years with the Royal Bank of Scotland between 2008 and 2012 and RBS Hoare Govett as managing director, head of London equity capital markets and member of the Global Equities Origination Management Committee. Since 2012, he has served as a senior independent adviser to the chairman of the Management Board and from 2013 until November 2016 as a member of the Supervisory Board of Credit Bank of Moscow and a financial consultant specializing in capital raisings and stock exchange flotations. He also serves as an independent non-executive director of Bayport Management Limited 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.



Eric Rajendra

Non-executive Director

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



Stephan Wilcke

Non-executive Director

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



Vakhtang Butskhrikidze

Chief Executive Officer

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

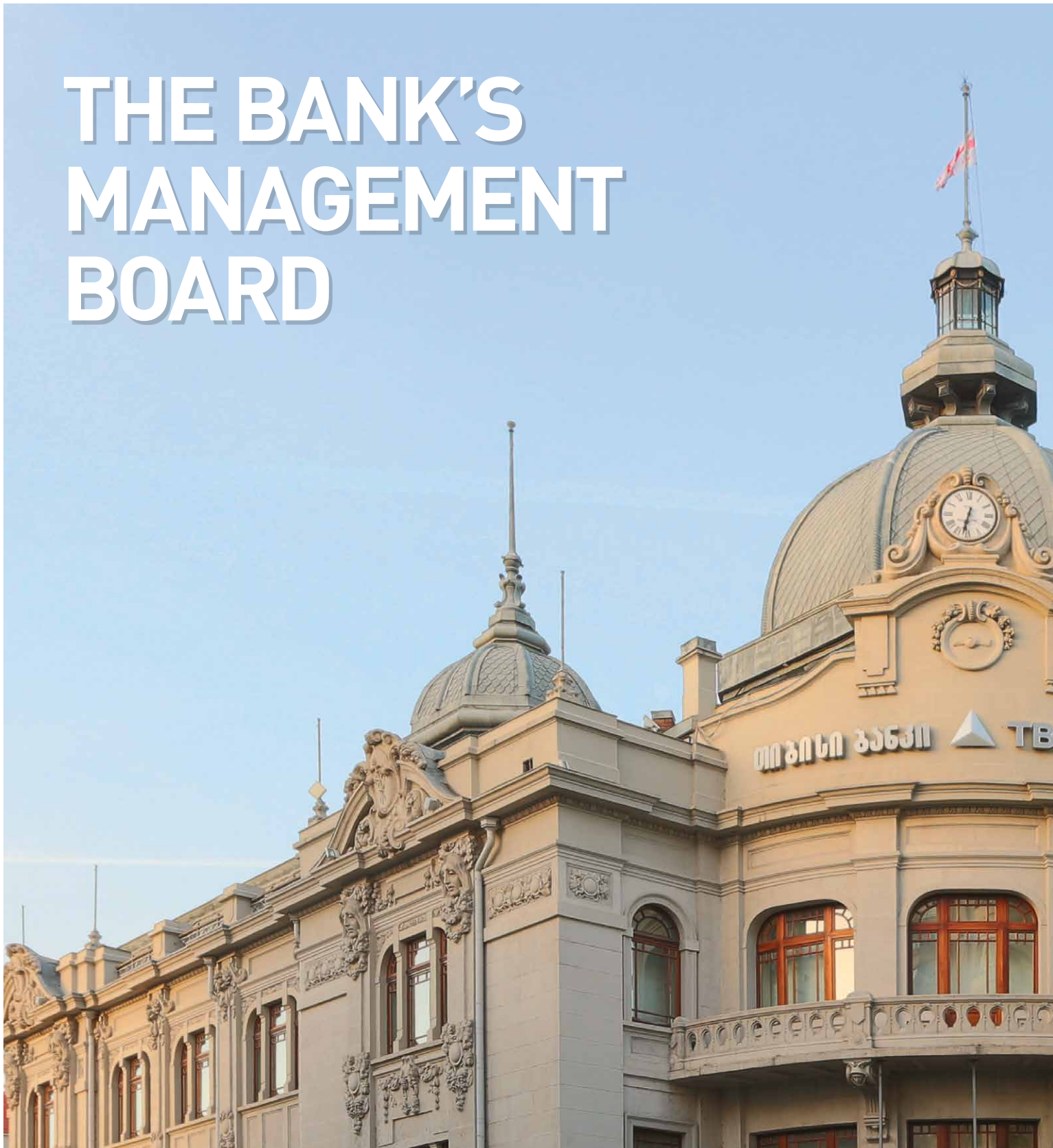


Giorgi Shagidze

Deputy CEO and Chief Financial Officer

Giorgi Shagidze became deputy CEO and chief financial officer of TBC Bank and was appointed to the Bank's Management Board in 2010. From 2011 until its merger with TBC Bank in 2015, he served as a member of the Supervisory Board of Bank Constanta. Mr Shagidze also is a Board member of the Georgian Stock Exchange. Prior to joining TBC Bank, he acted as a global operations executive for Barclays Bank Plc between 2008 and 2010. In his earlier career, Mr Shagidze worked at the Agro Industrial Bank of Georgia at various positions including as the head of the credit investment department and head of international payments between 1996 and 2001. Between 2001 and 2005, he worked at Tbiluniversalbank, where he held the positions of CEO, deputy CEO, head of IT and branch manager. In 2005, he became director of the distribution channels division at Bank of Georgia before becoming deputy CEO of Peoples Bank of Georgia in 2005. Mr Shagidze obtained an MBA from the University of Cambridge Judge Business School in 2008. He graduated from Tbilisi State University in 1997 with a degree in economics. Mr Shagidze was appointed as a Chief Financial Officer of the Company in May 2016 and as a member of the Supervisory Board in September 2016.

THE BANK'S MANAGEMENT BOARD



THE BANK'S MANAGEMENT BOARD BIOGRAPHIES



Vakhtang Butskhrikidze

CEO

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



Paata Gadzadze

First Deputy CEO

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



Giorgi Shagidze

Deputy CEO, Chief Financial Officer

Giorgi became Deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Management Board in 2010. From 2011 until its merger with TBC Bank in 2015, he served as a member of the Supervisory Board of Bank Constanta. Giorgi also is a Board Member of the Georgian Stock Exchange. Prior to joining TBC Bank, Giorgi acted as a Global Operations Executive for Barclays Bank Plc between 2008 and 2010. In his earlier career, Giorgi worked at the Agro Industrial Bank of Georgia at various positions including as the Head of the Credit Investment Department and Head of International Payments between 1996 and 2001. Between 2001 and 2005, he worked at Tbiluniversalbank, where he held the positions of CEO, Deputy CEO, and Head of IT and Branch Manager. In 2005, he became Director of the Distribution Channels Division at Bank of Georgia before becoming Deputy CEO of Peoples Bank of Georgia in 2005. Giorgi obtained an MBA degree from the University of Cambridge Judge Business School in 2008. He graduated from Tbilisi State University in 1997 with a degree in Economics. Mr Shagidze was appointed as a Chief Financial Officer of the Company in May 2016 and as a member of the Supervisory Board in September 2016.

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES continued



Vano Baliashvili

Deputy CEO, Chief Operating Officer

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



David Chkonia

Deputy CEO, Chief Risk Officer

David joined TBC Bank in 2017 as Chief Risk Officer and Deputy CEO following 15 years of international banking and risk management experience. Prior to joining TBC, David was a Director at BlackRock in the BlackRock Solutions group advising financial institutions and regulators on topics related to enterprise risk management, balance sheet strategy and regulation. Prior to that, he served as Senior Vice President at PIMCO responsible for the risk advisory practice focusing on origination and execution across European credit and capital markets. In 2009-2011, David worked at European Resolution Capital helping Western European banks with NPL management and set-up of internal restructuring units in Central and Eastern European 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 mandates. In 2002-2004, David worked at the EBRD executing debt and equity investment transactions in CEE as well as working in the bank's Credit Department. David holds a BSc from San Jose State University and an MBA from The Wharton School at the University of Pennsylvania.



George Tkheldidze

Deputy CEO, Corporate and Investment Banking

George joined TBC Bank in 2014 as Deputy CEO in charge of Risk Management. After the creation of a Corporate and Investment Banking (CIB) unit at the Bank in November 2016, George changed position and overtook the responsibility for the newly formed unit. George has more than 15 years of experience in financial services. Prior to joining TBC, George worked for Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. From September 2009 he was an Associate Director in Barclays Debt Finance and Restructuring Teams. During his career with Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George held various managerial positions at ALDAGI insurance company during 2000-2007, where he also served as Chief Executive Officer. George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and Graduate Diploma in Law from Tbilisi State University (2000).



Nino Masurashvili

Deputy CEO, Retail Banking

Nino joined TBC Bank in 2000 as a Manager in the Planning and Control Department and became head of that department in 2002. Between 2004 and 2005, she acted as Head of the Sales Department and Retail Bank Coordinator. Nino was appointed as Deputy CEO, Retail and SME Banking in 2006. Between 2006 and 2008, Nino was the Chairman of the Supervisory Board of UFC. During 2011-2015 she also held a position of a member of the Supervisory Board of Bank Constanta until its full merger with TBC Bank. Since 2011, Nino has been a member of the Supervisory Board of TBC Kredit. In her earlier career, she held the positions of Credit Account Manager, Credit Officer, Financial Analyst (Financial Department) and Head of the Financial Analysis and Forecasting Department at JSC TbilCom Bank Between 1995 and 2000. Between 1998 and 2000, she also held the position of Accountant at the Barents Group. Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.



Nikoloz Kurdiani

Deputy CEO, SME and Micro Banking

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

CORPORATE GOVERNANCE AND NOMINATION COMMITTEE REPORT

CHAIRMAN'S OVERVIEW



Dear Shareholders,

I am pleased to present the Corporate Governance and Nomination Committee (the "**Committee**") report for the Group. The Committee is responsible for developing corporate governance principles and guidelines applicable to the Group, assessing the Group's governance practice in light of international standards of best practice. The Committee continually seeks to ensure that the Board's composition is diverse and aligned to the Group's strategic objectives. In addition, the Committee's role extends to recommendations of appointments to the Management Board of its main subsidiary JSC TBC Bank (the "**Bank**").

As such, a key role of this Committee is to keep the Board's and the Management Board's composition, skills experience, knowledge, independence and succession arrangements under review. The Committee's primary purpose is to ensure that the Group has the best calibre of individuals and a clear plan for both executive and non-executive succession.

A handwritten signature in black ink, appearing to read "Eric J. Rajendra". The signature is fluid and cursive.

Eric J. Rajendra

Chairman of the Corporate Governance and Nomination Committee
31 March 2017

Committee members

As at 31 March 2017, the Committee is composed of three independent non-executive Directors, including Eric Rajendra (chairman), Nikoloz Erukidze and Stephan Wilcke, as well as Badri Japaridze, who is not considered to be independent under the UK Corporate Governance Code requirements. As such, the Board considers that the Group complies with the UK Corporate Governance Code as the majority of the Committee members are free from any relationship or circumstances which may, could or would be likely to, or appear to affect their judgment.

Attendance at Committee meetings

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

The attendance of members at the Committee meetings during the year at the Company and the Bank levels are set out in the Directors' Governance statement on pages 90 to 91.

Committee role and responsibilities

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

The Committee is responsible for establishing corporate governance guidelines and overseeing compliance with them, as well as for making recommendations to the Board for changes or additional actions as it deems necessary. The Committee is also responsible for leading the appointment process for the Board and the Management Board, as well as for identifying and nominating candidates with the right skills and experience for approval by the Board.

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

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

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

- evaluating the current balance of skills, experience, independence and knowledge on the Board and within the senior management team and, in light of this evaluation, preparing a description of the role and capabilities required for a particular appointment;
- ensuring that non-executive Directors are appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director;
- considering and making recommendations to the Board on the composition of the senior management team;
- overseeing the orientation program for new members of the Board with respect to their Board responsibilities and roles, as well as the contribution individual members are expected to make; and
- making recommendations to the Board on succession planning for the Board and the senior management team over the longer term in order to maintain an appropriate balance of skills and experience and to ensure progressive refreshing.

Appointment and re-election of directors

The Committee reviews the composition of the Board and Board's Committees, and monitors the skills and experience the Group needs to be able to deliver its strategic aims, to govern the Group appropriately, and to comply with the Group's corporate culture and values. In accordance with the UK Corporate Governance Code, all Directors will stand for re-election on an annual basis. The Committee has carried out 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.

Diversity

The Committee ensures that the selection of new Board members reflects diversity in the broadest sense. The combination of personalities provides a good range of skills and improves the quality of the Board's decision-making. The Committee's objectives for implementing the policy include ensuring that:

- there is an appropriate mix of skills and experience to ensure an effective Board; and
- the Board comprises a majority of Directors who are independent in character and judgement.

We have a good degree of diversity on the Board with a wide range of skills, background, experiences and outlooks, which ensures that the Directors' decision-making process derives the benefits of this diversity.

Board recruitment and appointment process

The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment. In identifying suitable candidates, the Committee typically seeks recommendations from trusted advisors but may also use external search services to facilitate the recruitment.

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

In 2016 search for a new non-executive member to the Board commenced. Korn Ferry (UK Office – CEO & Board Services) was appointed to support non-executive search on the basis of their strength and overall market reputation. Korn Ferry has no other connection with the Group.

The specification for the role and profile of the candidate was agreed by the Committee in conjunction with the Chief Executive Officer and the Chairman. Korn Ferry analysed the market for possible candidates with a breadth of diversity, experience and background. A short list was produced and potential candidates were interviewed by the Chief Executive Officer, the Chairman and the Committee chairman. Following this comprehensive search process overseen by the Committee, Mr. Stephan Wilcke was recommended by the Committee and approved and appointed by the Board as an independent non-executive Director. Biographical details of Mr. Wilcke are set out on page 99.

In addition, in 2016, the Committee took an active role in the recruitment process of the Bank's new Chief Risk Officer ("CRO") and, following a comprehensive interview process held with number of high calibre individuals, Mr. David Chkonja was recommended by the Committee and appointed by the Board and the Supervisory Board to the position of Bank's CRO. Biographical details of Mr. Chkonja are set out on page 102.

Assessment of the work completed

In 2016, the Committee worked on the following items in line with its responsibilities and obligations:

Succession planning policy

The Committee worked on the succession planning framework and heard and noted the positions of the Management Board members throughout the year.

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

Training

New Directors receive induction training shortly after appointment. Further professional development opportunities are provided based on the work Directors carry out on different Board committees.

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

Further details on the induction and training of new Directors is set out in the Directors' Governance statement on page 91.

Assessment of effectiveness

The Committee effectiveness review is conducted every year to assess the Committee's performance. This assessment is carried out by the Committee members themselves and by the Board as a whole, in line with international standards of best practice in corporate governance. The 2016 Corporate Governance and Nomination Committee review has found that the Committee effectively fulfilled all its responsibilities and obligations.

Looking ahead to 2017

In the coming year, the Committee will focus on longer-term Board succession planning, continue to strengthen senior management skills development via specialised training, examine corporate governance practices in each major division to ensure compliance with international best practices, and make recommendations to the Board where appropriate.

RISK, ETHICS AND COMPLIANCE COMMITTEE REPORT

CHAIRMAN'S LETTER



Dear Shareholders,

I am pleased to present the report of the Company's Risks, Ethics and Compliance Committee (the "RECC").

In August 2016, the Company listed in the premium segment of the LSE. The listing was preceded by the Group's legal restructuring, which involved the Company's establishment as a UK holding company for the Group. As a result, our corporate governance was adjusted accordingly, including through the creation of the RECC and other committees. The RECC has a dual function as a committee of the Company and Supervisory Board committee of TBC Bank.

Although our main responsibilities have remained the same, we had to make important changes to our constitutional documents, composition and processes. We made these changes during the first half of the year as part of the Group's preparation for the Company's premium listing, which took place in August 2016.

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

A handwritten signature in black ink, appearing to read 'Nikoloz Enukidze'.

Nikoloz Enukidze

Chairman of the Risk, Ethics and Compliance Committee
31 March 2017

Committee role

The key function of the RECC is to assist the Board in its oversight of all matters related to the risk management and compliance of the Company and the Group as a whole. The RECC is responsible for recommending risk appetite to the Board and monitoring performance against the agreed appetite. It is also responsible for reviewing, assessing and recommending any actions to be taken by the Board regarding the Group's risk management strategy in general, risk management system and risk policies. The RECC is also responsible for overseeing the Group's compliance activities, ensuring that the Group complies with all applicable laws and regulations and that it maintains the highest standards of ethical behaviour. The RECC's terms of reference are available on the Company's investor relations website: www.tbcbankgroup.com.

Committee members and meetings

The RECC consists of five independent non-executive Directors: Nikoloz Enukidze (chairman), Stefano Marsaglia, Nicholas Haag, Eric Rajendra and Stephan Wilcke.

The biographies of the RECC members are set out on pages 97-99.

The RECC meets in person on a quarterly basis and at each meeting its members review a detailed report on risk management results for the quarter, as well as updates on compliance and other areas within the RECC's remit. The RECC meetings are normally attended by the Chief Executive Officer, the chief risk officer, the head of compliance and key members of the Group's risk and compliance teams. Additional meetings are held via electronic communications.

The attendance of members at the RECC meetings during the year at the Company and the Bank levels are set out in the Directors' Governance statement on pages 90 to 91.

RECC activities during 2016

Overall, 2016 was a transformational year for the Company. The Group's decision to list the Company in the premium segment of the LSE and the acquisition of Joint Stock Company Bank Republic ("Bank Republic") solidified our position as a leading financial institution in the region. The RECC played an important role in both transactions and, in particular, monitored the acquisition process of Bank Republic, paying particular attention to the quality of Bank Republic's portfolio, risk management approach and processes, and the integration plan.

The RECC maintained focus on its key responsibilities of monitoring the Group's risk management processes and facilitated progress in terms of both risk management tools and techniques, as well as mitigation actions against prevailing risks.

Risk management results

The RECC reviewed a detailed risk management results presentation at each of its quarterly meetings. This presentation included:

- a review of Georgia's macroeconomic environment and key challenges that it presents to the Group, including monitoring and mitigating the impact of GEL volatility, which was one of the most important questions on the RECC's agenda throughout the year;
- a detailed report on the structure and performance of the Group's loan portfolio, including segmentation by currency and business segment, review of non-performing loans, provisioning and cost of risk;
- an update on the Bank's largest exposures;
- an update on market, liquidity and interest rate risks;
- an update on operating risk management; and
- a benchmarking of the Group's loan portfolio performance against its regional peers.

Risk appetite

The RECC is responsible for recommending to the Board risk appetite limits and monitoring the Bank's compliance with them. The RECC received and reviewed risk appetite compliance reports at each of its quarterly meetings. The RECC discussed areas of potential concern with the management and ensured that the Group had appropriate action plans in place to remedy them.

ICAAP

The RECC reviewed and commented on proposed changes to the Internal Capital Adequacy Assessment Process ("ICAAP"), with a focus on enterprise-wide stress testing. The RECC recommended to update stress testing scenarios to make them more realistic and consistent with experience in other markets.

Compliance

The RECC received a quarterly update from the head of the Group's compliance department. The RECC worked closely with the compliance department on the changes that the Group made to its compliance framework and policies in connection with the Company's premium listing. The RECC also approved and monitored implementation of a whistleblowing policy.

IFRS 9 implementation

The Group started implementation of IFRS 9 to ensure a timely quantitative impact assessment and implementation of the new standard. In 2016, the RECC heard regular updates on the status of the IFRS 9 project and plans to continue monitoring this closely in 2017.

Committee effectiveness review

The RECC effectiveness review is conducted every year by the Board and the individual Committee members to assess the RECC's performance, as per international standards of best practice in corporate governance. During 2016, the RECC was effective in overseeing the Group's risk management, compliance activities and ethical standards.

DIRECTORS' REMUNERATION REPORT

CHAIRMAN'S STATEMENT



On behalf of the Board, I am pleased to introduce our Directors' Remuneration Report for the Group. The report sets out the Remuneration Policy (the 'Policy') for our executive and non-executive Directors. The principles behind our Policy in relation to executive members of the Board are applicable to our CEO, Vakhtang Butskhrikidze and deputy CEO, Giorgi Shagidze as well as to the key senior managers within the Group. In determining the levels of compensation, the Remuneration Committee will continue to ensure that the remuneration is aligned with the achievement of the Group's strategic and business objectives and expectations of our shareholders as well as being competitive. The executive members' remuneration comprises of:

- Fixed compensation consisting of both cash-based and share-based payments; and
- Variable compensation based on the level of achievement of key performance indicators (KPIs).

The share-based compensation, both fixed and variable, is paid in the form of deferred shares, out of which 80% of such compensation has a three year vesting period, thus naturally aligning the interests of Directors with that of the Group's long term objectives and shareholder interests.

There are certain circumstances in which deferred share salary and discretionary share compensation will lapse and/ or is subject to return to the Bank for example, if the director is dismissed, resigns or does not accept a contract renewal. This promotes loyalty amongst our Directors and motivates them to work towards the long-term interests of the Group. However, the Remuneration Committee may, in its discretion, permit an executive to retain such compensation on such cessation of employment.

The Group's non- executive members' compensation is in the form of monthly fixed salary payments. In determining the non-executive pay levels, the committee takes into consideration the unique individual roles the chairman and deputy chairman play with the Group, best practice and specifically FTSE 250 financial companies board membership payments.

The key components of remuneration are set out in detail within the Policy and the 2016 Annual Remuneration Report.

The Remuneration Committee will keep the Policy under review to ensure that it continues to promote the long-term success of the Group by giving the Group its best opportunity of delivering on its business strategy.

Following the Company's premium listing, the Remuneration Committee will put the Policy for shareholders' approval at the first 2017 Annual General Meeting for Companies Act 2006 purposes and, if approved, the Policy will be effective from 1 January 2018.

The Group aims to provide sufficient flexibility in the Policy for unanticipated changes in compensation practices and business conditions to ensure the Remuneration Committee has appropriate discretion to retain and incentivise its directors and manage its business. Maximum caps are provided to comply with the required legislation and should not be taken to indicate a present intention to make payments at that level. All monetary amounts are shown in US dollars, unless indicated otherwise.

A handwritten signature in black ink, appearing to read 'Stefano Marsaglia', written over a horizontal line.

Stefano Marsaglia

Chairman of the Remuneration Committee
31 March 2017

1. Remuneration Committee

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

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

The attendance of members at the Committee meetings during the year at the Company and the Bank levels are set out in the Directors' Governance statement on pages 90 to 91.

1.1 Advisers to the Remuneration Committee

Members of the Remuneration Committee provide valuable input in updating the Remuneration Committee on the recent developments in the area of remuneration. However when there is a need, the Remuneration Committee receives external advisory services. In 2016, EY was engaged by the Remuneration Committee to provide advice to the Remuneration Committee on the remuneration policy for the non-executive members of the board and to assess the existing executive compensation system against the requirements of UK Corporate Governance Code. EY was selected for this purpose because EY had assisted the Company in developing its senior executive compensation system in 2015 following a selection process. Fees for advice provided to the Remuneration Committee for the year 2016 were USD 65,000 net of taxes. Fees were charged on a time and materials basis which was capped at the amount mentioned above.

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

1.2 Statement of voting at Annual General Meeting

The Company became Premium Listed on 10 August 2016 and has not yet held its first Annual General Meeting.

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"), in respect of their employment with the Company's Group (defined as TBC Bank Group PLC and JSC TBC Bank, "TBCG") for the financial years ended 31 December 2016 and 31 December 2015.

2.1 Single total figure for executive Directors (audited)

	Vakhtang Butskhrikidze		Giorgi Shagidze	
	2016 ⁹ US\$'000	2015 ⁹ US\$'000	2016 ⁹ US\$'000	2015 ⁹ US\$'000
Salary including:	872	646	435	305
Cash salary ¹	452	426	226	195
Deferred share salary ^{2, 8}	420	220	209	110
Taxable benefits ^{3, 6}	17	17	1	1
Pension ⁴	-	-	-	-
Deferred share bonus award ^{5, 7, 8}	2,128	1,146	1,078	577
Total remuneration	3,017	1,809	1,513	882

- 1 Base salary paid in year to executive Directors. No additional fees were paid to executive Directors.
- 2 Deferred share salary comprises of TBCG shares granted in respect of service in the relevant year. The number of shares awarded as deferred share salary is linked to the Base salary and its current level is fixed at an annual grant of 17,622 TBCG shares for Mr. Vakhtang Butskhrikidze and 8,811 TBCG shares for Mr. Giorgi Shagidze. Deferred shares in relation to 2015 were awarded on 17 March 2016 and deferred shares in relation to 2016 were awarded on 28 March 2017. Deferred share salaries are subject to a condition of continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date, a further 10% vests on the second anniversary from award date and the final 80% of the award vests on the third anniversary from the award date. For the purposes of this table, the 2015 award has been valued using the closing market value of the shares on 17 March 2016 (US\$10) and grossed up for the directors' income tax on share awards paid by the Company. The 2016 award has been valued using the closing market value of the shares on 28 March 2017 (GBP15 converted into US\$ using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/ US\$ and 3.0794 for GEL/GBP on the same date) and grossed up for the directors' income tax on share awards paid by the Company.
- 3 Taxable benefits comprise medical insurance, company car allowances, and in the case of our CEO, security allowances.
- 4 The Company does not pay pension contributions to the executive directors. None of the executive directors has a prospective entitlement to a defined benefit pension.
- 5 A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year. The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date, a further 10% vests on the second anniversary from the award date and the final 80% of the award vests on the third anniversary from the award date. Deferred shares in relation to 2015 were awarded on 17 March 2016 and deferred shares in relation to 2016 were awarded on 28 March 2017. For the purposes of this table, the 2015 award has been valued using the closing market value of the shares on 17 March 2016 (US\$10) and grossed up for the directors' income tax on share awards paid by the Company. The 2016 award has been valued using the closing market value of the shares on 28 March 2017 (GBP15 converted into US\$ using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/ US\$ and 3.0794 for GEL/GBP on the same date) and grossed up for the directors' income tax on share awards paid by the Company. The value of the award is determined in line with the achievement of performance measures, as explained in detail in section 2.2 below.
- 6 Mr. Butskhrikidze and Mr. Shagidze were reimbursed for reasonable business expenses in accordance with the internal policy in force at the time. Such reimbursements have not been included in the single figure table.
- 7 No money or other assets are received or receivable by the executive directors in respect of a period of more than one financial year where final vesting is determined by reference to the achievement of the performance measures or targets relating to a period ending in 2015 or 2016 (as applicable).

DIRECTORS' REMUNERATION REPORT continued

2. Single total figure of remuneration continued

- 8 The increase of deferred share salary and deferred share bonus in 2016 as compared to 2015, is largely due to the increase in share price. The number of shares awarded to executive directors in the same period in aggregate decreased by 2%. A full explanation of the basis of the 2016 deferred share bonus awards is given at section 2.2 which highlights the link between strong company and executive performance for 2016.
- 9 The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2016 and the whole of 2015.

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

The 2016 deferred share bonus awards made to executive Directors reflect the Remuneration Committee's assessment of the extent to which corporate and personal objectives were achieved. Such objectives were agreed by the Board at the beginning of the year.

The below table illustrates the performance measures set for Mr. Butskhrikidze in respect of 2016, as well as his performance against them:

Performance Measure	Weighting %	Minimum (60%)	Target (100%)	Maximum (140%)	Performance	KPI Evaluation ¹
Financial measures²						
ROE	15%	16.7 – 18.6%	18.6 – 20.5%	> 20.5%	21.6%	140%
Cost: income ratio ³	15%	44.4 – 43.1%	43.1– 41.8%	< 41.8%	42.0%	100%
Total Loan Market Share	15%	28.1 – 28.4%	28.4 – 29.0%	> 29.0%	31.1%	140%
Cost of Risk	15%	1.6 – 1.3%	1.3 – 1.2%	< 1.2%	0.8%	140%
Non-financial ⁴ measures	30%	As explained below				88%
Discretionary KPI ⁵	10%	A-	A	A+	A+	140%
Total	100%					118.3%

- 1 Each KPI is evaluated at: 60% where achievement falls into the minimum range, 100% where achievement falls into the target range and 140% where achievement falls into the maximum range.
- 2 All financial KPIs were assessed without regard to the Bank Republic acquisition, although this would not have altered the evaluation.
- 3 Cost: income ratio excludes costs related to the premium listing and costs related to the Bank Republic acquisition.
- 4 Non-financial measures for the CEO and CFO have a different weighting: 30% and 26% respectively. The outcome of the evaluation is derived by multiplying the weight of each measure by the evaluation score. Non-financial measures include:
- (i) TBCG share price performance after completion of the premium listing. The share price has increased from GBP 10.85 to GBP 14.52. Average share price multiple appreciation (based on quarter end numbers) was used since the premium listing which increased by 46.7% based on September 2016 results. The performance was assessed at maximum and was evaluated at 140%.
 - (ii) Customer experience compared with experience development as well as gap with peer groups. Two indexes were evaluated, index of "CSAT in Mass Retail – ACT" was accomplished at target level, however the second index "NPS in Mass Retail – IPM + ACT" was accomplished at below target. Due to these reasons the overall achievement of this KPI was evaluated at 84%.
 - (iii) During the year, due to various stretched workstreams related to the premium listing and the acquisition of Bank Republic (amongst other things), the Net Promoters Score among the employees did not improve and the KPI was not achieved, hence KPI evaluation was 0%.
- 5 Discretionary KPI: the board assessed the discretionary KPI as "A+" based on the successful premium listing, acquisition of the Bank Republic as well as strong financial performance.

The below table illustrates the performance measures set for Mr. Shagidze in respect of 2016, as well as his performance against them:

Performance Measure	Weighting %	Minimum (60%)	Target (100%)	Maximum (140%)	Performance	KPI Evaluation ¹
Financial measures²						
ROE	10%	16.7 – 18.6%	18.6 – 20.5%	> 20.5%	21.6%	140%
Cost: income ratio ³	10%	44.4 – 43.1%	43.1– 41.8%	< 41.8%	42.0%	100%
Total Loan Market Share	8%	28.1 – 28.4%	28.4 – 29.0%	> 29.0%	31.1%	140%
Cost of Risk	8%	1.6 – 1.3%	1.3 – 1.2%	< 1.2%	0.8%	140%
Non-financial measures ⁴	26%	As explained below				80%
Personal KPI ⁵	30%	As explained below				140%
Discretionary KPI ⁶	8%	A-	A	A+	A+	140%
Total/final score	100%					120.3%

- 1 Each KPI is evaluated at: 60% where achievement falls into the minimum range, 100% where achievement falls into the target range and 140% where achievement falls into the maximum range.
- 2 All financial KPIs were assessed without regard to the Bank Republic acquisition, although this would not have altered the evaluation.
- 3 Cost: income ratio excludes costs related to the premium listing and costs related to the Bank Republic acquisition.
- 4 Non-financial measures for the CEO and CFO have a different weighting: 30% and 26% respectively. The outcome of the evaluation is derived by multiplying the weight of each measure by the evaluation score. Non-financial measures include:
- (i) TBCG share price performance after completion of the premium listing. The share price has increased from GBP 10.85 to GBP 14.52. Average share price multiple appreciation (based on quarter end numbers) was used since the premium listing which increased by 46.7% based on September 2016 results. The performance was assessed at maximum and was evaluated at 140%.

2. Single total figure of remuneration continued

- (ii) Customer experience compared with experience development as well as gap with peer groups. Two indexes were evaluated, index of "CSAT in Mass Retail – ACT" was accomplished at target level, however the second index "NPS in Mass Retail - IPM + ACT" was accomplished at below target. Due to these reasons the overall achievement of this KPI was evaluated at 84%.
 - (iii) During the year, due to various stretched workstreams related to the premium listing and the acquisition of Bank Republic (amongst other things), the Net Promoters Score among the employees did not improve and the KPI was not achieved, hence KPI evaluation was 0%.
- 5 Personal KPIs include:
- (i) Delivery of strong results in the treasury operations resulted in assessment of the performance measure at "maximum" and evaluated at 140%.
 - (ii) Execution of the listing on the Premium segment of the London Stock Exchange. The listing was successfully completed in a timely manner. As such, the Remuneration Committee has assessed this KPI at 140%.
 - (iii) The TBC Share price performance after completion of the premium listing was also a personal KPI, which was assessed at maximum and evaluated at 140% (as per the evaluation of the non-financial measure above).
- 6 Discretionary KPI: the board assessed the discretionary KPI as "A+" based on the successful premium listing, the acquisition of Bank Republic as well as strong financial performance.

As a result, during 2016, the Remuneration Committee therefore considered Mr. Butskhrikidze's performance as excellent and determined the overall value of the deferred share bonus award of US\$ 2,127,955 (being the net value awarded of US\$ 1,687,857 grossed up for the director's income tax on deferred bonus share awards).

The Remuneration Committee also considered Mr. Shagidze's performance as excellent and determined the overall value of the deferred share bonus award of US 1,077,532 (being the net value awarded of US\$ 858,194 grossed up for the director's income tax on deferred bonus share awards).

2.3 Further details of fixed and discretionary deferred share compensation granted during 2016 (audited)

The following table sets out further details of the share awards granted to Mr Butskhrikidze and Mr. Shagidze in 2016 in respect of the year ended 31 December 2015.

	Deferred share salary	Deferred share bonus
Type of interest	Direct share award subject to restrictions.	Direct share award subject to restrictions.
Basis on which award was made	As described in note 2 to the table at 2.1 above.	As described in the table and notes at section 2.2 above.
Face value ¹ of awards made to Mr. Butskhrikidze	US\$ 220,275	US\$ 1,146,084
Face value ¹ of awards made to Mr. Shagidze	US\$ 110,138	US\$ 576,629
Percentage of award receivable if minimum performance achieved	Legal title to 100% of the shares are registered in the name of participant on the date the award is made. The participant has the right to receive dividends and to vote. The deferred shares, however, are subject to restrictions until they vest. 100% of the award will vest after the end of the three year vesting period, since the award is part of the executive's salary set out in his service contract and is not subject to performance measures or conditions.	Legal title to 100% of the shares are registered in the name of participant on the date the award is made. The participant has the right to receive dividends and to vote. The bonus shares, however, are subject to restrictions until they vest. 100% of the award will vest after the end of the three year vesting period as the performance period is only one calendar year and so has already been assessed.
Vesting period	Three years, with full vesting on 17 March 2019 subject to continuous employment and malus and clawback requirement.	Three years, with full vesting on 17 March 2019 subject to continuous employment and malus and clawback requirement.
Performance measures	None.	See section 2.2 above and section 9.5(b) of the Policy below.

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

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

The table below sets out the increase in salary, benefits and bonus of the CEO compared with that of the wider employee population between 2015 and 2016:

	Chief Executive	All employees
Salary ¹	34.8% ²	4.1% ³
Cash bonus	-100%	-9.9%
Taxable benefits	4.7%	10.0%
Pension-related benefits	-	5.3%
Deferred share bonus award ⁴	85.7%	81.8%
Total remuneration	66.8%	7.8%

1 This includes cash and deferred share salary. The CEO's cash salary increase is calculated in US dollars, the currency which is fixed for his cash salary.

2 The increase in deferred share salary reflects the increase in the share price. The number of deferred shares awarded as salary has not changed between 2015 and 2016.

3 For the employee cash salary calculation, the increase in GEL is used, as this is the currency in which cash salary payments are fixed. The average US\$/GEL rate increased by 4.3% as compared with 2015. Employees generally do not receive part of their salary in deferred shares and so deferred shares are not included in this calculation.

4 The actual number of shares awarded to CEO as part of deferred shares bonus was decreased from 91,687 shares in 2015 to 89,361 shares in 2016. The increase shown in the table reflects the increase in the share price.

DIRECTORS' REMUNERATION REPORT continued

2. Single total figure of remuneration continued

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

The table below sets out the remuneration received by each non-executive Director for the years ended 31 December 2015 and 31 December 2016.

Director	Year ⁴	Fees US\$'000	Cash bonus ¹ US\$'000	Taxable benefits ² US\$'000	Total remuneration US\$'000
Mamuka Khazaradze	2016	1,152	–	34	1,186
	2015	855	180	25	1,060
Badri Japaridze	2016	1,119	–	15	1,134
	2015	839	158	16	1,013
Nikoloz Enukidze	2016	140	–	–	140
	2015	107	–	–	107
Nicholas Haag	2016	125	–	–	125
	2015	100	–	–	100
Eric Rajendra	2016	133	–	–	133
	2015	88	–	–	88
Stefano Marsaglia	2016	109	–	–	109
	2015	75	–	–	75
Stephan Wilcke	2016	62	–	–	62
	2015	–	–	–	–
Irina Schmidt³	2016	82	–	–	82
	2015	99	–	–	99

1 In June 2015, JSC TBC Bank introduced a new compensation system based on EY's recommendation to ensure that the compensation system met the best practices applied by the premium listed companies. The new system eliminated the old practice of paying cash bonuses to the non-executive directors. The amount presented in the table was paid in accordance with the system operating before June 2015.

2 Taxable benefits comprise medical insurance, car, and security allowance.

3 Irina Schmidt resigned from the Board in June 2016 after the expiration of her appointment and was replaced by Stephan Wilcke.

4 The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2016 and the whole of 2015.

3. Remuneration of the top management of JSC TBC Bank

The table below summarizes the total remuneration earned by the top managers of the JSC TBC Bank for the financial years ended 31 December 2016 and 31 December 2015, except for the CEO and CFO (as their remuneration information is disclosed in section 1 of this report).

Director	Year ⁵	Base salary ¹ \$'000	Deferred share salary ² \$'000	Taxable benefits ³ \$'000	Deferred share bonus award ⁴ \$'000	Total remuneration \$'000
Total for the top managers excluding CEO and CFO	2016	1,385	1,278	7	4,523	7,193
	2015	1,116	785	4	3,028	4,933
Per Top manager excluding CEO and CFO (average per 6 members)	2016	231	213	1	754	1,199
	2015	186	131	1	505	823

1 Base salary paid in year for executive Directors. No fees were paid to executive Directors.

2 Deferred share salary comprises of TBCG shares granted in respect of service in the relevant year. The number of shares awarded as deferred share salary is linked to the Base salary. Deferred shares in relation to 2015 were awarded on 17 March 2016 and deferred shares in relation to 2016 were awarded on 28 March 2017. Deferred share salaries are subject to a condition of continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date, a further 10% vests on the second anniversary from award date and the final 80% of the award vests on the third anniversary from the award date. For the purposes of this table, the 2015 award has been valued using the market value of the shares on 17 March 2016 (US\$10) and grossed up for directors' income tax on share awards paid by the Company. The 2016 award has been valued using the market value of the shares on 28 March 2017 (GBP15 converted into USD using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/USD and 3.0794 for GEL/GBP on the same date) and grossed up for the directors' income tax on share awards paid by the Company.

3 Taxable benefits comprise medical insurance and company car allowances.

4 A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year. The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date, a further 10% vests on the second anniversary from the award date and the final 80% of the award vests on the third anniversary from the award date. Deferred shares in relation to 2015 were awarded on 17 March 2016 and deferred shares in relation to 2016 were awarded on 28 March 2017. For the purposes of this table, the 2015 award has been valued using the market value of the shares on 17 March 2016 (US\$10) and grossed up for directors' income tax on share awards paid by the Company. The 2016 award has been valued using the market value of the shares on 28 March 2017 (GBP15 converted into USD using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/USD and 3.0794 for GEL/GBP on the same date) and grossed up for the directors' income tax on share awards paid by the Company.

5 The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2016 and the whole of 2015.

4. Payments to past directors (audited)

There were no payments made to past directors relating to 2016.

5. Payments for loss of office (audited)

As mentioned above, Irina Schmidt's term as a non-executive Director of the Company ended in June 2016. Ms. Schmidt was paid her accrued fees up until her term expired but no payment for loss of office was made.

David Tsiklauri ceased to be a head of corporate banking of JSC TBC Bank, on 1 January 2017. As part of the arrangement on leaving the Bank, no payment was released to Mr. Tsiklauri.

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

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

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

	Entity	Shares held directly ¹	Number of unvested shares held ²	Total interests in shares ³
Mamuka Khazaradze	TBC Bank Group PLC	7,343,936	-	7,912,234
	JSC TBC Bank	-	-	-
	Total	7,343,936	-	7,912,234
Badri Japaridze	TBC Bank Group PLC	3,669,878	-	4,238,176
	JSC TBC Bank	-	-	-
	Total	3,669,878	-	4,238,176
Vakhtang Butskhrikidze	TBC Bank Group PLC	514,616	71,400	586,016
	JSC TBC Bank ⁴	7,755	179,102	186,857
	Total	522,371	250,502	772,873
Giorgi Shagidze	TBC Bank Group PLC	60,472	29,400	89,872
	JSC TBC Bank ⁴	3,148	83,283	86,431
	Total	63,620	112,683	176,303
Nikoloz Enukidze	TBC Bank Group PLC	10,000	-	10,000
	JSC TBC Bank	-	-	-
	Total	10,000	-	10,000
Stephan Wilcke	TBC Bank Group PLC	61,075	-	61,075
	JSC TBC Bank	-	-	-
	Total	61,075	-	61,075

1 This figure includes all shares held which are no longer subject to any vesting conditions or transfer restrictions and includes shares held by connected persons. The figure excludes the shares that are registered in the name of the director but are still subject to vesting conditions in accordance with the discretionary deferred share compensation scheme.

2 This figure includes shares that are still subject to conditions, including transfer restrictions, a continuous employment condition and malus and clawback provisions. The figure includes shares granted as discretionary 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 section 2.1, 2.2 and in the policy table at section 10.1.

3 Total interests in shares includes:

(a) Vested and unvested interests held directly and indirectly; and

(b) For the chairman and deputy chairman, an additional interest of 2.18% of the Company as of February 2017, as a result of a derivative instrument entered into with Malone LLC, the affiliated company of Georgian Co-Investment Fund. The instruments have been allocated to the chairman and deputy chairman equally.

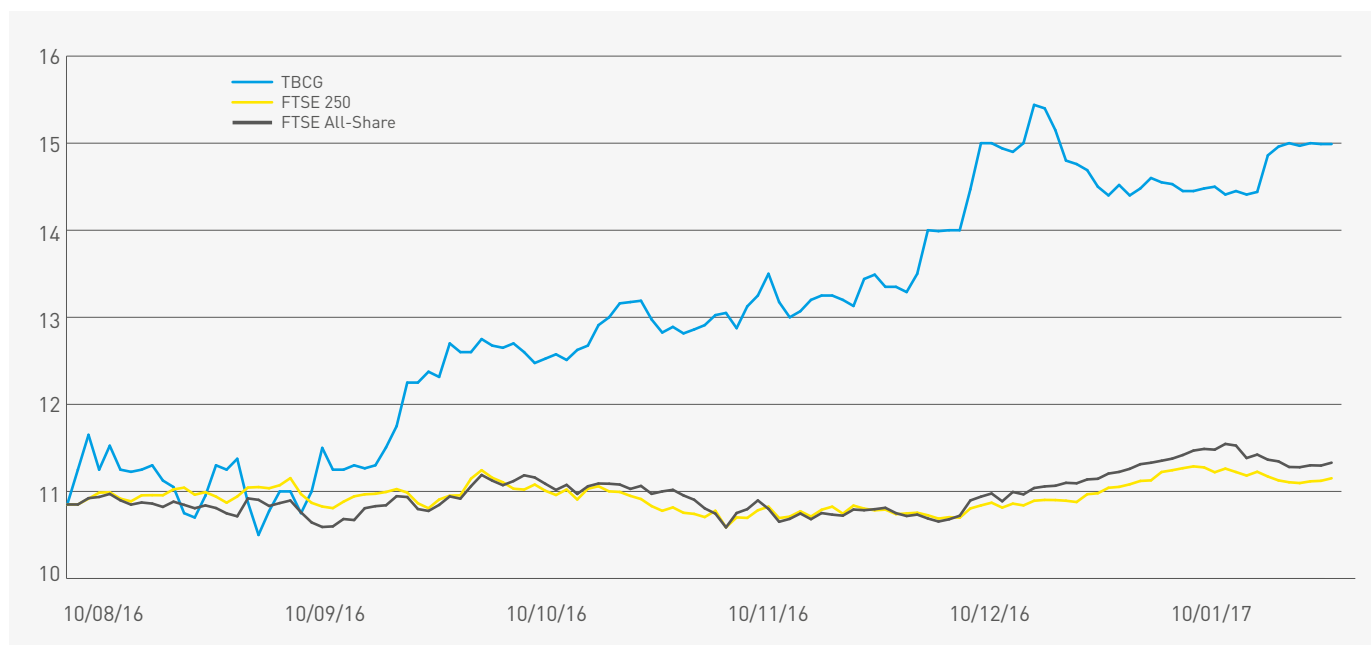
4 The shares held in the JSC TBC Bank were awarded to each of executive directors before the premium listing under the applicable compensation policy. Those shares were not exchanged for TBC Bank Group PLC shares due to temporary Georgian tax obligations. Executives intend to exchange those shares for Company shares following the expiration of associated tax obligations.

5 On 28 March 2017, the Company has granted share awards to Mr Butskhrikidze and Mr. Shagidze, under the share based payment scheme, in respect of the year ended 31 December 2016. Mr Butskhrikidze has been granted 106,983 shares and Mr. Shagidze has been granted 54,247 shares. These shares have a three year vesting period, with full vesting on 28 March 2020 subject to continuous employment and malus and clawback requirement. As at 31 March 2017, Mr Butskhrikidze held 267,400 unvested shares and Mr. Shagidze held 128,886 unvested shares. These have not been included in the above table. All figures in the table reflect the position as at 31 December 2016.

DIRECTORS' REMUNERATION REPORT continued

7. Performance: total shareholder return (TSR)

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 2016, 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 already included in the FTSE All-Share Index and is expected to be included in the FTSE 250 Index in the near future.



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
2016	3,017	85%
2015	1,809	87%

¹ Total remuneration includes base salary, deferred share salary and taxable benefits as described in the single total figure table and notes at section 2.1 above.

² For further details of the deferred share bonus please refer to section 2.2 above.

8. Relative importance of spend on pay

The following table illustrates the difference in spend on pay for all employees of the Group and the difference in dividends paid to the shareholders between 2016 and 2015. There has been a relatively large increase in dividends paid to shareholders because profit attributable to the shareholders of the Bank for the year ended 31 December 2015 has increased by 45% as compared to 2014.

	Year ended 31 December 2016 ³	Year ended 31 December 2015 ³	% change
Total spend on pay ¹ (US\$'000)	72,768	62,892	16%
Dividends paid to shareholders ² (US\$'000)	24,659	16,937	46%

¹ Total spend on pay includes total staff costs and is converted into US\$ using average US\$/GEL exchange rate for 2016 and 2015 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 2.2126 and GEL 2.3102 for 2016 and 2015 respectively.

³ The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2016 and the whole of 2015.

9. Policy Implementation in 2018

Remuneration scheme for executive Directors

The existing remuneration scheme for the executive Directors was developed with the support of external consultants and was implemented on 17 June 2015 covering the period of 2015 until the end of 2018. The Group worked with EY to review the existing remuneration scheme for executive Directors. The existing remuneration scheme will expire at the end of 2018 and the Company intends to prepare a new policy for the 2018 AGM, which, subject to shareholder approval, will be applicable from 1 January 2019.

Non-executive Director compensation

EY have also advised the Group on the non-executive Directors' compensation. Subject to shareholder approval, the Policy will take effect from 1 January 2018.

After considering the shareholders' feedback and best practice, the Remuneration Committee have decided to decrease aggregate compensation of the Chairman and Deputy Chairman by about 25%. The Remuneration Committee will continue to seek out shareholder feedback and undertake a benchmarking review of compensation practices when the current policy expires.

Introduction of the Policy for Companies Act 2006 purposes

Due to requirements associated with the Group's premium listing and to comply with Companies Act 2006 requirements, shareholders will be asked to specifically approve the Policy at the upcoming 2017 Annual General Meeting (with the new Policy coming into effect for Companies Act 2006 purposes from January 2018).

It is the Remuneration Committee's intention that the Policy remains unchanged for three years, except to the extent that it relates to the executive Directors' remuneration scheme which we intend to amend with effect from 2019. A revised Policy will be put to shareholder vote at the 2018 AGM.

For the avoidance of doubt, it is intended that any new remuneration scheme approved at the 2018 AGM will allow the existing remuneration scheme for the executive Directors to continue until 1 January 2019 with the new remuneration scheme for executive directors, as will be disclosed in the policy at the 2018 AGM, to take effect from then.

Pre-existing obligations

It is a provision of this Policy that the Group will uphold all pre-existing obligations and commitments that were agreed prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

Statement of implementation

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

DIRECTORS' REMUNERATION REPORT continued

9. Policy Implementation in 2018 continued

From January 2018, the following will apply:

Executive Directors

Base salary (cash and deferred shares)

The cash and deferred share salaries are set out in the executive Directors' service contracts. The Remuneration Committee reserves the right to agree changes to Base salary with the executive Directors but no change will exceed the maximum stated in the policy table below. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy.

Deferred share bonus

Performance measures and weightings:

The specific performance measures and weightings have not yet been set for the 2018 performance year. These will be set at the start of 2018 and will include:

- Corporate KPIs (likely to be weighted 62%); and
- Individual and discretionary KPIs (likely to be weighted 38%).

Performance targets:

Specific performance targets are considered commercially sensitive as they will give our competitors information about our budget and strategy. The targets will be accurately disclosed in the Company's 2019 annual report.

Non-Executive Directors

Fees

The fees paid to the non-executive Directors will be within the policy set out below. The Remuneration Committee reserves the right to agree changes to fees with the non-executive Directors but no change will exceed the maximum stated in the policy table below. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy.

10. Directors' Remuneration Policy

10.1 Remuneration policy for Chief Executive Director and Chief Financial Director:

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Salary – in the form of cash and deferred shares	<p>Salaries are determined based on market practice and to 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.</p> <p>Cash salary The cash part of the salary is aimed to address and provide for executives' day-to-day living expenses.</p> <p>Deferred share salary The deferred part of the salary is vested 10%/10%/80% over the period of three years respectively and is intended to promote the long-term success of the Group by closely aligning executive Directors' and shareholders' interests.</p> <p>Further, before vesting, the deferred shares are registered in the name of the participant and the participant has the right to receive dividends and to vote. The deferred shares, however, are subject to restrictions until they vest.</p>	<p>Both the Cash and deferred share salaries are paid in part under the executive Director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive Director's duties to each.</p> <p>Deferred share salary is paid under the executive Director's service contract with TBC JSC.</p> <p>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.</p> <p>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.</p> <p>By a decision of the Remuneration Committee, malus and clawback may be applied to all amounts of unvested deferred compensation, which would include the deferred share portion of salary.</p>	<p>Cash salary The maximum annual cash salary for Chief Executive Director is \$453,994.</p> <p>The maximum annual cash salary for Chief Financial Director is \$227,004.</p> <p>Deferred Share Salary The maximum number of shares for the Chief Executive Director under the deferred shares salary to be awarded per year is 17,622.</p> <p>The maximum number of shares for the Chief Financial Director under the deferred shares salary to be awarded per year is 8,811.</p> <p>These numbers include the salaries received from both JSC TBC Bank and TBC Bank Group PLC. The executives do not receive any additional salary from other Group entities.</p> <p>The maximum amount of base salary (including cash and deferred salary) is fixed in accordance with the service contracts of the current Directors.</p> <p>Salaries are reviewed 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.</p>	Not performance based.

DIRECTORS' REMUNERATION REPORT continued

10. Directors' Remuneration Policy continued

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Deferred share bonuses	<p>To provide a strong motivational tool to achieve KPIs and to provide rewards to the extent those KPIs are achieved.</p> <p>KPIs are chosen to align our executive Directors' interests with the strategic objectives of the Group.</p> <p>In addition, the awards will vest 10% at the end of the first year/10% at the end of the second year/ 80% at the end of the third year from the award date and are intended to promote the long-term success of the Group by closely aligning executive Directors' and shareholders' interests.</p> <p>Further, before vesting, shares are registered in the name of the participant and the participant has the right to receive dividends and to vote. The deferred shares, however, are subject to restrictions until they vest.</p>	<p>KPIs are set by the Remuneration Committee each year (see more detail below at 10.3(b)). To the extent that the KPIs are achieved, the Remuneration Committee may decide in its full discretion whether an award may be made and the amount of such award.</p> <p>The awards are discretionary in nature and the Group does not pay guaranteed bonuses to executive Directors.</p> <p>The KPIs are commercially sensitive and will be disclosed retrospectively in the annual report in the year following the award date.</p> <p>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.</p> <p>Further, if at any time after making a discretionary 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).</p> <p>The awards may be satisfied using either shares, cash or nil cost options.</p> <p>Vesting of the awards are subject to a continuous employment condition and the Group's malus and clawback policies and vest over a period of three years after the date of the award.</p>	<p>The maximum number of shares for the Chief Executive Director under the deferred shares bonuses to be awarded per year is 105,734.</p> <p>The maximum number of shares for the Chief Financial Director under the deferred shares bonus to be awarded per year is 52,867.</p> <p>In any case, the upper limit for the net variable compensation is 140% of net annual salary calculated with reference to the share price at the grant date, being the date when the current compensation system was introduced and grant date fair value was determined for accounting purposes.</p> <p>In addition, the bank pays income tax and other employee-related taxes related to the award.</p>	<p>The KPIs consist of corporate and in case of CFO individual performance measures such as underlying return on equity, profit before tax, cost of risk, IR activities, total loan market share, and non-financial long term focus measures such as customer experience and Human Resources eNPS.</p> <p>Individual performance measures may include individual strategic objectives which vary per person, and might include treasury operations results, cost management, non-performing loans ratio, metrics regarding brand, culture and control measures as well as fulfilment of strategic initiatives.</p> <p>For CFO, these measures are generally weighted 62% (corporate KPIs) and 38% (individual KPIs).</p> <p>The performance period is one year.</p> <p>The Remuneration Committee may decide to make no discretionary awards where KPIs have not been met.</p>

10. Directors' Remuneration Policy continued

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 calibre talent.	Benefits available to executive Directors consist of insurance (such as medical, life and disability insurance), physical examinations, tax gross ups, Directors' and officers' liability insurance, a car service, personal security arrangements and assistance with filling out tax returns, where required. Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts. A tax equalisation payment may be paid to an executive Director if any part of his remuneration becomes subject to double taxation.	The policy is framed by the nature of the benefits that the Remuneration Committee is willing to provide to executive Directors. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the executive Director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely. Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefits is significant.	Not performance based.

10.2 Individual arrangements

There are no individual arrangements other than those disclosed in this report.

10.3 Performance measures and targets

(a) Salary – deferred shares

Paying part of the executive Director's salary in shares is an important element of remuneration as it helps to align each individual's efforts with Company performance. As the executive Directors' shareholding will increase each year, we believe this is an effective tool to incentivise executive Directors to think about long term performance. There are no performance measures or conditions associated with salary – the salary is fixed at the outset in the executive Directors' service contracts.

(b) Deferred share bonus

Discretionary deferred share bonuses are awarded to reward past performance over the year and so there are no performance conditions between the grant of the award and vesting (or pay out). The awards vest over three years subject to a continuous employment condition.

The KPIs are set at the start of the financial year and reflect the executive Directors' required contribution to the Group's overall key strategic and financial objectives for that financial year. The Remuneration Committee's goal for each KPI is to establish a level of performance that is not certain to be attained, so that achieving or exceeding the targets requires diligent efforts by our executive Directors.

DIRECTORS' REMUNERATION REPORT continued

10. Directors' Remuneration Policy continued

10.3 Performance measures and targets continued

There are corporate and individual KPIs with corporate KPIs contributing most to determine executive compensation.

Each KPI has a threshold, target and maximum level and conditions to meet these levels. Targets for each corporate KPI are determined by the Remuneration Committee and are approved by the Board. Individual KPIs are approved by the Remuneration Committee based on the recommendations of the CEO.

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 receive their entire salary in cash and are also eligible to bonus compensation. However, JSC TBC Bank aims to pay 15-20% of their annual compensation in shares with the same vesting conditions as those of the executive members. All other employees within the Group receive cash salaries and may be eligible to receive cash bonuses. Executive Director and employee pay is studied and determined through the use of appropriate market data usually with input from a compensation consultant.

All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on a voluntary basis.

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.

Component	Purpose and Link to Strategy	Operation	Maximum Opportunity
Fees	<p>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.</p> <p>In addition, for the chairman and deputy chairman, the Group's remuneration policy reflects the importance and unique role each of them has within the Group.</p>	<p>The Group pays fees to non-executive Directors. The fees are determined by the Remuneration Committee and may include the following:</p> <ul style="list-style-type: none"> The annual fees for the chairman are US\$950,000 The annual fees for the deputy chairman are US\$800,000 The annual fees for acting as a non-executive Director (other than for chairman and deputy chairman) range between US\$84,375 - US\$94,553 The annual fees for acting as Senior Independent Director, in addition to the fees received for acting as a non-executive Director are US\$20,000 The annual fees for relevant committee memberships range between US\$10,882 - US\$11,250 The annual fees for committee chairman positions range between US\$27,206 - US\$28,125 <p>The ranges depend on tax residency status where the Company aims to ensure that the net compensation per each of the items above paid to the non-executive Directors are the same.</p> <p>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.</p> <p>Fees are generally paid monthly in cash. However, the Remuneration Committee reserves the right to pay the fees on a different basis.</p> <p>Fees are periodically reviewed 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.</p>	<p>The maximum annual fees that may be paid to the chairman and deputy chairman are US\$950,000 and US\$800,000 respectively.</p> <p>The maximum annual fee paid to the Senior Independent Director is US\$175,000.</p> <p>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.</p>

12. Policy table: non-executive Directors continued

Component	Purpose and Link to Strategy	Operation	Maximum Opportunity
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 and other subsistence expenses), Board/committee dinners and functions, Board training sessions, advice in respect of professional duties and corporate hospitality events (or the Group may pay such expenses directly). For the Chairman and Deputy Chairman, JSC TBC Bank provides insurance, company car service, pension and a security service for the Chairman only.	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.

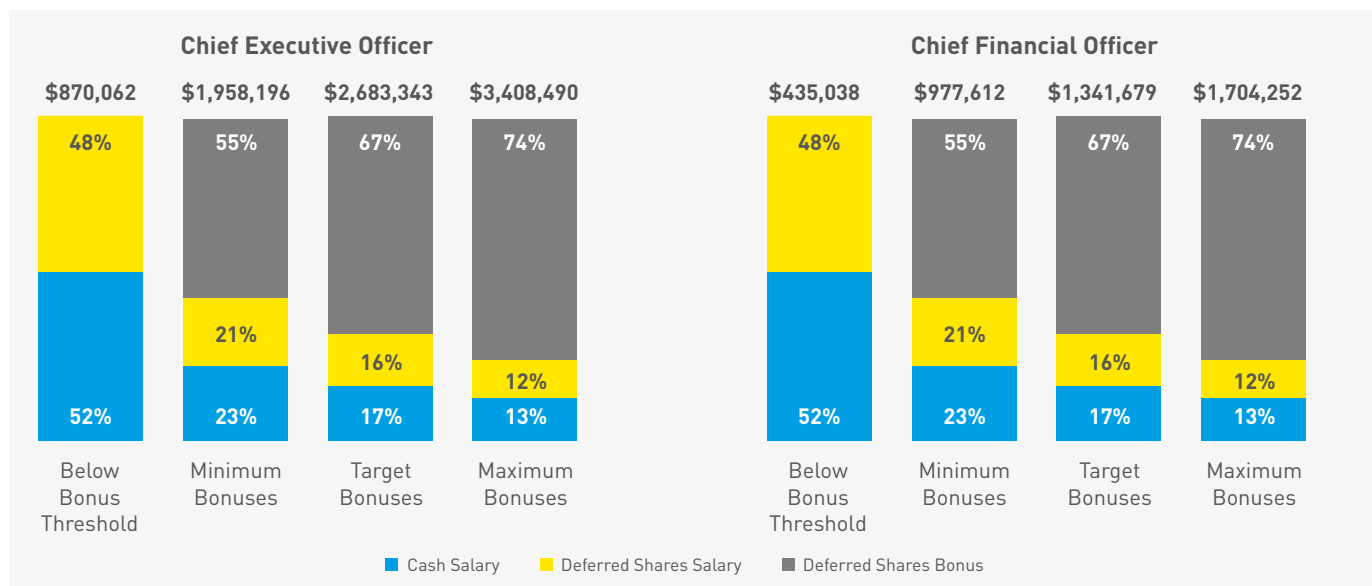
12.1 Non-executive Directors

Since non-executive Directors are not employees, they do not receive compensation or benefits reserved only for employees such as company paid/subsidised insurance or paid holiday. The non-executive Directors are not eligible for performance-based share awards. They do not currently receive pension or other equivalent benefits except for the chairman and deputy chairman who are compensated for and provided with car service expenses and pension. 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.

13. Illustration of application of the Remuneration Policy

The following graphs illustrate the levels of remuneration that each executive Director could earn in 2018 under the Policy.



1 Directors' compensation consists of cash salary, deferred share salary, benefits and deferred share bonus. Cash salary and deferred share salary are the same in each performance scenario. Projected deferred share salary has been valued using the market value of the shares on 28 March 2017 (GBP15 converted into USD using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/USD and 3.0794 for GEL/GBP on the same date). For the purpose of these charts, save for the tax gross up in relation to deferred share bonus awards which reflects the value of the award in each scenario, we have used the value of benefits for 2016 as we assume that benefits will be substantially the same. No pension contributions have been included in the performance scenarios as we assume no pension contributions will be paid.

2 The "below bonus threshold" chart reflects a scenario where KPI achievement falls below 60% and so no deferred share bonus would be awarded.

3 If KPIs are fulfilled at minimum, on target or maximum ranges the evaluation and subsequent bonus award will be 60%, 100% and 140% respectively.

4 Projected deferred share bonus awards have been valued using the market value of the shares on 28 March 2017 (GBP15 converted into USD using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/USD and 3.0794 for GEL/GBP on the same date). The value of deferred shares does not take into account any increase or decrease in share price over the vesting period.

14. Recruitment policy

The Remuneration Committee intends that the components of remuneration set out in the above policy tables, and the approach to those components as set out in the policy tables, will (subject to the remainder of this recruitment policy) be equally applicable to the annual package provided to new recruits, i.e. for executive Directors, salary (with cash and share components), discretionary deferred share bonuses, pension and employee benefits; for non-executive Directors, fees and relevant expenses.

For an internal appointment of an executive or non-executive Director, any pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate. In the year of promotion for an internal appointment, additional awards may be made to the individual within the maximums set out in the policy tables above.

Where it is necessary to make a recruitment-related award to an external candidate, the Group will not pay more than the Remuneration Committee considers necessary and will deliver any such awards in line with the existing Group policies (including maximum opportunities), except to the extent that the Remuneration Committee determines that it is appropriate to provide a "buy out" arrangement and/or to establish additional or particular arrangements specifically to facilitate the recruitment of the individual, in all the circumstances. Details of any recruitment-related awards will be appropriately disclosed and any arrangements would be made within the context of minimising the cost to the Group.

All such awards for external appointments will take account of the nature, timing and performance requirements for any remuneration relinquished by the individual when leaving a previous position, and will be appropriately discounted to ensure that the Group does not, in the view of the Remuneration Committee, over-pay. The Remuneration Committee will also consider the application of performance conditions and/or clawback provisions, as appropriate.

For the avoidance of doubt, where recruitment-related awards are intended to replace existing awards granted by a previous employer, the maximum amounts for incentive pay as stated in the policy table above will not apply to such awards. The Remuneration Committee has not placed a maximum limit on any such awards which it may be necessary to make as it is not considered to be in shareholders' interests to set any expectations for prospective candidates regarding such awards.

The Group may make a contribution towards legal fees in connection with agreeing employment terms. The Group may also agree to pay certain expenses and taxes should an executive Director be asked to relocate to a different country, such that the executive Director pays no more than would have been required in the home location.

15. Policy on payments for loss of office

The following paragraphs describe the Group's general policy on payments for loss of office. Section 15.2 sets out the policy for payments on termination of Mr Butskhrikidze's and Mr Shagidze's service contracts.

Any compensation payable in the event that the employment of an executive Director is terminated will be determined in accordance with the terms of any service contract between the Group and the executive, as well as the relevant rules governing outstanding deferred share awards and this Policy.

The Remuneration Committee will take all relevant factors into account when considering leaving arrangements for an executive Director and exercising any discretion it has in this regard with the aim to ensure they are fair and reasonable, including (but not limited to) individual and business performance during the executive Director's office, the reason for leaving, any other relevant circumstances (for example, ill health, disability, death and retirement) and the local context. The Remuneration Committee will exercise its absolute discretion to determine whether such terms should be included in any new service contract.

In addition to any payment that the Remuneration Committee may decide to make, the Remuneration Committee reserves discretion as it considers appropriate to:

- Continue benefits beyond the date of termination;
- Pay for relocation to previous location, where applicable;
- Make payments in lieu of notice;
- Accelerate the vesting of equity awards;
- Make a severance payment; and/or
- Pay for out placement services and/or legal fees.

Generally, the Group would require a non-compete and confidentiality agreement from the departing executive Director to protect the interests of the Group.

15.1 Notice periods

Notice periods are set out in the executive Director's service contracts. Generally speaking, either party may terminate the service contract by giving the other party not less than seven months' notice and the Group will reserve the right to terminate without notice in certain circumstances. Notice periods will be reviewed by the Board and the Remuneration Committee when contracts are due for renewal with consideration given to business continuity and potential candidates in the market, amongst other factors.

15.2 Service contracts – executive Directors

The service contracts of executive Directors may contain tailored terms which allow for termination payments to be paid if the executive Director's employment is terminated under certain circumstances, such as following a corporate change, a change in control, involuntary termination, termination without cause, for "good leaver" reasons (including) death or disability, each as defined in the applicable executive Director's service contract. Details of such terms contained in the current executive Directors' service contracts are described below¹:

(a) Service contracts of the Group's current executive Directors

Service contracts with TBC PLC

On 12 May 2016, TBC PLC entered into a service agreement with Vakhtang Butskhrikidze. The service agreement can be terminated by either party giving to the other party not less than seven months' written notice. In addition, TBC PLC may terminate the service agreement without notice or pay in lieu of notice for cause (as defined in the service contract). The service contract contains non-compete and confidentiality provisions and is governed by English law.

On 12 May 2016, TBC PLC entered into a service agreement with Giorgi Shagidze. TBC PLC will also reimburse the CFO for all reasonable business expenses properly incurred and paid by him. The service agreement can be terminated by either party giving to the other party not less than seven months' written notice. In addition, TBC PLC may

¹ The executive Directors' service contracts and non-executive Directors' letters of appointment are also available for inspection at TBC PLC's registered office.

terminate the service agreement without notice or pay in lieu of notice for cause. The service agreement contains non-compete and confidentiality provisions and is governed by English law.

Service contracts with TBC JSC

Vakhtang Butskhrikidze and Giorgi Shagidze also serve as CEO and deputy CEO (CFO) of TBC JSC, respectively. Although it is not strictly required under UK law, we have described the service contracts that the Group's executive Directors have with TBC JSC below for completeness.

In 1995, TBC JSC entered into a service agreement with Vakhtang Butskhrikidze. The current service agreement provides for Mr. Butskhrikidze to act as CEO of TBC JSC. The service agreement contains non-compete and confidentiality provisions and is governed by Georgian law.

In 2010, TBC JSC entered into a service agreement with Giorgi Shagidze. The current service agreement provides for Mr. Shagidze to act as deputy CEO (CFO) of TBC JSC. The service agreement contains non-compete and confidentiality provisions and is governed by Georgian law.

In September 2016, Vakhtang Butskhrikidze and Giorgi Shagidze were appointed to the Supervisory Board of TBC JSC.

Vesting and lapse of awards

The following table sets out the details of the shareholdings for the chief executive Director and chief financial Director of the Group.

Holder	Number of Shares Held			Unvested	Vested
	TBC Bank Group PLC	JSC TBC Bank ¹	Total		
Vakhtang Butskhrikidze	586,016	186,857	772,873	250,502	522,371
Giorgi Shagidze	89,872	86,431	176,303	112,683	63,621

¹ The shares held in JSC TBC Bank were awarded to each executive Director before the premium listing under the applicable compensation policy. Those shares were not exchanged for Company shares due to temporary Georgian tax obligations. The executive Directors intend to exchange those shares with Company shares following the expiration of the tax obligations.

If an executive Director ceases to be employed by any Group company at his/her sole decision before the service contract expires or if the executive Director leaves for a bad leaver reason, the executive Director must return all bonus shares awarded for which the continuous employment condition has not been met (or as directed by the Company) and/or any nil cost options awarded will lapse. Depending on the circumstances, the Remuneration Committee may, at its sole discretion and with regard to any recommendation made by the CEO of the Company (as applicable), allow the executive Director to partially or fully retain such bonus shares.

If the executive Director is determined by the Remuneration Committee to be a good leaver, the executive Director is entitled to receive any award of deferred salary and deferred bonus shares on its initial terms notwithstanding the partial fulfilment of any KPIs due to the dismissal, time pro rated for the amount of the performance period elapsed. All other bonus and salary shares and/or nil cost options will continue to vest on their initial terms.

If, during the three years after the dismissal of the executive Director as a good leaver, it is established that the executive Director was a bad leaver, the provisions applicable to bad leavers will apply.

(b) Letters of appointment – non-executive Directors

Each non-executive Director is required to submit himself or herself for annual re-election at the Annual General Meeting. The letters of appointment with the Group for each non-executive Director are effective from 2016. The letters of appointment provide for a one month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the non-executive Director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Group or him/herself into disrepute or is disqualified as acting as a non-executive Director, among other circumstances. Upon termination, the only remuneration a non-executive Director is entitled to is accrued fees as at the date of termination, together with reimbursement of properly incurred expenses incurred prior to the termination date.

16. Legacy arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above, where the terms of that payment were agreed before the Policy came into effect (including, without limitation, pursuant to awards granted before the Policy came into effect), or before the individual became a director of the Group (provided the payment was not in consideration for the individual becoming a director). In addition, the policy tables shall not have the effect of limiting any payment to a new recruit made under the recruitment policy set out in section 14 above.

17. Consideration of shareholder views

The current policy takes into account shareholder feedback regarding the remuneration of the Board. Shareholder input has been key to designing the remuneration policy as described above. We have established a practice to meet with the shareholders on this matter and request their feedback, which will continue in the future. The Remuneration Committee remains mindful of shareholder views when evaluating and setting ongoing remuneration strategy.

18. Consideration of employment conditions within the Group

In accordance with prevailing commercial practice, the Remuneration Committee evaluates the compensation and conditions of employees of the Group in determining the Policy with respect to executive Directors. The Remuneration Committee may engage external advisors to assist in analysing remuneration in the Group. Each year the Remuneration Committee approves the overall percentage pay out for compensation and material changes to employee benefit plans. Consistent with practice in the industry in which the Group operates, it is not the Group's policy to consult with staff on the pay of its Directors.

19. Minor changes

The Remuneration Committee may make, without the need for shareholder approval, minor amendments to the Policy for regulatory, exchange control, tax or administrative purposes or to take account of changes in legislation.

AUDIT COMMITTEE REPORT

CHAIRMAN'S LETTER



Dear Shareholders,

I am pleased to present the Company's first Audit Committee report. This Committee was established as part of our process of creating a holding company and listing our shares on the premium segment of the London Stock Exchange. It continues the work undertaken in past years by the Audit Committee of the Bank, and its composition and terms of reference (available on the Group's website at www.tcbankgroup.com) remain largely unchanged albeit marginally expanded and enhanced. I welcome the addition of Mr Stephan Wilcke to the Committee. He brings valuable experience from his work as the CEO of the Asset Protection Agency of Her Majesty's Treasury and executive chairman of a large stock market listed UK specialist bank.

Our activities focus on the scrutiny and integrity of the Group's financial reporting and processes. The Audit Committee also provides a forum for discussion with the Group's external auditors and internal assurance functions.

The Committee, and myself as a chairman, are acutely conscious of the extra responsibility that we now bear as a company subject to the highest standards of governance and disclosure, requirements as both a UK public limited company and a premium listed company on the London Stock Exchange, as well as being the biggest bank in Georgia by assets.

Whilst economic conditions in Georgia remained broadly favourable during 2016 despite some internal and external volatility, as a Committee we have paid even more attention than previously to calibrating the appropriate level of caution and realism in terms of assessing any provisions and impairments of the Bank's loan portfolio, as well as optimising control functions and oversight within the fast-expanding Bank. We have also devoted considerable attention to preparing the Company for the adoption of IFRS9 from 2018 and anticipating the accounting implications of evolving Georgian regulations (for example, in relation to deferred taxation). We continue to focus on IT issues that potentially impact reporting risk and might also create operational risk hazards. We are doing everything we can to monitor and counter these evolving risks, particularly in the cyber security domain.

The exciting acquisition of Bank Republic and other assets in 2016 have created important commercial opportunities for us but also need 'bedding down' within the Company's financial reporting and control infrastructure. We believe that all appropriate steps have been taken by management to help to mitigate key risks arising, and to facilitate seamless integration.

I invite you to read about the results of these and the other main activities of the Committee in the report below.

A handwritten signature in black ink, appearing to read 'N Haag'.

Nicholas Haag
Chairman of the Audit Committee
31 March 2017

Committee structure and role

Since the incorporation of TBC Bank Group PLC (the “Company”), the Audit Committee of JSC TBC Bank (the “Bank”) is now constituted within the Audit Committee of the Company and continues to perform its important pre-existing function within the Bank. There are, therefore, in practice two separate but connected Audit Committees for both the Company and the Bank with common membership. We have sought to balance the work of the two committees, dividing functions according to whether they are supervising topics that impact (e.g. by regulation) the Company or solely the Bank. In practice, we regard both Audit Committees as complementary and somewhat fungible and both are focused on optimising governance of the Company and the Group as a whole. Nevertheless, we will ensure that particular resolutions are passed by the appropriate Committee and that there is as little duplication as possible and no gaps in overall scrutiny.

The Audit Committees of the Company and the Bank hold delegated authority from the Board and the Supervisory Board of the Bank, respectively, and together have multiple areas of responsibility and focus. Their first priority is to review the implementation of the Group’s key accounting and reporting policies and procedures, ensuring the integrity, accuracy and full disclosure of the Group’s financial reporting, concentrating on the areas of reporting risk and supervising the proper interpretation of accounting rules. Secondly, they oversee the Bank’s systems of internal control in relation to financial reporting, fraud and compliance with prevailing laws and regulations, and evaluate management’s competence in this task. The Committees place significant reliance on Internal Audit (see below) to provide an objective and professionally sceptical view of how the Bank is handling a number of key reporting and record-keeping tasks. The Committees also make recommendations on the appointment and remuneration of external auditors and seek to maximise the value of the external audit relationship.

In relation to the risk assessment function, the Group has a separate Board-level Risk, Ethics and Compliance Committee, which is chaired by Nikoloz Enukidze. We have analysed the merits and de-merits of combining the Audit Committee and the Risk, Ethics and Compliance Committee, which together assess the Group’s internal controls, risk management, compliance and governance functions. Please see pages 46 to 55 for a description of the Company’s risk management framework and pages 106 to 107 for the Risk, Ethics and Compliance Committee Report.

Whilst there are synergies between the work of both Committees, which is directed towards the mitigation of risk in its many forms, and they share many of the same complex issues of judgement and policy, we have concluded that, as a substantial financial institution, there is a clear benefit in preserving a separate independent Audit Committee, and a strong Risk, Ethics and Compliance Committee. Alongside their complementary responsibilities the Audit Committee is more attuned to systems of internal control and financial reporting, and the Risk, Ethics and Compliance Committee to ongoing credit and other market risks.

There are certain areas of overlap (e.g. in relation to operational risk and compliance) but we ensure that both Committees have defined responsibilities, there is minimal duplication and that nothing ‘falls between stools’ due to an overlap in membership for the majority of members of both Committees, including their respective chairmen. For example, in the past year, both the Audit Committee and the Risk,

Ethics and Compliance Committee collaborated closely and seamlessly on preparation for implementation of the new IFRS9 accounting standard with the latter (alongside the chief risk officer) leading the project, but with Audit Committee being satisfied at every stage with the implicit integrity of the financial reporting process and with the head of Internal Audit also being closely involved.

As described above, the Group now differentiates between respective Committee meetings for the Company and the Bank. Given the importance of the Board staying ‘close to the business’ and the logistics of meeting with a range of middle management personnel based in Tbilisi, Georgia, who are involved in financial reporting and controls, we will ensure that the Bank’s Audit Committee holds quarterly meetings in Tbilisi in addition to the rota of meetings of the Company’s Audit Committee which will take place in London. Thus, the Audit Committee of the Company and the Bank will, in aggregate, meet more frequently than in the past. Whilst adding to the workload of the Audit Committees, we believe that this will help to ensure an appropriate level and frequency of supervision.

The Audit Committee has adequate administrative resources from the Group’s and Board Secretariat and receives sufficient and timely materials from management both proactively and where we make additional information requests. The lines of communication with management are open with candid and continual dialogue taking place in between the Board meetings.

Committee composition, expertise and independence

At the end of 2016, The Audit Committee of the Company comprised five non-executive Directors: Nicolas Dominic Haag (chairman), Eric J.Rajendra, Stephan Wilcke, Nikoloz Enukidze and Stefano Marsaglia. All have been deemed as independent under the UK Corporate Governance Code, which is applicable to companies listed on the premium segment of the LSE. During the course of 2016, and with the recommendation of the Corporate Governance and Nominations Committee, we are pleased to have added Mr Stephan Wilcke as a fifth member of our team. Mr Wilcke brings a wealth of experience to the Audit Committee, having served on the boards of other UK and foreign financial institutions and having been chief executive of the Asset Protection Agency, an executive arm of the UK Treasury. Mr Nikoloz Enukidze continues to serve on the Audit Committee alongside his new role as the senior independent Director of the Company, lending further weight to the Audit Committee. We believe that the Audit Committee and its members continue to exercise fully independent judgment in all matters related to its functions. We continue to review, in collaboration with the Corporate Governance and Nominations Committee, suitable medium-term succession plans for the Audit Committee, as for all Committees of the Board.

All current members of the Audit Committee (see biographies on pages 97-99 of the Annual Report) are financially literate and possess a detailed understanding of the financial sector and corporate finance matters, with backgrounds primarily in banking. Most have served on (or chaired) other banks’ audit and risk committees. The Audit Committee, therefore, has sufficient recent and relevant expertise, in particular of the financial services industry, to operate effectively and it calls upon other expert internal and external resources as and when required. Appropriate training is available to members of the Audit Committee and has recently included professional updates by external specialists on both applicable or prospective accounting regulations (for example, IFRS9) and on relevant developments in corporate reporting and regulation.

AUDIT COMMITTEE REPORT continued

The Audit Committee is acutely aware of the highest standards expected of disclosure, record-keeping and controls associated with the Company's listing on the premium segment of the LSE and recent acquisition of JSC Bank Republic, which led the Bank to become the biggest bank in Georgia by assets¹. We will continue to work to ensure these standards are fully met and maintained.

Committee meetings

The Audit Committee of the Bank met formally in person in each quarter of 2016 (March, June, September and December), in accordance with the Bank's quarterly financial reporting cycle and the cycle of Supervisory Board meetings. In October, we held the first meeting of our newly constituted Audit Committee of the Company. There were regular interim meetings, mostly around planned releases of financial data, as well as ad hoc meetings (normally minuted) and other communications between members, often with Internal Audit, external auditors and management involved.

The attendance of members at the Committee meetings during the year at the Company and the Bank levels are set out in the Directors' Governance statement on pages 90 to 91. Minuted Committee meetings generally took place on the day prior to Supervisory Board meetings of the Bank. The Audit Committee of the Bank always delivers a formal report as a major agenda item at appropriate meetings of the Bank's Board, this also being minuted and typically followed by a constructive discussion with the Bank's Chief Executive Officer on topics raised in our verbal report with sometimes specific follow-up action points endorsed by the Chairman of the Bank's Board.

The Audit Committee of the Bank frequently met without attendance from the management. In addition, the Bank's Chief Executive Officer, Chief Financial Officer, chief risk officer, chief information officer, deputy Chief Executive Officers of retail, SME and micro business, and other Management Board members were often invited to participate in relevant parts of our Audit Committee meetings of the Bank together routinely with the head of Internal Audit. In general, the Audit Committee of the Company seeks to have formal meetings every quarter with at least one member of the Board responsible for a particular line of business so as to seek feedback, for example, on any control or other issues that may have been highlighted by a recent Internal Audit report. This also allows the Audit Committee of the Company to impress upon senior management the importance of minimising deficiencies and remedying any that do occur, thus raising the visibility of control issues and the accountability of senior executives.

In 2016, there were no significant or enduring areas of difference of opinion between the Audit Committees of the Company and the Bank and senior management, or between the Audit Committees and the full board of the Company or the Bank, respectively. Feedback from external and internal auditors confirms the Audit Committee's own judgment of the quality of management's ongoing contribution and of the materials with which we are provided in our supervisory capacity.

Audit Committee effectiveness

The terms of reference for the Audit Committee of the Company were approved by the Board in May 2016. The documents is available on TBC Bank's website at www.tbcbankgroup.com. The Audit Committee Policy of the Bank was updated in March 2017 and approved by the Supervisory Board of the Bank in the same month. In January 2017, the Audit Committee of the Company conducted an Effectiveness Self-Review using an extensive and customised questionnaire, drawing on international best practice recommendations from an external adviser. In addition, the Board included in its wider self-assessment certain questions relating to the efficacy of the Audit Committee. 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 policy and terms of reference. Our objective is not only to oversee relevant functions in the Group but also to establish an appropriate 'tone at the top' for the organisation.

¹ According to the NBG data as of 31 December 2016

Economic environment

As mentioned above, the Bank is now the biggest bank in Georgia by assets¹. Our business is overwhelmingly tied to the performance of the Georgian economy which, in turn, depends to a significant extent on the economic health of the country's international trading partners, some of whom have suffered economic weakness in recent times triggered by falling commodity prices and geopolitical turbulence. The Audit Committee, similarly to the Risk, Ethics and Compliance Committee, tracks closely on a weekly basis relevant economic data. Currently, the Georgian economy remains in a relatively solid pattern in relation to GDP, the International Monetary Fund predicting growth to be in the range of 4% over 2017; its performance in 2016 demonstrated 2.7% growth, despite temporary uncertainty caused by the October parliamentary elections and volatility in the region. There is a wider encouragement in the recent recovery of many global commodity prices, benefiting some of Georgia's trading relations. In Russia, for example, the economy appears to be slowly stabilising. The Audit Committee will seek to ensure that any unexpected deterioration in the Georgian economy will lead to extra attention on our part in relation to financial controls and reporting risk. Any challenging economic context potentially raises the financial and operational risks within the Bank and these are being closely monitored.

Release of financial statements

The Audit Committee remains more vigilant than ever in seeking, with the help of external and internal auditors as well as management, to ensure the accuracy of our financial releases and internal records. Since the Bank's listing of Global Depository Receipts ("GDRs") on the LSE in 2014, the Audit Committee of the Bank has assumed the role of comprehensively pre-vetting all audited and auditor-reviewed financial releases. Accordingly, the Audit Committee of the Bank reviewed during 2016 the releases of half-year and full-year financial statements, making recommendations to the Board of the Bank to approve these. The Committee also had pre-release sight of the third quarter results and held discussions with management about each of these releases, typically with a multi-stage drafting, review and approval process. The Audit Committee of the Company has now assumed this role on behalf of the Company. We have reviewed all data and narrative comment and concluded that the Annual Report and full-year financial statements are complete, clear, fair, balanced, understandable and consistent with the Audit Committee's understanding of the facts, and provide the information necessary for shareholders to assess the Group's performance, business model and strategy. Likewise, we have considered and are satisfied with transparency on the Bank's liquidity and capital adequacy statements. We have extended the remit of Internal Audit, which now undertakes its own assessment of financial and regulatory reporting to give the Audit Committee (and management) further assurance on the integrity of our reported numbers.

External audit planning and areas of Committee focus

The Audit Committee of the Bank held multiple audit planning meetings with PricewaterhouseCoopers LLP ("PwC") in 2016, commencing this process in the middle of the year. The Audit Committee of the Bank had the opportunity (without involvement of management) to highlight areas it wished the external audit to focus on, flagging relevant concerns and trends. The Audit Committee of the Bank has evolved towards a policy of regular quarterly face-to-face status discussions with PwC as part of its formal Committee meeting agendas, proactively and mutually addressing any material audit or control issues. PwC has started to attend (in part) not only the Audit Committee meetings of the Bank but also meetings of the Supervisory Board of the Bank, and will now participate in meetings of the Board of the Company. In addition, as chairman of the Audit Committee of the Bank, Nicholas Haag also has regular, candid and free-form private communications with PwC between Audit Committee and Board meetings. Given the new corporate structure with the Company as the holding company of the Bank, the Audit Committee of the Bank now benefits from both the London and Tbilisi practices of PwC being fully involved in the audit process. We enjoy ready access to the Company's audit engagement partner, who is based in London where several members of the Audit Committee of the Bank and of the Company, including Nicholas Haag, are also based. We consider that this 'double coverage' by PwC brings an extra level of review to the Group's financial and risk-management status, as did the scrutiny involved by multiple advisers during the recent process for the Company's listing on the premium segment of the LSE and prospectus disclosure.

In addition to agreeing the 2016 financial statements, we have received from PwC their year-end report highlighting key judgments made by management and a notification of any uncorrected misstatements. Given the expansion of the Group in 2016, we agreed with PwC an overall group audit materiality sum of GEL 15.8 million or 5% of actual profit before tax, which we regard as appropriate.

In planning meetings held between the Audit Committee of the Company and PwC, the focus was on a number of important topics, including the implications of the Company being incorporated into the corporate structure; the significant audit risks on the Group year-end audit process, and the timing and optimal means of completing the 2016 year-end audit of Bank Republic. We have also discussed with PwC the business combination, fair value and purchase price accounting issues around Bank Republic, and to a lesser extent in relation to the much smaller acquisitions of selected assets and liabilities of JSC Progress Bank, and of JSC Insurance Company Kopenbur that we announced in September and October 2016, respectively. We have scrutinised the review of key assumptions used in the valuation of assets, including intangible assets; the key judgment has been in the determination of the estimated recoverable amount and suitability of impairment models. We commissioned an external professional adviser to assist us in this analysis for Bank Republic and shared their findings with PwC. We are, therefore, confident that our financial statements comply with all relevant disclosure requirements, including IFRS.

¹ According to the NBS data as of 31 December 2016

Other areas of Audit Committee focus

As usual we have assessed the reasonableness and appropriateness of all critical accounting estimates and judgements in applying accounting policies. Aside from the impact of the various acquisitions noted above, the main area of accounting judgement involved the valuation of loans and guarantees issued, and related provisions for impairment see also below. The valuation of premises and investment properties and net realisable value of other repossessed collateral remains a focus area.

Provisions and impairments

In terms of loan provisions, we have communicated with PwC during their audit of the current provisioning methodology used by the Bank, challenging these assumptions and examining individual (mostly corporate loan exposures) on the non-performing and 'watch' lists. Together, we have confirmed the completeness of this watch list. We note this tends to be stable in composition without frequent additions that would indicate a deteriorating book or poor 'capture' of problem loans. We have also sought to use our judgement to back-test the reliability of the Bank's previous impairment assumptions, which we have found to be generally conservative versus observed reality, partly because the Georgian economic climate has proven to be more resilient than earlier Bank assumptions. The Audit Committee, benefiting from work streams led by the Risk, Ethics and Compliance 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. Given the very challenging macro situation in Azerbaijan, the Committee has paid close attention to the portfolio quality of TBC Kredit, our Azeri subsidiary. As previously reported, there was a technical breach throughout 2016 by TBC Kredit of certain borrowing covenants due to the extreme depreciation of the Azeri manat. This breach was cured by subsequent covenant waivers.

Clearly, one of the biggest factors impacting and also reflecting the Georgian economy is the stability of the local currency. We have seen material depreciation in the currency versus the US Dollar over the course of 2016, although GEL has performed better in comparison with the nominal effective exchange rate ("NEER") of a basket of currencies for the country's main trading partners. A total of 66.2% of the Bank's loan book is denominated in US Dollars.

Readiness for IFRS9

As part of its continuous monitoring of the Group's credit risk, in 2015, the Audit Committee was involved in review of the update of the Bank's provisioning policy and definition of non-performing loans under IAS39. The Audit Committee is confident that the updated policy is more granular in assessing impairments of the loan portfolio than the previous version, benefiting from closer analysis of the characteristics of different loan segments, the introduction of new risk parameters (calculated over three years of historic default, recovery and survival data) and more detailed interpretation of historic risk-migration patterns for different overdue loan maturities. The Bank also moved to a revised and more market-typical definition of non-performing loans as loans 90 days+ past due or with well-defined weaknesses. The Audit Committee believes that this definition is more meaningful and also slightly more conservative than the one the Bank previously used.

The Audit Committee is satisfied based on its own review and questions posed to the finance and risk teams and conversations with external auditors, that our published financial statements present an accurate picture of the credit status of the Bank's loan portfolio.

In 2017, the Committee's focus will shift towards the implementation of IFRS9 from January 1, 2018. This is a complex project, launched by the Group in the middle of 2016, given the new standard moving to an expected loss model and widening the scope of assets which are subject to potential impairment. The Group has commissioned an external firm of specialists to assist us. We have already completed a comprehensive diagnostic phase including gap analysis and have a clear roadmap for this project, including the use of specific IT tools. The Audit Committee is confident that the Group will have in place an appropriate new methodology and systems, including for Bank Republic's existing assets, and during the course of the second half of 2017 will make a parallel run (i.e. IFRS9 as against IAS39) with suitable back-testing of new models and close dialogue with the National Bank of Georgia. The models will be validated by an additional external technical consultant as well as reviewed by the Audit Committee and Internal Audit. We hope to be in a position as soon as possible to guide investors and other key constituencies on these important changes and what they may mean for the Group's financial outlook. We anticipate that the Bank's provisioning policies described above will enhance the already robust approach to credit risk for our business model.

Deferred tax

Another particular focus area of the Audit Committee has been the derecognition of deferred tax balances under Georgian changes in tax regulation. In June 2016, the Georgian parliament passed a new law fiscally to incentivise the reinvestment of corporate profits. Whilst this law will come into effect for the banking sector from January 2019, it has a more immediate impact on deferred tax calculations. In the Group's results for Q2 2016 we recognised one-off income of GEL 17.9 million and one additional increase of equity of GEL 10.5 million. In addition, this potentially tax-free reinvestment of profits is likely to have a positive effect on lowering the Group's future effective tax rate by several percentage points starting from 2019.

External audit tender assessment and reappointment

The Audit Committee of the Company is responsible for the assessment of the performance, objectivity and independence of the external auditor and the delivery of a quality audit. Each year, the Audit Committee is required to consider the reappointment of the auditors, the suitability of the lead engagement partner, as well as the wider audit team and the remuneration and terms of engagement for the chosen auditor.

PwC has been the Group's external auditor since 2008, and 2016 has been the ninth year in which PwC has audited the Bank and now the Company. Consequently, the Audit Committee had extensive discussions in 2016 regarding the merits of conducting an external audit tender under the UK implementation of the EU Audit Regulations for Public Interest Entities (the "EU Regulation"). Given the Group's recent incorporation of the Company and its premium listing, the audit rotation rules permit the ten-year "audit clock" for the mandatory tendering of the Group audit to be re-set to start in 2016, obviating any requirement for a mandatory audit tender in the foreseeable future. However, taking into account the realities of the Group's structure prior to the incorporation of the Company and the duration of our relationship with PwC, the Audit Committee evaluated whether there would be a case nonetheless to initiate an audit tender. The Audit Committee considered that it would be potentially distracting to change auditor so soon after the Company's listing on the premium segment of the LSE and given the extra workload created by the ongoing merger with Bank Republic.

Consequently, we have resolved to defer any decision whether to hold an audit tender. Therefore, we expect that, subject to the finalisation of suitable contract terms, PwC will remain the Group's auditor for the time being. In addition, we have the safeguard of a newly appointed lead engagement partner for the year end 2016, who is new to the Company's audit and a senior audit partner based in PwC's UK practice. Furthermore, the previous lead engagement partner under the Group's structure prior to the incorporation of the Company, having been in this capacity since 2011, is rotating out after 2016. We thank him for his work over many years. The new Group partner for the Bank audit is an experienced financial services audit partner based in Warsaw, Poland, with the wider engagement team being located in Tbilisi, Georgia. The existing Quality Review Partner for the audit of the Bank will remain in place, providing good familiarity with the Bank, which will help to smooth the transition.

We would, however, note that in the event of the Group's achieving FTSE 350 status, the Company might be bound, under the UK Competition and Markets Authority ("CMA") rules on statutory audits for large companies, to put its audit out to tender, in spite of the new Group structure following listing of the Company having re-set the ten-year audit clock. The Audit Committee will take this eventuality, or the probability of its occurring, into consideration and seek CMA guidance when deciding whether and when to launch an audit tender.

We have agreed the fee quote from PwC for the 2016 year-end audit with which the Audit Committee is comfortable. It is a higher figure than for 2015 reflecting the expanded Group size and audit scope, the new Group structure after incorporation of the Company, and also the impact of the steep fall in the local Azeri manat currency in relation to the audit cost for TBC Kredit.

External audit independence and provision of non-audit services

The Audit Committee is rigorous in ensuring that we vet all non-audit assignments to PwC to ensure the proper independence of judgement of our external auditor. The Audit Committee and management are in agreement that we should look to other providers for non-audit services where they offer an economically and professionally equivalent alternative. We will typically use our external auditor only where such non-audit services are required by legislation to be undertaken by the incumbent auditor or where the service is a 'by-product' of the audit process. The Policy for Provision of Non-Audit Services by the External Auditor of the Bank adopted by the Board in 2015 formally introduced new rules on the engagement and remuneration of the Bank's external auditor in relation to the provision of non-audit services. This policy has been refreshed and replicated in 2016 for the Company. Essentially, all such engagements are first recommended by the Chief Financial Officer and must be pre-cleared with the Audit Committee. We will only use PwC for non-audit services where there is either a clear synergy with PwC's audit role, or where PwC offers superior competence or materially better commercial terms. We have removed any allowable derogation from this rule.

However, 2016 was a rather exceptional year in terms of the provision of professional services, including accounting fees, due to the Company's listing on the premium segment of the LSE and the acquisition events. Approximately US\$2.9 million of fees were paid out to several accountancy firms of which only about 25% related directly to audit work. As regarding the 75% of non-audit services, approximately 79% of this sum was mandated to PwC. These fees related primarily to consulting services around the Company's listing on the premium segment of the LSE and the acquisition of Bank Republic. The vast majority of the former were Reporting Accountants fees and Long Form report fees for the Company's listing on the LSE including a working capital report. Less than 10% of non-audit services arose in connection with Bank Republic, in particular financial and tax due diligence. In the case of the Company's listing at the LSE and Bank Republic, the Audit Committee held full-scale tenders but, ultimately, took the view, with management's recommendation, that there were natural synergies with the audit and work in connection with previous listing of the Bank's GDRs in 2014 and we were comfortable to agree to the appointment of PwC in both cases. The Audit Committee will remain mindful of the allowable cap on non-audit fees earned by an external auditor, which is being introduced by the UK legislation implementing the EU Regulation.

Where the Audit Committee and management felt that there were no such synergies with PwC or, indeed, a potential conflict, we appointed other providers. For example, as mentioned above, PwC were not appointed in relation to IFRS9 and acquisition of the assets of Progress Bank. Equally, we appointed other firms to provide advice to the Remuneration Committee and the board on board compensation analysis and on certain tax services. In the vast majority of cases for procurement of professional services, a tender was held. No non-audit services were provided by PwC that will be "prohibited" in future by the UK implementation of the EU Regulation. In all cases where PwC was used for non-audit services, a separate team was involved to that responsible for the statutory audit. We have a system in place for precisely tracking procurement and tendering for all non-audit fees, however small.

AUDIT COMMITTEE REPORT continued

In the case of the year-end audit of Bank Republic, post its acquisition by the Bank, we chose to use PwC after a tender process, because of natural synergies with the consolidated Group audit, the benefit of a smooth transition from Societe Generale's group auditor to our own, and the merits of saving time by communicating with a single auditor as well as because PwC's fee quote was competitive.

PwC have formally confirmed in writing their independence. We remain satisfied, taking account also of the views of Internal Audit and management, that PwC have a robust process for maintaining independence and monitoring such compliance in accordance with the UK Financial Reporting Council ("FRC")'s Ethical Standard and IESBA Code of Ethics. In our view, they continue to offer an independent, professional and cost-effective service that is capable of detecting any audit irregularities. Any potential threats to auditor objectivity (overfamiliarity, self-review etc) are, we believe, contained by existing safeguards. In particular, we are convinced that the objectivity of the senior audit engagement partner and audit staff is not impaired. We reached this decision on the basis of PwC's openness to challenge our perception of their proper independence from management and absence of any material prior-year financial restatements. We also note PwC's proven continuing ability to meet our tight reporting deadlines now in the context of a larger Group and the Company's listing at the premium segment of the LSE.

External audit quality validation

The Audit Committee has its own quality control process in place for review of effectiveness of the external audit on an annual basis, reporting its findings to the Board as part of its recommendation. In addition, in late 2016, the FRC undertook a formal Audit Quality Review of PwC's audit of the Bank for the year ended December 2015. This is a routine but occasional (i.e. not annual) process by which the FRC monitors the quality of audit work of UK firms that audit Public Interest Entities and certain other entities, including those based overseas but with listings at the LSE. The overall objective of the AQR team is to monitor and promote continuous improvements in audit quality in the UK. All UK audit firms that undertake larger audits are subject to AQR inspection.

This review was essentially an assessment of PwC's audit quality of the Bank and the Audit Committee was not contacted by the AQR inspectors except to share their report. However, it is very reassuring to us that the AQR had no significant findings.

Internal Audit

The Audit Committee meets regularly with the head of Internal Audit with no management present, and benefits from the department's objective assurance and insights. As chairman of the Audit Committee, Nicholas Haag is in at least monthly contact with the Head of Internal Audit who functionally reports unambiguously to him. The Audit Committee routinely reviews Internal Audit's remit, annual and rolling three-year plan, provides feedback on it, and authorises any changes to its scope. We provide targets for and formal assessment of Internal Audit and ensure that it is effective, suitably embedded in the organisation and respected by management and of use to them. The head of Internal Audit now routinely attends monthly Management Board meetings. Internal Audit makes a formal submission to the Audit Committee each quarter as well as to the Group as a whole. The Audit Committee solely determines Internal Audit's budget and compensation. We are satisfied that Internal Audit has sufficient human and financial resources to perform its role and the Audit Committee has where necessary requested additional funds for them to purchase the training and tools required for them to function effectively. We believe that Internal Audit has established its independence from management and its value is recognised by management, which has requested (with sign off from the Audit Committee) their involvement in various projects and investigations.

We asked Internal Audit to assess, in the second half of 2016, the adequacy and effectiveness of the Bank's revised risk management framework to ensure that it is being implemented according to plan. As noted above, we will involve Internal Audit in the IFRS9 implementation process. We also requested Internal Audit to investigate the Bank's data and document retention arrangements as this was an area that concerned the Audit Committee, given that the Bank has entered into an outsourcing arrangement for these vital services; the audit confirmed that satisfactory processes were in place. In 2017, we will inter alia also ask Internal Audit to re-validate processes around capturing and disclosing related-party lending within the Group.

Internal Audit played an important role in 2016 in the investigation of a small number of financially non-material internal fraud cases, which in aggregate resulted in likely losses to the Group of less than GEL 1 million. On each occasion, the Audit Committee was promptly notified in accordance with escalation procedures and the frauds thoroughly investigated, typically down to the level of every loan in a suspicious portfolio often with site visits to affected customers, and processes reinforced to avoid any future repeat events. The Audit Committee has discussed all these frauds with senior management and is confident that the Chief Executive Officer and his deputies have taken full ownership of the issues and rectified procedures.

The Audit Committee has increasingly organised Internal Audit's plan to be risk-weighted (ie investigate the higher-risk priorities more frequently and in greater depth) and also more flexible, allowing it to conduct one-off projects where the Board or management wish it to undertake special investigations arising from situations where the Bank may have heightened vulnerability or has been the victim of fraud. Internal Audit is in the process of investing in specialist software, with a selected vendor, which will enable it to speed up some of its more routine tasks, allowing it to concentrate on its most added-value missions.

We have discussed with Internal Audit the implications of the acquisition of Bank Republic. The resource base of Internal Audit in the combined entity will be expanded commensurately, with additional staffing coming from Bank Republic's pre-existing team.

Internal Audit's Charter was reviewed and approved in March 2017.

In February 2017, the Audit Committee conducted an assessment of the Internal Audit function. It also had the opportunity to input into and review the personal performance appraisal of the head of Internal Audit, which in turn drew on input from peers, direct reports and senior management, including the Chief Executive Officer and Chief Financial Officer. Both sets of assessments were satisfactory with the conclusion that the department is suitably structured and proactively meets its objectives as an assurance function and third line of defence.

We had planned to conduct an External Quality Assessment ("EQA") of Internal Audit in 2017 but have decided to delay this until 2018 in order to allow time for the merger of Bank Republic to be bedded down so that a valid assessment of the combined department can then be meaningfully undertaken.

The Audit Committee requires all Internal Audit executives to attend training and to take relevant international (Certified Internal Auditor) exams. Recently, the senior team attended training in London at the Chartered Institute of Internal Auditors.

Viability

Following the changes to UK Corporate Governance Code, the Board has assessed the viability of the Group over a longer period than the 12 months. The Committee, in conjunction with the Risk, Ethics and Compliance Committee and the Board, closely considered the Group's current financial position and the underlying period of coverage ending on 1 January 2020, which is relevant to the financial forecasts and strategic considerations of the Group. This longer term assessment process supports the Board's statements on viability, as set out in the Directors' Report on page 95.

Control environment

In accordance with our mandate, we have reviewed the robustness of the Bank's system of internal controls, working with external auditors and also with Internal Audit to track closely any identified shortcomings and scrutinising remediation follow-up with historic analyses being carefully maintained. The Key Performance Indicators ("KPIs") in respect of the reduction of identified audit deficiencies continue to be cascaded down to branch and departmental level and also included as KPIs for members of the Board of the Bank. The emphasis is on minimising and mitigating high-priority process failings that may lead to real financial and reputational risk for the Bank.

The Audit Committee regularly reviews progress in this vital discipline and alerts the Chief Executive Officer, divisional heads and the full Board where it occasionally sees intractable problems and insufficient effort at continuous process improvement. The Audit Committee was pleased to note that in 2016 there was a definite improvement in the rate and speed of remediation of identified internal audit deficiencies. Units of the Bank which showed weaknesses are routinely re-inspected to confirm if improvement has been made and the Audit Committee updated on the results of these repeat audits.

Financial control

In the opinion of the Audit Committee, there is a proper system and allocation of responsibilities for day-to-day monitoring of financial controls within the Group. 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 and assessed in a way that comforts us that the latter are not incentivised to take unhealthy short-term risks to generate personal rewards.

The Audit Committee has had sight of the "management (internal control) letter" submitted by our external auditors and has reviewed management's response to it and discussed it directly with PwC. We also note that no non-standard representations have been requested from or provided to PwC in respect of the "management representation letter" signed by the Group's Chief Executive Officer and Chief Financial Officer.

In 2016, the Bank's 'whistle blowing' or anonymous hotline for staff and external entities went live, alerting the Bank to any potentially unsatisfactory practices. A full escalation protocol is in place for when any such alert is received.

Together with the Risk, Ethics and Compliance Committee, we have received regular updates from the chief compliance officer on the implementation of the Bank's compliance programme, which we consider to be sufficiently robust.

AUDIT COMMITTEE REPORT continued

Controls in subsidiaries

As a Committee, we are following closely the integration of Bank Republic in terms of financial controls to ensure that a consistent high standard across the Group is maintained, recognising that the integration of this substantial acquisition increases potential operational and reporting risk within the organisation. We take some comfort from the speed and precision with which the Bank integrated its earlier acquisition of Bank Constanta. The Audit Committee of the Bank in 2015 asked management to ensure that the operational standards of previous Bank Constanta branches should be brought up to the high level existing in the rest of the Bank and progress in this regard was made in 2016. We have also asked questions about the integration of the finance department of Bank Republic with the Group and received comfort that there is a coherent plan for this with the former's chief financial officer moving into a deputy chief financial officer position within the Group. Internal Audit will review progress in this respect over the course of 2017. The Audit Committee has also reviewed some of the control issues around the IT infrastructure of Bank Republic, in particular the compatibility of IT systems with the Group's own systems. Given that the Bank and Bank Republic use many of the same systems, we do not foresee major technology risk arising from the integration and the IT merger plan appears to be realistic.

We have also asked Internal Audit to monitor more regularly the control standards in all geographic and product (e.g. leasing, insurance) subsidiaries of the Group, in particular at TBC Kredit in Azerbaijan given the challenging economic environment in this country. As a matter of policy, the Audit Committee have sought this year to elevate the oversight of all the Bank's subsidiaries with additional reporting to central functions, whilst not diminishing the authority of subsidiary executives. We have, for example, started an initiative to ensure that all best practice policies are rolled out across the subsidiaries.

IT controls

In 2015, the Bank commenced a thorough review of the information security resilience of the Bank with the help of a specialist external adviser. This brought to light a number of areas for improvement. A special internal task force was assembled including the Bank's chief operating officer and chief information officer, reporting regularly to the Audit Committee. We noted last year that a dedicated internal IT auditor had been hired who has a specialist background in IT security. Significant progress was made in 2016 in terms of bolstering access control restrictions, enhancing security policies and raising risk awareness within the organisation with the majority of employees passing an IT security awareness test. Focus remains on business continuity, data leakage prevention, the security of our interface with the SWIFT system and intrusion prevention with further penetration testing being conducted by external experts. The Audit Committee is investigating the availability of cyber insurance for the Bank, a product not readily available in the Georgian market. The Audit Committee has also recommended a review in 2017 of IT Governance to assure us about the management of the Bank's IT operations and IT projects to ensure alignment with business needs and cost efficiency. This will be conducted by Internal Audit with, if necessary, an expert third-party consultant involved.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC

Report on the financial statements

Our 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 of the parent company's affairs as at 31 December 2016 and of the Group's profit and the Group's and the parent company's cash flows for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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.

What we have audited

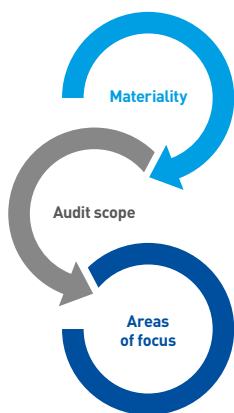
The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

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

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

Our audit approach

Overview



- Overall Group materiality: GEL 15.8 million which represents 5% of profit before tax.

- Our scoping was driven by legal entity contribution to profit and also by geographical location. This approach also ensures that we align our resources with the location of the key financial reporting functions and material operations of the Group. We also considered overall coverage in assessing the appropriateness of our scoping.

The areas of focus for our audit which involved the greatest allocation of our resources and effort were:

- Loan impairment provisions.
- Business combinations.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing 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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC continued

Area of focus

Loan impairment provisions

Impairment provisions are a key judgement area representing management's best estimate of the credit losses in the underlying loan portfolios. Determination of the appropriate provisions involves complex calculations and the effect of misstatement on the financial statements could be material.

Loss provisions are calculated on a collective basis for loan portfolios with similar characteristics, and this is done mainly using statistical models driven by both observable and management determined key inputs such as probabilities of default ("PD") and the loss given default ("LGD").

Individual impairment assessment is performed where individually significant loans have unique characteristics that require significant judgement at a loan level to determine the present value of expected future cash flows and any resulting shortfall.

We have identified the following key areas:

- Completeness of observed impaired loans and appropriateness of the assumptions used to estimate impairment events which have been incurred but not observed; and
- Calculation of the required impairment provisions based on estimated future cash flows, including the use of models and the critical assumptions and inputs used in those models.

Business combinations

TBC Bank Group Plc acquired JSC Bank Republic which was the third largest bank in Georgia by net assets. Due to the scale and complexity of the acquisition, a number of significant judgements were made related to fair value accounting and cost allocation as part of business combination accounting. The key areas for us were:

- Appropriateness of key assumptions taken on purchase price allocation to observable assets and liabilities, in particular where there was limited market information on the fair value resulting in the use of models or accounting estimates to derive an appropriate fair value; and
- Completeness of separately identifiable intangible assets recorded as part of the business combination and appropriateness of recorded goodwill assets.

How our audit addressed the area of focus

We understood and tested the key controls which included:

- governance over the impairment provisioning process including models review and approval, and key model drivers review and approval; and
- identification of impairment events and all relevant loans showing indicators of impairment including other indicators such as forbearance.

The key controls we tested were designed and implemented appropriately, and found to be operating effectively, therefore we relied on these for the purposes of our audit.

We performed the following substantive procedures in response to the key areas:

- tested management's assessment and documentation of the consideration of impairment triggers for key lending portfolios in accordance with the accounting rules. We also assessed the procedures related to loan reviews and tested the completeness of watchlist cases;
- tested individually significant exposures on a risk basis to assess the appropriateness of incurred but not observed loan provisions for the Corporate and SME portfolios;
- understood and tested the appropriateness of the loan provisioning methodologies and their consistent application across the Group's portfolios;
- tested key assumptions including the PDs and LGDs used in the calculations of loan impairment provisions including performing sensitivity analysis to identify higher risk assumptions where additional procedures were performed; and
- compared provisions against the historical performance and market data so as to assess the estimation accuracy of the key models and consider completeness of post model adjustments.

We understood and corroborated any material differences identified from our procedures detailed above, and based on the evidence obtained we were satisfied that the impairment model assumptions, data used within the models and overlays to modelled outputs were reasonable.

We performed the following detailed substantive procedures in response to the key areas identified:

- analysed the transaction in detail including verifying the change of control date, reviewing underlying agreements and challenging whether it met the criteria for a business combination under accounting rules;
- we made use of our internal valuation experts to critically assess the methodologies and judgements made by the management expert to ensure these were appropriate, correctly applied and in line with best industry practice;
- we recalculated the fair values of certain assets and liabilities using bespoke PwC models to gain comfort that the models and assumptions used by the management expert were appropriate.
- our testing of management expert's work covered their procedures performed with respect to unrecorded intangible assets other than goodwill and we were satisfied that the approach adopted and related assumptions were reasonable;
- independently assessed the competence and objectivity of the management expert. We were satisfied that management used a competent and objective expert, and we also benchmarked the results of their work using reperformed procedures done by our internal experts; and
- tested the final business combination accounting to ensure it was consistent with the reviewed and approved expert's report and in accordance with the accounting rules.

Based on the evidence obtained we were satisfied that the key judgements applied related to fair value accounting and purchase price allocation were reasonable.

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

TBC Bank Group operates banking and insurance activities in Eastern Europe, with operations in four countries with the significant operations being based in Georgia. The Group comprises of 5 segments for which it manages and reports its operating results and financial position, namely Retail Banking, Corporate Banking, Small and Medium Enterprises, Micro Entities and the Corporate Centre. JSC TBC Bank is the largest subsidiary of the London listed Group. Its main operations are Retail and Commercial banking, with a small general leasing and insurance business based in Georgia. Accounting functions and management of the Group are primarily in Georgia which represents 98% of the Group assets and profit before tax.

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 fact that trading activities are based outside of the UK with the Group accounting function being based in Georgia.

Our approach and team was also designed to reflect the structure of the Group and we used component auditors in PwC Georgia and Azerbaijan who are familiar with the relevant businesses in their geographical locations to audit relevant components that were in scope for the Group audit. As part of the planning and execution of the audit the UK audit team visited the most significant component, Georgia, to ensure that the procedures performed to support the Group audit were sufficient for our purposes.

Specific audit procedures were also performed at the UK parent company mainly related to the presentation of the Group financial statements, the consolidation process, taxation and elements of laws and regulation specific to the UK. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 95% of revenue and 96% of net 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 on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	GEL 15.8 million
How we determined it	5% of profit before tax of the Group as reported, which reflects full year results including the period prior to reorganisation.
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.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above GEL 790,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 94, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the Group and parent financial statements. The going concern basis presumes that the Group and parent company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and parent company's ability to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC continued

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- | | |
|---|----------------------------------|
| <ul style="list-style-type: none">• information in the Annual Report is:<ul style="list-style-type: none">– materially inconsistent with the information in the audited financial statements; or– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and parent company acquired in the course of performing our audit; or– otherwise misleading. | We have no exceptions to report. |
| <ul style="list-style-type: none">• the statement given by the directors on page 95, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for 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 acquired in the course of performing our audit. | We have no exceptions to report. |
| <ul style="list-style-type: none">• the section of the Annual Report on page 127, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | We have no exceptions to report. |

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- | | |
|---|--|
| <ul style="list-style-type: none">• the directors' confirmation in the Annual Report, in accordance with provision C.2.1 of the Code, 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. | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none">• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none">• the directors' explanation on page 95 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to. |

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' 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 Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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
- 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.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC continued

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Jeremy Foster

Jeremy Foster (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2017

SEPARATE STATEMENT OF FINANCIAL POSITION

<i>In thousands of GEL</i>	Notes	31 December 2016
ASSETS		
Cash and cash equivalents		399
Investment in Subsidiaries		1,424,066
Due from other banks		2,320
Loans and advances to customers		2,000
Other financial assets		303
Other assets		4
TOTAL ASSETS		1,429,092
LIABILITIES		
Other financial liabilities		165
TOTAL LIABILITIES		165
EQUITY		
Share capital	25	1,581
Share premium	25	677,211
Retained earnings		745,638
Loss for the period		(385)
Other reserves		4,882
TOTAL EQUITY		1,428,927
TOTAL LIABILITIES AND EQUITY		1,429,092

The financial statements on pages 139 to 223 were approved by the Board, and signed on behalf of the Board on 31 March 2017 by:



Vakhtang Butskhrikidze
Chief Executive Officer



Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 146 to 223 form an integral part of these financial statements.

Registered No. 10029943.

SEPARATE STATEMENT OF CHANGES IN EQUITY

<i>In thousands of GEL</i>	Note	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance as of 26 February 2016		-	-	-	-	-
Loss for the period		-	-	-	(385)	(385)
Other comprehensive income		-	-	-	-	-
Total comprehensive income for 2016		-	-	-	(385)	(385)
Merger relief and capital reduction	25	1,494	565,030	-	745,638	1,312,162
Share issue	25	87	112,181	-	-	112,268
Share based payment accrual	26	-	-	4,882	-	4,882
Balance as of 31 December 2016		1,581	677,211	4,882	745,253	1,428,927

The notes set out on pages 146 to 223 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of GEL

Note 2016

Cash flows from operating activities		
Interest received		1,149
Interest paid		(32)
Fees and commissions received		-
Fees and commissions paid		(1)
Salaries and other employee benefits paid		(631)
Administrative and other operating expenses paid		(890)
Cash flows from operating activities before changes in operating assets and liabilities		(405)
Net change in operating assets		
Other financial assets		(167)
Other assets		(4)
Net change in operating liabilities		
Other financial liabilities		165
Net cash used in operating activities		(411)
Cash flows from investing activities		
Acquisition of subsidiaries	44	(3,423)
Proceeds from disposal of associate*		112,269
Net cash used in investing activities		108,846
Cash flows from financing activities		
Capital contributions to subsidiaries other than through issuance of shares		(103,600)
Issue of loans to subsidiary		(2,000)
Placement of deposit		(2,320)
Net cash from financing activities		(107,920)
Effect of exchange rate changes on cash and cash equivalents		(116)
Net increase in cash and cash equivalents		399
Cash and cash equivalents at incorporation		-
Cash and cash equivalents at the end of the year		399

* The amount of proceeds from disposal of associate is attributable to sale of minority share of JSC Bank Republic by TBCG to JSC TBC Bank.

The notes set out on pages 146 to 223 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of GEL</i>	Notes	31 December 2016	31 December 2015	31 December 2014
ASSETS				
Cash and cash equivalents	6	945,180	720,347	532,118
Due from other banks	7	24,725	11,042	33,704
Mandatory cash balances with the National Bank of Georgia	8	990,642	471,490	336,075
Loans and advances to customers	9	7,133,702	4,444,886	3,556,496
Investment securities available for sale	10	430,703	307,310	466,510
Bonds carried at amortized cost	11	372,956	372,092	–
Investments in finance leases	13	95,031	75,760	50,907
Investment properties	16	95,615	57,600	76,216
Current income tax prepayment		7,430	9,856	251
Deferred income tax asset	34	3,511	1,546	383
Other financial assets	12	94,627	64,317	43,857
Other assets	14	171,263	103,912	77,775
Premises and equipment	15	314,032	247,767	208,692
Intangible assets	15	60,957	44,344	37,756
Goodwill	17	28,658	2,726	2,726
TOTAL ASSETS		10,769,032	6,934,995	5,423,466
LIABILITIES				
Due to credit institutions	18	2,197,577	1,113,574	749,285
Customer accounts	19	6,454,949	4,177,931	3,322,428
Other financial liabilities	22	50,998	39,435	41,346
Current income tax liability		2,577	912	12,433
Debt securities in issue	20	23,508	21,714	20,423
Deferred income tax liability	34	5,646	29,244	23,187
Provisions for liabilities and charges	21	16,026	9,461	11,898
Other liabilities	23	66,739	40,627	34,975
Subordinated debt	24	368,381	283,648	188,015
TOTAL LIABILITIES		9,186,401	5,716,546	4,403,990
EQUITY				
Share capital	25	1,581	19,587	19,576
Share premium	25	677,211	407,474	405,658
Retained earnings		955,173	712,743	532,992
Group reorganisation reserve	25	(162,166)	–	–
Share based payment reserve	26	23,327	12,755	4,624
Revaluation reserve for premises		70,460	59,532	35,096
Revaluation reserve for available-for-sale securities		(3,681)	5,759	8,675
Cumulative currency translation reserve		(7,538)	(6,590)	5,484
Net assets attributable to owners		1,554,367	1,211,260	1,012,105
Non-controlling interest	38	28,264	7,189	7,371
TOTAL EQUITY		1,582,631	1,218,449	1,019,476
TOTAL LIABILITIES AND EQUITY		10,769,032	6,934,995	5,423,466

The financial statements on pages 139 to 223 were approved by the Board, and signed on behalf of the Board on 31 March 2017 by:



Vakhtang Butskhrikidze
Chief Executive Officer



Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 146 to 223 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>In thousands of GEL</i>	Notes	2016	2015	2014
Interest income	29	766,426	649,059	512,357
Interest expense	29	(275,973)	(236,885)	(173,709)
Net interest income		490,453	412,174	338,648
Fee and commission income	30	142,800	113,837	88,203
Fee and commission expense	30	(52,532)	(41,546)	(29,523)
Net fee and commission income		90,268	72,291	58,680
Net insurance premiums earned		1,222	-	-
Net insurance claims incurred		(966)	-	-
Insurance Profit		256	-	-
Net gains from trading in foreign currencies		70,269	64,642	39,730
Net gain/(losses) from foreign exchange translation		(2,507)	2,579	2,359
Net losses from derivative financial instruments		(206)	(575)	(683)
Net gains from disposal of available for sale investment securities		9,293	-	-
Other operating income	31	23,236	25,883	19,600
Other operating non-interest income		100,085	92,529	61,006
Provision for loan impairment	9	(49,202)	(72,791)	(48,672)
Provision for impairment of investments in finance lease	13	(558)	(967)	(77)
(Provision for)/recovery of provision for performance guarantees and credit related commitments	21	(771)	1,117	902
Provision for impairment of other financial assets	12	(2,853)	(3,351)	(1,236)
Impairment of investment securities available for sale		(11)	-	(22)
Operating income after provisions for impairment		627,667	501,002	409,229
Staff costs	32	(172,221)	(142,777)	(122,835)
Depreciation and amortisation	15,16	(28,082)	(26,286)	(24,427)
Provision for liabilities and charges	21	(2,210)	(1,102)	(5,500)
Administrative and other operating expenses	33	(109,475)	(82,964)	(73,548)
Operating expenses		(311,988)	(253,129)	(226,310)
Profit before tax		315,679	247,873	182,919
Income tax expense	34	(17,421)	(29,176)	(24,468)
Profit for the year		298,258	218,697	158,451
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Revaluation of available-for-sale investments	10	522	(2,436)	(1,849)
Gains less losses recycled to profit or loss upon disposal		(11,611)	-	-
Exchange differences on translation to presentation currency		(948)	(12,075)	2,095
Income tax recorded directly in other comprehensive income	34	1,649	(479)	(192)
<i>Items that will not be reclassified to profit or loss:</i>				
Revaluation of premises and equipment		-	28,755	-
Income tax recorded directly in other comprehensive income	34	10,928	(4,319)	-
Other comprehensive income for the year		540	9,446	54
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		298,798	228,143	158,505
Profit is attributable to:				
- Owners of the Bank		299,145	218,879	157,451
- Non-controlling interest		(887)	(182)	1,000
Profit for the year		298,258	218,697	158,451
Total comprehensive income is attributable to:				
- Owners of the Bank		299,685	228,325	157,505
- Non-controlling interest		(887)	(182)	1,000
Total comprehensive income for the year		298,798	228,143	158,505
Earnings per share for profit attributable to the owners of the Bank:				
- Basic earnings per share	27	6.0	4.4	3.4
- Diluted earnings per share	27	5.9	4.4	3.4

The notes set out on pages 146 to 223 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	Share premium	Group reorganisation reserve	Share based payments reserve	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 1 January 2014		16,499	242,624	-	2,032	36,735	10,716	3,389	402,627	714,622	14,667	729,289
Profit for the year		-	-	-	-	-	-	-	157,451	157,451	1,000	158,451
Other comprehensive income		-	-	-	-	-	(2,041)	2,095	-	54	-	54
Total comprehensive income for 2014		-	-	-	-	-	(2,041)	2,095	157,451	157,505	1,000	158,505
Share issue	25	3,077	172,493	-	-	-	-	-	-	175,570	-	175,570
Share based payment accrual	26	-	-	-	2,592	-	-	-	-	2,592	-	2,592
Transaction costs recognized directly in equity		-	(9,459)	-	-	-	-	-	-	(9,459)	-	(9,459)
Purchase of additional interest from minority shareholders		-	-	-	-	89	-	-	(2,627)	(2,538)	(8,296)	(10,834)
Dividends declared		-	-	-	-	-	-	-	(26,492)	(26,492)	-	(26,492)
Transfer of revaluation surplus to retained earnings		-	-	-	-	(1,728)	-	-	2,033	305	-	305
Balance as of 31 December 2014		19,576	405,658	-	4,624	35,096	8,675	5,484	532,992	1,012,105	7,371	1,019,476
Profit for the year		-	-	-	-	-	-	-	218,879	218,879	(182)	218,697
Other comprehensive income		-	-	-	-	24,436	(2,916)	(12,074)	-	9,446	-	9,446
Total comprehensive income for 2015		-	-	-	-	24,436	(2,916)	(12,074)	218,879	228,325	(182)	228,143
Share based payment accrual	26	-	-	-	8,559	-	-	-	-	8,559	-	8,559
Transaction costs recognized directly in equity		-	1,419	-	-	-	-	-	-	1,419	-	1,419
Increase in share capital arising from share based payment		12	416	-	(428)	-	-	-	-	-	-	-
Dividends declared		-	-	-	-	-	-	-	(39,128)	(39,128)	-	(39,128)
Treasury shares returned		(1)	(19)	-	-	-	-	-	-	(20)	-	(20)
Balance as of 31 December 2015		19,587	407,474	-	12,755	59,532	5,759	(6,590)	712,743	1,211,260	7,189	1,218,449
Profit for the year		-	-	-	-	-	-	-	299,145	299,145	(887)	298,258
Other comprehensive income		-	-	-	-	10,928	(9,440)	(948)	-	540	-	540
Total comprehensive income for 2016		-	-	-	-	10,928	(9,440)	(948)	299,145	299,685	(887)	298,798
Share issue		87	112,182	-	-	-	-	-	-	112,269	-	112,269
Share based payment accrual	26	-	-	-	11,783	-	-	-	-	11,783	-	11,783
Change of parent company to TBCG	25	(18,129)	156,380	(162,166)	-	-	-	-	-	(23,915)	23,915	-
Increase in share capital arising from share based payment		36	1,175	-	(1,211)	-	-	-	-	-	-	-
Dividends declared		-	-	-	-	-	-	-	(55,162)	(55,162)	-	(55,162)
Purchase and cancellation of subsidiary shares		-	-	-	-	-	-	-	(1,553)	(1,553)	(1,953)	(3,506)
Balance as of 31 December 2016		1,581	677,211	(162,166)	23,327	70,460	(3,681)	(7,538)	955,173	1,554,367	28,264	1,582,631

The notes set out on pages 146 to 223 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of GEL</i>	Note	2016	2015	2014
Cash flows from operating activities				
Interest received		735,705	633,093	499,052
Interest paid		(273,795)	(235,157)	(182,572)
Fees and commissions received		144,247	111,922	95,295
Fees and commissions paid		(52,154)	(41,569)	(29,478)
Insurance premium received		1,591	-	-
Insurance claims paid		(703)	-	-
Income received from trading in foreign currencies		70,411	64,642	39,730
Other operating income received		8,411	18,006	13,804
Staff costs paid		(148,656)	(133,354)	(116,481)
Administrative and other operating expenses paid		(104,077)	(79,669)	(74,703)
Income tax paid		(34,279)	(48,678)	(11,555)
Cash flows from operating activities before changes in operating assets and liabilities		346,701	289,236	233,092
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		(448,582)	(72,453)	(61,192)
Loans and advances to customers		(1,219,501)	(364,896)	(686,746)
Investment in finance lease		(11,687)	(12,994)	(11,889)
Other financial assets		(22,965)	(13,198)	593
Other assets		(843)	7,159	11,056
Net change in operating liabilities				
Due to other banks		265,679	(17,351)	39,539
Customer accounts		1,150,146	249,598	336,631
Other financial liabilities		5,724	(415)	10,919
Other liabilities and provision for liabilities and charges		332	1,341	(5,187)
Net cash from/(used in) operating activities		65,004	66,027	(133,184)
Cash flows from investing activities				
Acquisition of investment securities available for sale	10	(143,980)	(475,417)	(845,665)
Proceeds from disposal of investment securities available for sale	10	11,868	-	51,369
Proceeds from redemption at maturity of investment securities available for sale	10	166,871	265,107	843,695
Acquisition of subsidiaries, net of cash acquired	44	(91,404)	-	-
Acquisition of bonds carried at amortised cost		(304,109)	(183,084)	-
Proceeds from redemption of bonds carried at amortised cost		314,231	193,416	-
Acquisition of premises, equipment and intangible assets	15	(50,689)	(47,815)	(48,751)
Disposal of premises, equipment and intangible assets		1,273	1,306	1,245
Proceeds from disposal of investment property		7,822	22,166	15,452
Net cash (used in)/ from investing activities		(88,117)	(224,321)	17,345
Cash flows from financing activities				
Proceeds from other borrowed funds		903,502	582,198	370,124
Redemption of other borrowed funds		(666,156)	(310,267)	(252,693)
Proceeds from subordinated debt		136,817	60,510	6,000
Redemption of subordinated debt		(90,416)	(16,763)	-
Proceeds from debt securities in issue		4,354	-	19,334
Redemption of debt securities in issue		(4,636)	-	(4,474)
Dividends paid		(54,560)	(39,128)	(26,492)
Acquisition of non-controlling interest in subsidiary		(3,495)	-	(10,923)
Issue of ordinary shares		-	-	175,570
Transaction costs recognized directly in equity		-	-	(9,458)
Net cash from financing activities		225,410	276,550	266,988
Effect of exchange rate changes on cash and cash equivalents		22,536	69,973	(9,496)
Net increase in cash and cash equivalents		224,833	188,229	141,653
Cash and cash equivalents at the beginning of the year	6	720,347	532,118	390,465
Cash and cash equivalents at the end of the year	6	945,180	720,347	532,118

The notes set out on pages 146 to 223 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

1 Introduction

Principal activity. JSC TBC Bank (hereafter the "Bank") was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

The Bank has 120 (2015: 128; 2014: 59) branches within Georgia. In 2015, the significant increase in the number of branches is due to the merger of the Bank with its subsidiary, JSC Bank Constanta. The merger was concluded in January 2015. During 2016 the Group acquired JSC Bank Republic, which has 41 branches as of 31 December 2016 not included in number of branches above.

On 1 June 2016, TBC Bank Group PLC ("TBCG"), a public limited liability company, incorporated in England and Wales on 26 February 2016, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 4 August 2016, as of 31 December 2016 TBCG holds 98.48% of the share capital of the Bank, thus representing the Bank's ultimate parent company. Together with the Bank and subsidiaries, TBCG makes up a group of companies (hereafter the "Group"). The Bank is a parent of a group of companies incorporated in Georgia and Azerbaijan, their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Group's list of companies is provided in Note 2.

The shares of TBCG ("TBCG Shares") were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities effective on 10 August 2016 (the "Admission", Note 25). The Bank is the Group's main operating unit and it accounts for most of the Group's activities.

TBC Bank Group PLC's registered legal address is St. Andrew 6, London, United Kingdom EC4A3AE. Registered number of TBC Group PLC is 10029943.

As of 31 December 2016, 31 December 2015 and 31 December 2014, 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 2016, 31 December 2015 and 31 December 2014 the Group had no ultimate controlling party.

Shareholders	Note	% of ownership interest held as of 31 December		
		2016	2015	2014
Bank of New York (Nominees), Limited*	25	–	71%	71%
TBC Holdings LTD		15%	16%	16%
European Bank for Reconstruction and Development		12%	–	–
JPMorgan Asset Management		7%	–	–
Schroder Investment Management		7%	–	–
Dunross & Co.		6%	–	–
Liquid Crystal International N.V. LLC		5%	5%	5%
Societe Generale SA		5%	–	–
Other**		43%	8%	8%
Total		100%	100%	100%

* In 2015 and 2014 all GDR holders' interests were held through Bank of New York (Nominees), Limited (the custodian).

** Other includes individual as well as corporate shareholders

As a result of the conversion of the Bank's shares into TBCG shares as described above and following the cancellation of GDR Programme in October 2016, the Group has no GDRs outstanding as of 31 December 2016.

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

2 Summary of Significant Accounting Policies

Basis of preparation. The separate financial statements have been prepared from the date of incorporation of TBC Bank Group PLC to 31 December 2016. In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone statement of comprehensive income of TBCG is not presented as part of these accounts. These consolidated financial statements are prepared as if the Group is a continuation of the pre-existing group of companies with the Bank as its ultimate parent. Comparative financial statements as of 31 December 2015 and 31 December 2014 are those of the group of companies consolidated, with the Bank as its ultimate parent.

The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

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

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

The TBC Bank Group PLC holds 98.48% of the Bank as of 31 December 2016. The consolidated financial statements include the following principal subsidiaries:

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Industry
	2016	2015	2014			
JSC TBC Bank	98.48%	-	-	Tbilisi, Georgia	1992	Banking
Bank Republic Group Ltd Merckhali Pirveli	100%	-	-	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	98.67%	98.67%	98.67%	Tbilisi, Georgia	1997	Operating leasing
TBC Capital LLC	100%	100%	100%	Tbilisi, Georgia	1999	Card processing
TBC Leasing JSC	99.61%	99.57%	99.48%	Tbilisi, Georgia	2003	Brokerage
TBC Kredit LLC	75%	75%	75%	Baku, Azerbaijan	2008	Leasing
Banking System Service Company LLC	100%	100%	100%	Tbilisi, Georgia	2009	Non-banking credit institution
TBC Pay LLC	100%	100%	100%	Tbilisi, Georgia	2009	Information services
Real Estate Management Fund JSC	100%	100%	100%	Tbilisi, Georgia	2010	Processing
TBC Invest LLC	100%	100%	100%	Ramat Gan, Israel	2011	Real estate management
Bank Constanta JSC	-	-	100%	Tbilisi, Georgia	2011	PR and marketing
Mali LLC	100%	100%	100%	Tbilisi, Georgia	2011	Financial institution
JSC TBC Insurance	100%	-	-	Tbilisi, Georgia	2014	Real estate management
						Insurance

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. On 21 January 2015 the Group completed the legal and operational process of merging JSC Bank Constanta with TBC Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

31 DECEMBER 2016

2 Summary of Significant Accounting Policies continued

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Industry
	2016	2015	2014			
UFC International Ltd	80%	80%	80%	British Virgin Islands	2001	Investment Vehicle
TBC Capital B.V.	90%	90%	90%	Amsterdam, Netherlands	2007	Investment Vehicle
TBC Invest International Ltd	100%	–	–	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund	33.33%	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Ltd Georgian Mill Company	100%	–	–	Tbilisi, Georgia	2010	Manufacturing

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest¹.

The Group measures the non-controlling interest that represents the current ownership's interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquired entity. Non-controlling interests that are not present ownership interests are measured at fair value.

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

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

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

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

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

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is 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.

2 Summary of Significant Accounting Policies continued

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis in case the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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2 Summary of Significant Accounting Policies continued

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the NBG, excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

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

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are 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. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available-for-sale securities or bonds carried at amortized cost reclassified to repurchase receivables continue to be carried at fair value or amortized 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.

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

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

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

2 Summary of Significant Accounting Policies continued

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

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

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

Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed borrowers in order to ensure that loss event is identified as early as possible.

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

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

In order to calculate impairment allowance for collectively assessed loans pools, the Bank estimates the following risk parameters: probability of default, cure rate, recovery rate, survival rate and loss 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.

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

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2 Summary of Significant Accounting Policies continued

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

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

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies continued

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

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

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

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

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

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

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

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, 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.

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

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

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

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

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2 Summary of Significant Accounting Policies continued

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

Insurance and reinsurance receivables. Insurance and reinsurance receivables are recognised based on insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income. Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Insurance premiums are recognised as revenue (earned premiums) proportionally over the period of coverage of respective insurance contracts. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Liability adequacy test. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of recognised insurance liabilities net of related deferred acquisition costs. In performing the tests, current best estimates of future contractual cash flows, claims handling and administration costs in respect of claims, as well as investment income from assets backing such liabilities, are used. Where tests highlight a deficiency, insurance liabilities are increased with any deficiency being recognised in the consolidated statement of comprehensive income.

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies continued

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

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

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

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

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

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

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. As part of interest income or expense this method defers, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

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

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2 Summary of Significant Accounting Policies continued

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 2016 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 3.2579 (2015: GBP 1 = GEL 3.5492; 2014: GBP 1 = GEL 2.8932); USD 1 = 2.6468 (2015: USD 1 = GEL 2.3949; 2014: USD 1 = GEL 1.8636); EUR 1 = 2.7940 (2015: EUR 1 = GEL 2.6169; 2014: EUR 1 = GEL 2.2656).

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

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

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

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

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

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

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group concludes whether there is, or not, any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. When scheduling future cash flows the management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 11,251 thousand (2015: GEL 9,707 thousand; 2014: GEL 7,488 thousand) and additional charge for impairment of finance lease receivables of GEL 57 thousand (2015: GEL 37 thousand; 2014: GEL 10 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 2,701 thousand (2015: GEL 3,677 thousand; 2014: GEL 2,081 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 9 thousand (2015: GEL 2 thousand; 2014: GEL 2 thousand), respectively.

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models employ observable market data. However, certain financial instruments are valued on the basis of valuation techniques featuring one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental.

Tax legislation. The Group is subject to corporate income taxes in several jurisdictions and the calculation of the Group's tax charge and provisions for corporate income taxes necessarily involves a degree of estimation and judgement. Refer to Note 34.

Deferred and current income tax. 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. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2019 for commercial banks, credit unions, insurance 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 2016, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2017 to 31 December 2018.

4 Adoption of New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy.

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 2016 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.

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5 New Accounting Pronouncements continued

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9 and IFRS 15 have been endorsed for use in the EU and IFRS 16 has not yet been endorsed.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: (i) those to be measured subsequently at amortised cost, (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI) and (iii) those to be measured subsequently at fair value through profit or loss (FVPL).
- The classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments in line with the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, the management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key difference is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align more closely the accounting with the risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also to access financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

6 Cash and Cash Equivalents

<i>In thousands of GEL</i>	2016	2015	2014
Cash on hand	402,532	320,363	202,384
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	135,557	121,494	138,396
Correspondent accounts and overnight placements with other banks	406,319	219,275	100,305
Placements with and receivables from other banks with original maturities of less than three months	772	59,215	91,033
Total cash and cash equivalents	945,180	720,347	532,118

96% of the correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2015: 91%; 31 December 2014: 92%).

As of 31 December 2016 GEL 773 thousand was placed on interbank term deposits with one OECD bank (31 December 2015: GEL 59,215 thousand with four non-OECD banks; 31 December 2014: GEL 91,033 thousand with eight non-OECD banks).

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

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

<i>In thousands of GEL</i>	2016	2015	2014
A+	78,324	13,245	48,873
A	258,025	1	42,452
A-	27,997	152,044	-
BBB+	-	30,304	-
BBB	23,174	3,039	329
BBB-	464	2,656	-
BB+	1,147	-	401
BB-	3,039	11,671	4,151
B	2,288	164	168
Not rated	11,861	6,151	3,931
Total	406,319	219,275	100,305

Credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

<i>In thousands of GEL</i>	2016	2015	2014
A	772	-	-
BB	-	-	89,165
BB-	-	-	1,868
B	-	23,769	-
Not rated	-	35,446	-
Total	772	59,215	91,033

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used.

As of 31 December 2016 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (31 December 2015: GEL 50,200 thousand, 2014: GEL nil).

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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 2016, 2015 and 2014.

Credit ratings of placements with other banks with original maturities of more than three months were as follows:

<i>In thousands of GEL</i>	2016	2015	2014
A	13,210	7,975	3,839
BBB+	79	72	56
BBB	5,541	-	-
BB+	-	-	15,924
BB-	801	1,507	-
B	5,073	1,268	5,970
Not rated	21	220	7,915
Total	24,725	11,042	33,704

As of 31 December 2016 the Group did not have placements with any bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2015: nil; 2014: 3). The total aggregated amount of these placements was GEL 29,179 thousand as of 31 December 2014.

As of 31 December 2016 GEL 19,511 thousand, (2015: GEL 8,711 thousand; 2014: GEL 4,525 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35.

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 0.5% annual interest on the mandatory reserve with the NBG in 2016. The Group did not earn annual interest on the mandatory reserve with the NBG for year ended 31 December 2015 and 31 December 2014.

In September 2016 Fitch Ratings re-affirmed Georgia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BB-' with Stable Outlooks. The issue ratings on Georgia's senior unsecured foreign- and local-currency bonds are also affirmed at 'BB-'. The Country Ceiling is affirmed at 'BB' and the Short-term foreign-currency IDR at 'B'.

9 Loans and Advances to Customers

<i>In thousands of GEL</i>	2016	2015	2014
Corporate loans	2,060,172	1,500,104	1,231,729
Consumer loans	1,663,550	871,996	781,043
Mortgage loans	1,811,695	905,274	716,868
Loans to small and medium enterprises	857,552	625,628	533,919
Micro loans	677,746	493,328	273,699
Others	288,010	242,699	169,002
Total loans and advances to customers (before impairment)	7,358,725	4,639,029	3,706,260
Less: Provision for loan impairment	(225,023)	(194,143)	(149,764)
Total loans and advances to customers	7,133,702	4,444,886	3,556,496

Consumer loans include as well card loans, overdrafts, express, fast loans and other consumer loans.

9 Loans and Advances to Customers continued

As of 31 December 2016 loans and advances to customers carried at GEL 120,093 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2015: GEL 34,012 thousand; 2014: GEL 46,182).

Movements in the provision for loan impairment during 2016 are as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Other	Total
Provision for loan impairment as of 1 January 2016	108,050	40,408	13,135	12,506	18,019	2,025	194,143
Total provision for impairment during the year:	(12,440)	52,472	15,108	18,792	32,942	(1,102)	105,772
Provision for impairment (credited)/charged to income statement during the year	(49,548)	45,365	12,572	15,774	26,141	(1,102)	49,202
Recoveries of loans previously written off	37,108	7,107	2,536	3,018	6,801	-	56,570
Amounts written off during the year as uncollectible	(6,109)	(33,537)	(4,580)	(7,896)	(22,443)	-	(74,565)
Effect of translation to presentation currency	-	(43)	(60)	(224)	-	-	(327)
Provision for loan impairment as of 31 December 2016	89,501	59,300	23,603	23,178	28,518	923	225,023

Loans and advances to customers written off in 2016 included loans to customers in the gross amount of GEL 9,830 thousand issued in 2016, a previously issued performance guarantee of GEL 0.14 thousand which was transformed into loan in 2016 and GEL 64,735 thousand issued in previous years.

At year-end 2016 the Bank updated its methodology for loan loss provisioning purposes to include impairment assessment of acquired portfolios. As per the upgraded methodology, an impairment allowance is not created on the initial recognition of purchased portfolio considering that expected losses are reflected in fair value of the portfolio. For the next reporting periods, the impairment allowance is recognised if the incurred losses at the reporting date have increased compared to the level of incurred losses at the moment of acquisition.

Movements in the provision for loan impairment during 2015 were as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Other	Total
Provision for loan impairment as of 1 January 2015	91,226	36,753	8,889	5,288	7,608	-	149,764
Post-merger reclassification effect	-	(2,373)	(245)	25	2,593	-	-
Total provision for impairment during the year:	22,890	29,221	7,481	13,834	20,169	2,025	95,620
Provision for impairment charged to income statement during the year	15,396	22,286	4,693	11,628	16,763	2,025	72,791
Recoveries of loans previously written off	7,494	6,935	2,788	2,206	3,406	-	22,829
Amounts written off during the year as uncollectible	(6,066)	(22,937)	(2,714)	(5,383)	(12,351)	-	(49,451)
Effect of translation to presentation currency	-	(256)	(276)	(1,258)	-	-	(1,790)
Provision for loan impairment as of 31 December 2015	108,050	40,408	13,135	12,506	18,019	2,025	194,143

Loans and advances to customers written off in 2015 included loans to customers in the gross amount of GEL 7,134 thousand issued in 2015, a previously issued performance guarantee of GEL 1,720 thousand which was transformed into loan in 2015 and GEL 40,597 thousand issued in previous years.

The Bank applies updated provisioning methodology since year-end 2015. The updated methodology enables the Bank to assess impairment allowances in an accurate manner, given granular segmentation of the portfolio and the various risk parameters applied.

The credit portfolio is assessed for impairment on an individual and collective basis. For provisioning purposes, borrowers or groups of borrowers are classified as "significant" or "non-significant". Borrowers with total liabilities of GEL2 million or more are regarded as significant and assessed individually for impairment. In order to calculate the impairment allowance for collectively assessed loan pools, the certain risk parameters are estimated, based on various statistical models.

Following the merger of Constanta Bank with TBC Bank, the Group has reassessed the segment definition as disclosed in Note 28. A few clients were reallocated to different segments. Relevant changes in the provision groups are highlighted in the table above under "Post-merger classification effect".

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9 Loans and Advances to Customers continued

Movements in the provision for loan impairment during 2014 are as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Other	Total
Provision for loan impairment as of 1 January 2014	107,666	31,704	8,292	4,315	4,892	–	156,869
Total provision for/(recovery of) impairment during the year:	29,461	26,886	3,323	4,173	8,263	36	72,142
Provision for/(recovery of) impairment charged to income statement during the year	18,995	20,362	1,666	1,625	6,006	18	48,672
Recoveries of loans previously written off	10,466	6,524	1,657	2,548	2,257	18	23,470
Amounts written off during the year as uncollectible	(45,901)	(21,837)	(2,726)	(3,200)	(5,547)	(36)	(79,247)
Provision for loan impairment as of 31 December 2014	91,226	36,753	8,889	5,288	7,608	–	149,764

Loans and advances to customers written off in 2014 included loans to customers in the gross amount of GEL 7,142 thousand issued in 2014, a previously issued performance guarantee of GEL 4,823 thousand which was transformed into loan in 2014 and GEL 67,282 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off in course of the year refer to Note 43.

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of GEL</i>	31 December 2016		31 December 2015		31 December 2014	
	Amount	%	Amount	%	Amount	%
Individual	3,721,450	51%	2,039,612	44%	1,497,911	40%
Energy & Utilities	540,116	7%	333,172	7%	318,911	9%
Trade	447,541	6%	232,599	5%	117,703	3%
Hospitality & Leisure	319,497	4%	266,917	6%	110,153	3%
Pawn Shops	305,031	4%	260,373	6%	169,002	4%
Food Industry	301,290	4%	255,795	6%	209,358	6%
Real Estate	252,112	3%	222,235	5%	166,733	3%
Agriculture	212,148	3%	157,193	3%	197,487	5%
Construction	210,888	3%	100,680	2%	92,683	3%
Financial Services	188,646	3%	85,926	2%	77,297	2%
Healthcare	182,131	3%	131,276	3%	146,452	4%
Automotive	144,157	2%	109,556	2%	96,413	3%
Services	109,187	1%	60,340	1%	189,762	5%
Transportation	89,467	1%	61,432	1%	64,720	2%
Metals and Mining	62,464	1%	75,785	2%	62,875	2%
Communication	45,864	1%	114,401	2%	94,991	3%
Other	226,736	3%	131,737	3%	93,809	3%
Total loans and advances to customers (before impairment)	7,358,725	100%	4,639,029	100%	3,706,260	100%

In 2016, the Group re-assessed the allocation of loans into the economic sectors. The Group has revised the sector split for 2015 and 2014 in order to make it consistent with 2016.

As of 31 December 2016 the Group had 112 borrowers (2015: 84 borrower; 2014: 71 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 1,900,916 thousand (2015: GEL 1,378,892 thousand; 2014: GEL 1,031,720 thousand) or 25.8% of the gross loan portfolio (2015: 29.7%; 2014: 27.8%).

9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding as of 31 December 2016 is as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
<i>Neither past due nor impaired</i>							
- Borrowers with credit history over two years	1,275,565	951,416	1,203,461	450,548	256,387	213,060	4,350,437
- New borrowers	652,570	626,396	561,039	345,655	376,145	70,946	2,632,751
Total neither past due nor impaired	1,928,135	1,577,812	1,764,500	796,203	632,532	284,006	6,983,188
<i>Past due but not impaired</i>							
- 1 to 30 days overdue	10,297	31,344	7,564	22,380	15,604	863	88,052
- 31 to 90 days overdue	1,714	16,383	8,241	5,878	12,701	512	45,429
- 91 to 180 days overdue	-	-	-	228	104	41	373
- 181 to 360 days overdue	-	2	-	-	61	28	91
- More than 360 days overdue	2,630	6	-	233	3	20	2,892
Total past due but not impaired	14,641	47,735	15,805	28,719	28,473	1,464	136,837
<i>Individually assessed impaired loans</i>							
- Not overdue	101,273	-	195	2,832	-	-	104,300
- 1 to 30 days overdue	1,059	-	-	-	-	-	1,059
- 31 to 90 days overdue	7,966	-	-	-	-	-	7,966
- 91 to 180 days overdue	-	-	-	88	-	-	88
- 181 to 360 days overdue	1,760	-	34	1,131	-	-	2,925
- More than 360 days overdue	2,419	-	167	1,581	-	-	4,167
Total individually assessed impaired loans	114,477	-	396	5,632	-	-	120,505
<i>Collectively assessed impaired loans</i>							
- Not overdue	778	5,112	7,129	5,144	536	-	18,699
- 1 to 30 days overdue	-	1,305	2,316	942	557	-	5,120
- 31 to 90 days overdue	908	1,876	2,443	4,393	1,576	-	11,196
- 91 to 180 days overdue	-	16,863	6,569	4,960	9,305	725	38,422
- 181 to 360 days overdue	1,233	7,723	8,371	6,544	3,866	818	28,555
- More than 360 days overdue	-	5,124	4,166	5,015	901	997	16,203
Total collectively assessed impaired loans	2,919	38,003	30,994	26,998	16,741	2,540	118,195
Total loans and advances to customers (before impairment)	2,060,172	1,663,550	1,811,695	857,552	677,746	288,010	7,358,725
Total provision	(89,501)	(59,300)	(23,603)	(23,178)	(28,518)	(923)	(225,023)
Total loans and advances to customers	1,970,671	1,604,250	1,788,092	834,374	649,228	287,087	7,133,702

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31 DECEMBER 2016

9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding as of 31 December 2015 is as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
<i>Neither past due nor impaired</i>							
- Borrowers with credit history over two years	888,642	532,152	626,293	315,062	171,222	190,261	2,723,632
- New borrowers	399,615	290,060	246,968	250,921	291,916	48,305	1,527,785
Total neither past due nor impaired	1,288,257	822,212	873,261	565,983	463,138	238,566	4,251,417
<i>Past due but not impaired</i>							
- 1 to 30 days overdue	66	15,916	5,077	22,636	11,829	1,217	56,741
- 31 to 90 days overdue	3,718	9,487	9,803	8,682	8,991	1,397	42,078
- 91 to 180 days overdue	2,829	14	-	-	33	38	2,914
- 181 to 360 days overdue	-	16	-	-	19	18	53
- More than 360 days overdue	-	3	-	-	1	18	22
Total past due but not impaired	6,613	25,436	14,880	31,318	20,873	2,688	101,808
<i>Individually assessed impaired loans</i>							
- Not overdue	187,802	-	-	2,747	-	-	190,549
- 1 to 30 days overdue	10,491	-	-	5,203	-	-	15,694
- 31 to 90 days overdue	5,109	-	-	-	-	-	5,109
- 91 to 180 days overdue	940	-	-	-	-	-	940
- 181 to 360 days overdue	214	-	-	-	-	-	214
- More than 360 days overdue	350	-	-	-	-	-	350
Total individually assessed impaired loans	204,906	-	-	7,950	-	-	212,856
<i>Collectively assessed impaired loans</i>							
- not overdue	228	5,613	9,524	3,635	738	-	19,738
- 1 to 30 days overdue	100	725	858	3,532	118	-	5,333
- 31 to 90 days overdue	-	1,792	1,078	1,806	365	-	5,041
- 91 to 180 days overdue	-	9,683	2,901	4,409	6,262	951	24,206
- 181 to 360 days overdue	-	5,150	2,692	6,555	1,833	409	16,639
- More than 360 days overdue	-	1,385	80	440	1	85	1,991
Total collectively assessed impaired loans	328	24,348	17,133	20,377	9,317	1,445	72,948
Total loans and advances to customers (before impairment)	1,500,104	871,996	905,274	625,628	493,328	242,699	4,639,029
Total provision	(108,050)	(40,408)	(13,135)	(12,506)	(18,019)	(2,025)	(194,143)
Total loans and advances to customers	1,392,054	831,588	892,139	613,122	475,309	240,674	4,444,886

9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding as of 31 December 2014 is as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
<i>Neither past due nor impaired</i>							
- Borrowers with credit history over two years	784,212	415,328	470,873	248,251	106,930	110,731	2,136,325
- New borrowers	290,596	323,911	235,411	267,137	154,407	56,316	1,327,778
Total neither past due nor impaired	1,074,808	739,239	706,284	515,388	261,337	167,047	3,464,103
<i>Past due but not impaired</i>							
- 1 to 30 days overdue	229	13,281	3,165	5,156	3,345	1,151	26,327
- 31 to 90 days overdue	2,377	201	40	288	151	503	3,560
- 91 to 180 days overdue	-	3	-	-	56	107	166
- 181 to 360 days overdue	-	8	-	-	-	88	96
- More than 360 days overdue	-	6	-	-	-	106	112
Total past due but not impaired	2,606	13,499	3,205	5,444	3,552	1,955	30,261
<i>Individually assessed impaired loans</i>							
- Not overdue	124,483	-	-	2,506	-	-	126,989
- 31 to 90 days overdue	18,270	-	-	-	-	-	18,270
- 91 to 180 days overdue	4,227	-	-	-	-	-	4,227
- 181 to 360 days overdue	325	-	-	-	-	-	325
Total individually assessed impaired loans	147,305	-	-	2,506	-	-	149,811
<i>Collectively assessed impaired loans</i>							
- Not overdue	6,783	9,267	2,089	1,119	3,383	-	22,641
- 1 to 30 days overdue	4	1,020	113	68	1,670	-	2,875
- 31 to 90 days overdue	207	7,445	2,912	4,942	1,861	-	17,367
- 91 to 180 days overdue	16	7,641	2,022	2,771	1,625	-	14,075
- 181 to 360 days overdue	-	2,189	243	1,309	268	-	4,009
- More than 360 days overdue	-	743	-	372	3	-	1,118
Total collectively assessed impaired loans	7,010	28,305	7,379	10,581	8,810	-	62,085
Total loans and advances to customers (before impairment)	1,231,729	781,043	716,868	533,919	273,699	169,002	3,706,260
Total provision	(91,226)	(36,753)	(8,889)	(5,288)	(7,608)	-	(149,764)
Total loans and advances to customers	1,140,503	744,290	707,979	528,631	266,091	169,002	3,556,496

The retail segment in Note 28 includes the following classes from the above tables: consumer, mortgage and other. Included in other are primarily pawn shop loans secured with precious metals.

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and it created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The tables above provide an analysis of the loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired', 'past due but not impaired', 'individually assessed impaired loans' and 'collectively assessed impaired loans'. The pool of 'neither past due nor impaired loans' includes exposures that are not overdue and are not classified as impaired. 'Past due but not impaired' loans include overdue performing loans but with no objective evidence of impairment identified. The classification includes as well triggered loans that are not impaired because the current value of the expected cash and collateral recoveries are sufficient for full repayment. 'Individually assessed impaired loans' include exposures which were assessed for impairment on an individual basis, and an ad-hoc impairment allowance was created. 'Collectively assessed impaired loans' include exposures for which objective evidence of impairment was identified and the respective collective impairment allowance was created. The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate
- Movable property including fixed assets, inventory and precious metals
- Financial assets including deposits, stocks, and third party guarantees

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31 DECEMBER 2016

9 Loans and Advances to Customers continued

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 2016:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	1,847,145	5,877,714	213,027	109,076
Consumer loans	871,215	2,725,814	792,335	11,066
Mortgage loans	1,783,814	4,700,091	27,881	16,360
Loans to small and medium enterprises	844,604	2,841,623	12,948	9,120
Micro loans	643,528	1,743,105	34,218	11,957
Others	159,293	210,462	128,717	127,926
Total	6,149,599	18,098,809	1,209,126	285,505

The effect of collateral as of 31 December 2015:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	1,312,561	2,810,880	187,543	64,905
Consumer loans	550,890	1,355,264	321,106	19,108
Mortgage loans	891,639	2,241,109	13,635	3,935
Loans to small and medium enterprises	620,094	1,773,481	5,534	2,644
Micro loans	458,372	915,594	34,956	8,176
Others	159,081	196,058	83,618	83,257
Total	3,992,637	9,292,386	646,392	182,025

The effect of collateral as of 31 December 2014:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	1,093,300	2,515,867	138,429	44,528
Consumer loans	554,470	1,187,516	226,573	15,505
Mortgage loans	706,979	1,699,839	9,889	3,789
Loans to small and medium enterprises	526,499	1,519,665	7,420	1,036
Micro loans	271,045	400,910	2,654	1,307
Others	139,350	165,452	29,652	29,351
Total	3,291,643	7,489,249	414,617	95,516

The effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collaterals such as movable assets and precious metals.

9 Loans and Advances to Customers continued

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 608,058 thousand, GEL 358,907 thousand and GEL 307,491 thousand as of 31 December 2016, 2015 and 2014 respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 41 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 43.

10 Investment Securities Available for Sale

<i>In thousands of GEL</i>	2016	2015	2014
Corporate bonds	150,073	174,916	25,034
Certificates of Deposit of the National Bank of Georgia	36,002	84,849	198,233
Ministry of Finance of Georgia Treasury Bills	241,810	33,445	476
Georgian Government notes	1,016	998	232,934
Total debt securities	428,901	294,208	456,677
Corporate shares – quoted (VISA Inc)	–	9,335	6,140
Corporate shares – unquoted	1,802	3,767	3,693
Total investment securities available for sale	430,703	307,310	466,510

All debt securities except for corporate bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as assigned by international rating agencies in September 2016). 99.5% of corporate bonds are issued by triple A rated international financial institutions, whereas 0.5% is issued by a non-rated corporation. The management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 1,802 thousand (2015: GEL 3,767 thousand; 2014: GEL 3,693 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

As of 31 December 2016 investment securities available for sale carried at GEL 205,216 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2015: GEL 208,467 thousand; 2014: GEL 173,239 thousand). Refer to Note 18.

None of the debt securities available for sale are overdue or impaired.

As of 31 December 2016 the principal equity investment securities available for sale are as follows:

<i>Name</i>	<i>Nature of business</i>	<i>Country of registration</i>	<i>Carrying value as of 31 December</i>		
			2016	2015	2014
<i>In thousands of GEL</i>					
Visa Inc.	Card Processing	USA	–	9,335	6,140
LTD Caucasus Online	Telecommunication	Georgia	–	3,014	3,014
JSC GRDC	Property development	Netherlands Antilles	365	365	365
Georgian Stock Exchange	Stock exchange	Georgia	1,004	–	–
Other			433	388	314
Total			1,802	13,102	9,833

The movements in investment securities available for sale are as follows:

<i>In thousands of GEL</i>	Note	2016	2015	2014
Carrying amount as of 1 January		307,310	466,510	500,651
Business Combination	44	153,004	–	–
Purchases		143,783	475,417	848,679
Disposals		(14,679)	–	(51,369)
Reclassified to Bonds carried at amortised cost		–	(372,063)	–
Redemption at maturity		(167,115)	(265,107)	(843,695)
Revaluation		522	(2,436)	(1,849)
Interest income accrued	29	25,707	20,927	30,361
Interest income received		(17,900)	(15,938)	(16,246)
Impairment related to investment in equity security		(11)	–	(22)
Effect of translation to presentation currency		82	–	–
Carrying amount as of 31 December		430,703	307,310	466,510

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11 Bonds Carried at Amortized Cost

<i>In thousands of GEL</i>	2016	2015	2014
Ministry of Finance Treasury Bills	323,478	316,822	–
Certificates of Deposit of the National Bank of Georgia	43,408	39,870	–
Georgian Government notes	6,070	15,400	–
Total Bonds carried at amortized cost	372,956	372,092	–

All debt securities except for corporate bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as per international rating agencies in September 2016).

The movements in bonds carried at amortised cost are as follows:

<i>In thousands of GEL</i>	Note	2016	2015	2014
Gross amount as of 1 January		372,092	–	–
Reclassified from available-for-sale securities	10	–	372,063	–
Purchases		304,109	183,084	–
Redemption at maturity		(314,231)	(193,416)	–
Interest income accrual		30,714	22,950	–
Interest income received		(19,740)	(12,589)	–
Effect of translation to presentation currency		12	–	–
Gross amount as of 31 December		372,956	372,092	–

For the disclosure of bonds' fair value carried at amortised cost refer to Note 41. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 35.

As of 31 December 2016 bonds carried at amortised cost of GEL 273,311 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2015: GEL 136,472 thousand; 2014: GEL nil). Refer to Note 18.

None of the bonds carried at amortised cost as of 31 December 2016 and 31 December 2015 were either overdue or impaired.

During 2015 the Group reclassified investment securities available for sale to bonds carried at amortised cost with carrying amount of GEL 372,063 thousand.

At the end of the reporting period, the carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

<i>In thousands of GEL</i>	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Certificates of Deposit of National Bank of Georgia	–	–	–	–
Ministry of Finance Treasury Bills	160,619	164,313	219,271	203,086
Government notes	6,070	6,094	12,330	12,050
Total	166,689	170,407	231,601	215,137

The income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

<i>In thousands of GEL</i>	Certificates of Deposit of National Bank of Georgia		Ministry of Finance Treasury Bills		Government notes	
	Income after reclassification	Gain/(loss) without reclassification	Income after reclassification	Gain/(loss) without reclassification	Income after reclassification	Gain/(loss) without reclassification
Year						
2015	13	–	10,319	–	641	–
2016	–	–	17,575	–	797	–

11 Bonds Carried at Amortized Cost continued

In addition, for assets reclassified from available for sale category, income or loss recognised in other comprehensive income after reclassification would have been as follows:

In thousands of GEL	Certificates of Deposit of National Bank of Georgia	Ministry of Finance Treasury Bills	Government notes
Year			
2015	-	(16,185)	(280)
2016	-	3,694	24

12 Other Financial Assets

In thousands of GEL	2016	2015	2014
Receivables on credit card services and money transfers	24,801	15,072	9,440
Receivables on guarantees	18,215	16,435	11,728
Prepayments for purchase of leasing assets	10,628	9,390	13,032
Receivables on repossessed assets disposed	10,603	672	937
Receivables on POS terminal services	9,506	5,854	2,300
Receivable on terminated leases	7,832	4,404	3,323
Bank assurance income receivable	4,549	4,450	1,548
Rental income receivables	3,816	4,309	2,056
Insurance and Reinsurance Receivables	2,249	-	-
Factored receivables	900	2,859	-
Other	8,188	6,764	3,723
Less: Provision for impairment	(6,660)	(5,892)	(4,230)
Total other financial assets	94,627	64,317	43,857

Movements in the provision for impairment of other financial assets during 2016 were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2016	3,561	2,331	5,892
Business Combination	-	72	72
Provision for impairment during the year	1,105	1,748	2,853
Amounts written off during the year as uncollectible	-	(2,370)	(2,370)
Recovery of amounts previously written off	-	213	213
Provision for impairment as of 31 December 2016	4,666	1,994	6,660

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12 Other Financial Assets continued

Movements in the provision for impairment of other financial assets during 2015 were as follows:

<i>In thousands of GEL</i>	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2015	2,573	1,657	4,230
Provision for impairment during the year	988	2,363	3,351
Amounts written off during the year as uncollectible	–	(1,721)	(1,721)
Recovery of amounts previously written off	–	32	32
Provision for impairment as of 31 December 2015	3,561	2,331	5,892

Movements in the provision for impairment of other financial assets during 2014 are as follows:

<i>In thousands of GEL</i>	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2014	2,054	1,026	3,080
Provision for impairment during the year	533	703	1,236
Amounts written off during the year as uncollectible	(14)	(409)	(423)
Recovery of amounts previously written off	–	337	337
Provision for impairment as of 31 December 2014	2,573	1,657	4,230

The table below illustrates the credit quality of other financial receivables:

<i>In thousands of GEL</i>	2016	2015	2014
<i>Neither past due nor impairment</i>			
– Receivables on credit card services and money transfers	24,801	15,072	9,440
– Prepayments for purchase of leasing assets	10,628	9,390	13,032
– Receivables on POS terminal services	9,506	5,854	2,300
– Receivables on repossessed assets disposed	5,700	534	937
– Bank assurance income receivable	4,549	4,450	1,548
– Rental income receivables	3,816	4,309	2,056
– Insurance and Reinsurance Receivables	2,249	–	–
– Receivables on guarantees	1,089	939	836
– Factored receivables	900	2,859	–
– Other	2,222	4,435	1,922
Total neither past due nor impaired	65,460	47,842	32,071
<i>Past due but not impaired</i>			
– Receivables on guarantees			
– More than 90 days overdue	17,126	15,496	10,892
Total past due but not impaired	17,126	15,496	10,892
Receivables individually determined to be impaired (gross)			
– Receivables on terminated leases	7,832	4,404	3,323
– Less than 90 days overdue	–	–	–
– More than 90 days overdue	7,832	4,404	3,323
– Receivables on repossessed assets disposed	4,903	138	–
– Less than 90 days overdue	–	–	–
– More than 90 days overdue	4,903	138	–
– Other receivables	5,966	2,329	1,801
– Less than 90 days overdue	–	–	–
– More than 90 days overdue	5,966	2,329	1,801
Total individually impaired (gross)	18,701	6,871	5,124
Less impairment provision	(6,660)	(5,892)	(4,230)
Total other financial assets	94,627	64,317	43,857

12 Other Financial Assets continued

Credit rating of other financial assets neither past due nor impaired is as follows:

<i>In thousands of GEL</i>	2016	2015	2014
A+	2,508	2,018	483
A	14,086	8,700	5,910
BBB+	845	286	400
B+	1,007	322	59
B	2,645	2,281	897
Not rated	44,369	34,235	24,322
Total	65,460	47,842	32,071

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 2,039 thousand (2015: GEL 1,253 thousand, 2014: GEL 808 thousand). The remaining assets are not collateralised.

13 Investments in Finance Lease

As of 31 December 2016 investments in finance lease of GEL 95,031 thousand (2015: GEL 75,760 thousand; 2014: GEL 50,907 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:

<i>In thousands of GEL</i>	Due in 1 year	Due between 2 and 5 years	Total
Finance lease payments receivable as of 31 December 2016	65,265	56,672	121,937
Unearned finance income	(15,302)	(10,462)	(25,764)
Impairment loss provision	(678)	(464)	(1,142)
Present value of lease payments receivable as of 31 December 2016	49,285	45,746	95,031
Finance lease payments receivable as of 31 December 2015	54,546	43,091	97,637
Unearned finance income	(13,147)	(7,992)	(21,139)
Impairment loss provision	(459)	(279)	(738)
Present value of lease payments receivable as of 31 December 2015	40,940	34,820	75,760
Finance lease payments receivable as of 31 December 2014	36,414	27,662	64,076
Unearned finance income	(8,380)	(4,594)	(12,974)
Impairment loss provision	(126)	(69)	(195)
Present value of lease payments receivable at 31 December 2014	27,908	22,999	50,907

For fair values refer to Note 41.

The table below illustrates the movements in the provision for impairment of net investment in finance lease:

<i>In thousands of GEL</i>	31 December 2016	31 December 2015	31 December 2014
Provision for impairment at the beginning of the year	738	195	177
Provision for impairment during the year	558	967	77
Amounts written off during the year as uncollectible	(154)	(424)	(59)
Provision for impairment at the end of the year	1,142	738	195

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13 Investments in Finance Lease continued

Credit quality of net investment in finance lease is analysed below:

<i>In thousands of GEL</i>	31 December 2016	31 December 2015	31 December 2014
<i>Neither past due nor impaired</i>			
- Customers with more than two year experience	28,084	20,612	9,570
- New customers	45,404	46,431	30,442
Total neither past due nor impaired	73,488	67,043	40,012
<i>Past due but not impaired</i>			
- Less than 30 days overdue	15,357	4,285	6,213
- 31 to 90 days overdue	5,101	1,694	1,479
- 91 to 180 days overdue	-	-	424
- 180 days to 360 days overdue	-	-	67
Total past due but not impaired	20,458	5,979	8,183
<i>Impaired leases</i>			
- Not overdue	-	1,639	1,926
- 1 to 30 days overdue	-	332	568
- 31 days to 90 days overdue	-	33	75
- From 91 to 180 days	1,079	950	197
- From 181 to 360 days	966	522	-
- More than 360 days	182	-	141
Total impaired gross*	2,227	3,476	2,907
Total investment in finance lease	96,173	76,498	51,102
Impairment loss provision	(1,142)	(738)	(195)
Total net investment in finance lease	95,031	75,760	50,907

* Total impaired leases include both collectively and individually impaired leases

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors taken into account to consider whether or not a lease is impaired are the deterioration of the lessee's financial position, its overdue status, and liquidity of the leased asset.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment)
- Down payment
- Real estate properties,
- Third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

13 Investments in Finance Lease continued

The effect of collateral as of 31 December 2016:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	75,364	112,917	20,809	16,817
Total	75,364	112,917	20,809	16,817

The effect of collateral as of 31 December 2015:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	69,048	103,416	7,450	5,532
Total	69,048	103,416	7,450	5,532

The effect of collateral as of 31 December 2014:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	45,608	79,134	5,494	3,616
Total	45,608	79,134	5,494	3,616

14 Other Assets

<i>In thousands of GEL</i>	2016	2015	2014
Current other assets			
Inventories of repossessed collateral	90,873	85,216	60,480
Other inventories	3,973	3,666	2,961
Prepayments for other assets	28,660	3,134	3,724
Prepaid taxes other than income tax	3,326	2,659	1,718
Other debtor	35,497	-	-
Total current other assets	162,329	94,675	68,883
Non-current other assets			
Assets repossessed from terminated leases	2,673	4,543	3,797
Prepayments for construction in progress	2,445	2,578	2,078
Assets purchased for leasing purposes	286	865	545
Prepaid insurance of leasing assets	937	739	609
Other	2,593	512	1,863
Total non-current other assets	8,934	9,237	8,892
Total other assets	171,263	103,912	77,775

Included in Other Debtors is receivable from one corporate client, in respect of settlement of previously written-off loan.

Inventories of repossessed collateral represent real estate assets and equipment acquired by the Group in settlement of impaired loans, other than those classified as investment property or premises and equipment. The Group expects to dispose of these assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value. In 2016, collateral repossessed for settlement of impaired loans amounted to GEL 39 million (2015: GEL 34 million, 2014: GEL 26 million).

With regards to certain inventories of repossessed collaterals, the Group has granted previous owners a right to repurchase the inventories at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 18 months from the date of repossession, during this time the Group is obliged not to dispose of the repossessed collateral to third parties. As of 31 December 2016, the carrying value of the inventories of repossessed collateral subjected to the repurchase agreement was GEL 20,342 thousand (2015: GEL 23,639 thousand, 2014: GEL 33,283 thousand).

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15 Premises, Equipment and Intangible Assets

<i>In thousands of GEL</i>	Note	Land, Premises and leasehold improvements	Office and Other equipment*	Construction in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 1 January 2014		142,683	113,273	35,619	291,575	35,681	327,256
Accumulated depreciation/amortisation Including accumulated impairment loss		(23,678)	(68,229)	–	(91,907)	(12,190)	(104,097)
Carrying amount as of 1 January 2014		119,005	45,044	35,619	199,668	23,491	223,159
Additions		800	26,684	1,383	28,867	19,884	48,751
Transfers within premises and equipment		1,396	161	(1,557)	–	–	–
Transfers to Investment Property, net	16	(646)	–	–	(646)	–	(646)
Disposals		(1,509)	(9,355)	(178)	(11,042)	(334)	(11,376)
Impairment charge to profit and loss		–	(220)	–	(220)	–	(220)
Depreciation/amortisation charge		(3,214)	(14,267)	–	(17,481)	(5,493)	(22,974)
Elimination of accumulated depreciation/amortisation on disposals		270	9,276	–	9,546	208	9,754
Carrying amount as of 31 December 2014		116,102	57,323	35,267	208,692	37,756	246,448
Cost or valuation as of 31 December 2014		142,724	130,543	35,267	308,534	55,231	363,765
Accumulated depreciation/amortisation including accumulated impairment loss		(26,622)	(73,220)	–	(99,842)	(17,475)	(117,317)
Carrying amount as of 31 December 2014		116,102	57,323	35,267	208,692	37,756	246,448
Additions		2,470	24,167	3,841	30,478	17,337	47,815
Transfers within premises and equipment		1,717	(0)	(1,717)	(0)	–	(0)
Transfers from Investment Property, net	16	646	–	–	646	–	646
Disposals		(324)	(1,201)	(864)	(2,389)	(199)	(2,588)
Revaluation		15,249	–	13,506	28,755	–	28,755
Effect of translation to presentation currency Cost		(374)	(536)	–	(910)	(43)	(953)
Impairment charge to profit and loss		18	(311)	–	(293)	(4,982)	(5,275)
Depreciation/amortisation charge		(3,502)	(15,632)	–	(19,134)	(5,758)	(24,892)
Elimination of accumulated depreciation/amortisation on disposals		217	952	–	1,169	197	1,366
Effect of translation to presentation currency Accumulated depreciation		362	391	–	753	36	789
Carrying amount as of 31 December 2015		132,581	65,153	50,033	247,767	44,344	292,111
Cost or valuation as of 31 December 2015		162,126	152,662	50,033	364,821	67,344	432,165
Accumulated depreciation/amortisation including accumulated impairment loss		(29,545)	(87,509)	–	(117,054)	(23,000)	(140,054)
Carrying amount as of 31 December 2015		132,581	65,153	50,033	247,767	44,344	292,111
Additions		5,555	19,369	6,206	31,130	18,904	50,034
Business combination	44	50,049	8,260	36	58,345	6,761	65,106
Transfers within premises and equipment		3,042	–	(3,042)	–	–	–
Transfers to Repossessed assets		(298)	–	–	(298)	–	(298)
Disposals		(2,571)	(3,836)	(69)	(6,476)	(4)	(6,480)
Effect of translation to presentation currency Cost		(31)	(45)	–	(76)	(12)	(88)
Impairment charge to profit and loss		(574)	(675)	–	(1,249)	(2,043)	(3,292)
Depreciation/amortisation charge		(3,269)	(16,895)	–	(20,164)	(6,981)	(27,145)
Elimination of accumulated depreciation/amortisation on disposals		2,439	2,555	–	4,994	–	4,994
Effect of translation to presentation currency Accumulated depreciation		27	32	–	59	(12)	47
Carrying amount as of 31 December 2016		186,950	73,918	53,164	314,032	60,957	374,989
Cost or valuation as of 31 December 2016		217,299	175,636	53,164	446,099	90,950	537,049
Accumulated depreciation/amortisation including accumulated impairment loss		(30,349)	(101,718)	–	(132,067)	(29,993)	(162,060)
Carrying amount as of 31 December 2016		186,950	73,918	53,164	314,032	60,957	374,989

* Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment.

15 Premises, Equipment and Intangible Assets continued

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

Premises were revalued to market value on 30 September 2015. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation. At acquisition date valuation of Bank Republic's assets has been performed. Fair value of respective assets is disclosure below.

The management considers that the fair value has not changed significantly between 30 September 2015 and 31 December 2016.

<i>In thousands of GEL (except for range of inputs)</i>	Fair value as of 20 October 2016 (acquisition date)	Fair value as of 30 September 2015 (valuation date)	Valuation technique	Other key information	Unobservable inputs	Range of unobservable inputs (weighted average)
Office buildings	30,753	51,115	Sales comparison approach	Land	Price per square meter	472 – 3,432 (797)
				Buildings		601 – 6,598 (1,781)
Branches	18,645	124,069	Sales comparison approach	Land	Price per square meter	2 – 3,427 (280)
				Buildings		452 – 11,514 (2,360)

As of 31 December 2016 the carrying amount of premises would have been GEL 134,352 thousand (2015: GEL 79,952 thousand; 2014: GEL 86,039 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2016 the carrying amount of construction in progress would have been GEL 30,394 thousand (2015: GEL 27,284 thousand; 2014: GEL 20,000 thousand) had the assets been carried at cost less impairment losses.

16 Investment Properties

<i>In thousands of GEL</i>	Note	2016	2015	2014
Gross book value as of 1 January		60,648	78,699	84,879
Accumulated depreciation as of 1 January		(3,048)	(2,483)	(1,496)
Carrying amount as of 1 January		57,600	76,216	83,383
Transfer from/to premises and equipment	15	-	(646)	646
Transfer from inventories of repossessed collateral		15,935	778	2,059
Addition from foreclosure		6,820	-	772
Disposals at cost		(6,892)	(18,101)	(9,657)
Elimination of depreciation on disposal		253	829	466
Depreciation charge		(937)	(1,394)	(1,453)
Acquisition through business combination	44	22,836	-	-
Effect of translation to presentation currency		-	(82)	-
Gross book value as of 1 January		99,347	60,648	78,699
Accumulated depreciation as of 1 January		(3,732)	(3,048)	(2,483)
Carrying amount as of 31 December		95,615	57,600	76,216

As of 31 December 2016, investment properties comprised of 62 lots (2015: 8 lots; 2014: 9 lots) of land and 141 buildings (2015: 59 buildings; 2014: 57 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 123,852 thousand (2015: GEL 105,972 thousand; 2014: GEL 79,056 thousand).

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16 Investment Properties continued

For disclosure purposes a fair valuation exercise was carried out for Investment Properties as of 31 December 2016. The valuation was carried out by internal valuers 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.

<i>In thousands of GEL (except for range of inputs)</i>	Fair value as of 20 October 2016 (acquisition date)	Fair value as of 31 December 2016 (valuation date)	Valuation technique	Unobservable inputs	Range of unobservable inputs (weighted average)
Land	3,398	33,618	Sales comparison approach	Price per square meter	2 – 2,303 (131)
Buildings	19,438	67,398	Sales comparison approach	Price per square meter	15 – 5,827 (825)

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

<i>In thousands of GEL</i>	2016	2015	2014
Not later than 1 year	463	186	107
Later than 1 year and not later than 5 years	805	–	1,008
Total operating lease payments receivable	1,268	186	1,115

17 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	2016	2015	2014
Carrying amount as of 1 January	2,726	2,726	2,726
Acquisition of subsidiaries	25,932	–	–
Carrying amount as of 31 December	28,658	2,726	2,726

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

<i>In thousands of GEL</i>	2016	2015	2014
JSC Bank Republic	24,166	–	–
CGU Micro/JSC Bank Constanta	769	769	769
JSC United Financial Corporation	695	695	695
LLC TBC Kredit	1,262	1,262	1,262
JSC TBC Insurance	1,766	–	–
Total carrying amount of goodwill	28,658	2,726	2,726

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.

17 Goodwill continued

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2016	2015	2014
JSC Bank Republic		-	-
Growth rate beyond five years of Free Cash Flow to equity	4.00% p.a.	-	-
Pre-tax discount rate	21.72% p.a.	-	-
CGU SME/JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	4.00% p.a.	5.00% p.a.	6.00% p.a.
Pre-tax discount rate	14.39% p.a.	24.74% p.a.	18.82% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	4.00% p.a.	5.00% p.a.	6.00% p.a.
Pre-tax discount rate	19.18% p.a.	29.73% p.a.	22.36% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	4.00% p.a.	5.00% p.a.	4.00% p.a.
Pre-tax discount rate	28.10% p.a.	27.05% p.a.	17.05% p.a.
JSC TBC Insurance			
Growth rate beyond five years of Free Cash Flow to equity	4.00% p.a.	-	-
Pre-tax discount rate	19.50% p.a.	-	-

The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC Bank Republic had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2015: nil; 2014: nil). Recoverable amount of JSC Bank Republic CGU exceeds its carrying amount by GEL1,295,196 thousand (2015: nil; 2014: nil). The CGU's carrying amount would equal its value in use at a discount rate of 71.58% p.a. (2015: nil; 2014: nil).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro/JSC Bank Constanta had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2015: nil; 2014: nil). Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 284,402 thousand (2015: GEL 156,283 thousand; 2014: GEL 71,384 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 30.74% p.a. (2015: 49.35% p.a.; 2014: 29.36% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2015: nil and nil; 2014: GEL 695 thousand and GEL 2,915 thousand). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 13,073 thousand (2015: GEL 6,856 thousand; 2014: GEL 801 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 46.36% p.a. (2015: 119.58% p.a.; 2014: 22.45% 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 (2015: nil; 2014: nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 20,505 thousand (2015: GEL 61,268 thousand; 2014: GEL 57,348 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 68.64% of p.a. (2015: 165.08% p.a.; 2014: 47.60% 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 (2015: nil; 2014: nil). Recoverable amount of JSC TBC Insurance CGU exceeds its carrying amount by GEL 58,588 thousand (2015: nil; 2014: nil). The CGU's carrying amount would equal its value in use at a discount rate of 62.29% p.a. (2015: nil; 2014: nil).

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18 Due to Credit Institutions

<i>In thousands of GEL</i>	2016	2015	2014
Due to other banks			
Correspondent accounts and overnight placements	22,872	47,342	37,247
Deposits from banks	176,443	25,936	47,802
Short-term loans from banks	117,592	–	934
Total due to other banks	316,907	73,278	85,983
Other borrowed funds			
Borrowings from foreign banks and financial institutions	1,412,095	678,946	452,469
Borrowings from local banks and financial institutions	439,234	355,664	204,475
Borrowings from Ministry of Finance	4,203	5,686	6,358
Borrowings from other financial institutions	25,138	–	–
Total other borrowed funds	1,880,670	1,040,296	663,302
Total amounts due to credit institutions	2,197,577	1,113,574	749,285

As of 31 December 2016, TBC Kredit had breached certain covenants under the loan agreement with OPIC. The carrying amount of the affected loan as of 31 December 2016 was GEL 14,816 thousands. As of 31 December 2016, TBC Kredit was in the process of obtaining a waiver. Expected to be granted by 30 April 2017, the waiver would cover the period between 31 December 2016 and September 2019.

As of 31 December 2016 for the purposes of maturity analysis of financial liabilities (Note 35) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

19 Customer Accounts

<i>In thousands of GEL</i>	2016	2015	2014
State and public organisations			
– Current/settlement accounts	240,743	152,438	130,008
– Term deposits	78,990	86,828	47,084
Other legal entities			
– Current/settlement accounts	2,143,483	1,276,141	1,042,559
– Term deposits	243,582	126,042	125,605
Individuals			
– Current/demand accounts	1,618,434	944,215	684,521
– Term deposits	2,129,717	1,592,267	1,292,651
Total customer accounts	6,454,949	4,177,931	3,322,428

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of GEL</i>	31 December 2016		31 December 2015		31 December 2014	
	Amount	%	Amount	%	Amount	%
Individual	3,748,151	58%	2,536,482	61%	1,977,173	60%
Financial Services	501,591	8%	219,888	5%	210,448	6%
Trade	305,022	5%	161,417	4%	98,750	3%
Energy and Utilities	283,497	4%	152,636	4%	123,656	4%
Services	269,824	4%	115,563	3%	114,829	4%
Construction	222,372	4%	118,035	3%	126,463	4%
Transportation	188,388	3%	135,356	3%	101,939	3%
Government Sector	140,852	2%	172,185	4%	116,076	3%
Hotels and Leisure	104,066	2%	73,071	2%	52,610	2%
Food Industry	82,983	1%	52,363	1%	73,443	2%
Real Estate	82,893	1%	66,773	2%	73,028	2%
Healthcare	64,493	1%	95,280	2%	30,317	1%
Communication	56,787	1%	48,669	1%	67,255	2%
Automotive	53,865	1%	40,058	1%	22,018	1%
Agriculture	37,850	1%	10,906	0%	6,461	0%
Metals and Mining	22,817	0%	16,537	0%	15,329	0%
Other	289,498	4%	162,712	4%	112,633	3%
Total customer accounts	6,454,949	100%	4,177,931	100%	3,322,428	100%

19 Customer Accounts continued

In 2016, the Group re-assessed the allocation of customer accounts per economic sectors; the classification for 2014 and 2015 was revised to make it consistent with 2016.

As of 31 December 2016 the Group had 222 customers (2015: 140 customers; 2014: 125 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 2,539,513 thousand (2015: GEL 1,432,724 thousand; 2014: GEL 1,111,385 thousand) or 39% of total customer accounts (2015: 34%; 2014: 33%).

As of 31 December 2016 included in customer accounts are deposits of GEL 13,355 thousand and GEL 119,146 thousand (2015: GEL 999 thousand and GEL 77,304 thousand; 2014: GEL 636 thousand and GEL 71,902 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 37. As of 31 December 2016, deposits held as collateral for loans to customers amounted to GEL 342,365 thousand (2015: GEL 241,782 thousand, 2014: 151,357 thousand).

Refer to Note 41 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 43.

20 Debt Securities in Issue

<i>In thousands of GEL</i>	Currency	Carrying amount in GEL as of 31 December 2016	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	5,312	3-Sep-17	8.4%	9.2%
Bonds issued on Georgian market	USD	5,237	15-Aug-18	7.8%	8.6%
Bonds issued on Georgian market	USD	5,198	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,761	22-Jul-19	7.3%	8.1%
Total debt securities in issue		23,508			

<i>In thousands of GEL</i>	Currency	Carrying amount in GEL as of 31 December 2015	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	12,220	21-Jul-16	9.0%	9.7%
Bonds issued on Georgian market	USD	4,798	3-Sep -17	8.4%	9.2%
Bonds issued on Azerbaijani market	AZN	4,696	16-Apr-16	9.0%	9.7%
Total debt securities in issue		21,714			

<i>In thousands of GEL</i>	Currency	Carrying amount in GEL as of 31 December 2014	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	9,469	21-Jul-16	9.0%	9.7%
Bonds issued on Azerbaijani market	AZN	7,236	16-Apr-16	9.0%	9.7%
Bonds issued on Georgian market	USD	3,718	3-Sep -17	8.4%	9.2%
Total debt securities in issue		20,423			

Refer to Note 41 for the disclosure of the fair value of debt securities in issue.

21 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges

Movements in provisions for performance guarantees, credit related commitment and liabilities and charges are as follows:

<i>In thousands of GEL</i>	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2014	4,153	4,927	3,300	12,380
Charges less releases recorded in profit or loss	759	(1,661)	5,500	4,598
Utilisation of provision	-	-	(5,080)	(5,080)
Carrying amount as of 31 December 2014	4,912	3,266	3,720	11,898
Charges less releases recorded in profit or loss	(3,440)	2,323	1,102	(15)
Utilisation of provision	-	-	(2,422)	(2,422)
Carrying amount as of 31 December 2015	1,472	5,589	2,400	9,461
Charges less releases recorded in profit or loss	(452)	1,223	2,528	3,299
Assuming guarantees following asset purchase	909	-	-	909
Additions through Business Combinations	706	1,237	414	2,357
Carrying amount as of 31 December 2016	2,635	8,049	5,342	16,026

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21 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges continued

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

For letter of credits and guarantees allowance estimation purposes the Bank classifies borrowers as significant and non-significant ones. Triggered significant guarantees and letter of credits are assessed for impairment on an individual basis, whereas for not triggered significant and all non-significant ones the Bank estimates allowances applying statistical risk parameters, such as credit conversion factor and loss given default.

Undrawn credit lines are classified as committed and uncommitted exposures, with impairment allowance created for committed ones. The undrawn part of the credit lines is multiplied by the respective credit conversion factor and provisioned in the similar manner as corresponding on balance sheet exposures.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the year-end.

Additions less releases recorded in profit and loss for "Other" provisions does not include gross change in total reserves for insurance claims in amount of GEL 318 thousands that are included in net claims incurred.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of GEL</i>	Note	2016	2015	2014
Debit or credit card payables		12,066	12,478	8,710
Trade payables		16,612	10,264	9,835
Security deposits for finance lease		8,241	6,022	6,915
Derivative financial liabilities	40	1,298	2,411	5,639
Insurance Contracts Liabilities		486	-	-
Other accrued liabilities		12,295	8,260	10,247
Total other financial liabilities		50,998	39,435	41,346

Refer to Note 41 for disclosure of the fair value of other financial liabilities.

23 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of GEL</i>	2016	2015	2014
Accrued employee benefit costs	38,317	22,385	21,502
Taxes payable other than on income	16,723	11,584	10,232
Advances received	6,284	4,764	977
Other	5,415	1,894	2,264
Total other liabilities	66,739	40,627	34,975

All of the above liabilities are expected to be settled within twelve months after the year-end.

24 Subordinated Debt

As of 31 December 2016, subordinated debt comprised of:

<i>In thousands of GEL</i>	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,446	27,649
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,480	19,799
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,474	93,891
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,239	40,335
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,631	20,197
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,629	20,194
Asian Development Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,407	133,417
Total subordinated debt					368,381

As of 31 December 2015, subordinated debt comprised of:

<i>In thousands of GEL</i>	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,427	24,971
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	USD	18,729	44,855
International Financial Corporation	23-Apr-09	12-Nov-18	USD	18,716	44,823
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,466	17,880
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,373	84,715
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,739	6,739
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	14,892	35,666
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,448	17,837
Total subordinated debt					283,648

As of 31 December 2014, subordinated debt comprised of:

<i>In thousands of GEL</i>	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	10,410	19,400
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	USD	18,676	34,804
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	USD	7,067	13,169
International Financial Corporation	23-Apr-09	12-Nov-18	USD	18,655	34,766
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,453	13,890
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,299	65,782
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,204	6,204
Total subordinated debt					188,015

The debt ranks after all other creditors in case of liquidation.

Refer to Note 41 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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25 Share Capital

<i>In thousands of GEL except for number of shares</i>	Number of ordinary shares	Share capital
As of 1 January 2014	164,987	16,499
Share split	41,387,784	123
Shares issued	7,692,308	3,077
Increase in share capital arising from share based payment	1,229	–
As of 31 December 2014	49,246,308	19,699
Increase in share capital arising from share based payment	284,560	113
Treasury shares returned	(1,405)	(1)
As of 31 December 2015	49,529,463	19,811
Increase in share capital arising from share based payment	525,456	210
Conversion of shares following the Tender Offer*	(895,039)	(358)
Share capital adjustment for new nominal value**	–	(18,169)
Shares issued	3,006,823	87
As of 31 December 2016	52,166,703	1,581

* 895,039 is the number of JSC TBC Bank shares that were not converted into the TBC Bank Group PLC shares

** Negative GEL 18,169 thousand is effect of nominal value adjustment whereby the nominal value of 49,159,880 TBC Bank Group PLC shares was changed from GEL 0.4 to one British Penny translated in GEL with the official exchange rate on share conversion date

On 4 March 2014, Shareholders of the Bank approved the split of the ordinary shares 250-for-1 and authorised the issue of additional 10,445,387 shares.

In June 2014, 19,684,322 shares of the Bank were sold in the form of Global Depository Receipts (“GDRs”) on the London Stock Exchange (the “LSE”) pursuant to an initial public offering to institutional investors. 7,692,308 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Bank of New York (“BNY”) acted as a depository of these shares. Each GDR represented 1 ordinary share of the Bank.

On 4 August 2016, the Group completed the Tender Offer under which 49,159,880 of the Bank’s shares then outstanding or 98.21%, were converted into 49,159,880 shares of TBC Bank Group PLC (note 1)

As of 31 December 2016 the total authorised number of ordinary shares was 52,166,703 shares (31 December 2015: 49,529,463 shares; 31 December 2014: 49,246,308 shares). Each share has a nominal value of one British Penny (31 December 2015: GEL 0.4 per share; 31 December 2014: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

Following the Admission (Note 1), TBCG’s Directors undertook a reduction of capital in order to create distributable reserves for TBCG. The original difference between the fair value of the Bank’s shares and the nominal value of TBCG’s shares was credited to the merger reserve created in connection with the Tender Offer. Each TBCG share had an original (Tender Offer) nominal value of GBP 5.00 and the minimum premium amount required by the Company Act 2006 of GEL 565,030 thousand was transferred to share premium. Following the capital cut the nominal value of TBCG shares was reduced to GBP 0.01. The capital cut created a new reserve on the statement of TBCG’s financial position (comprising of the reduction of the original nominal value from GBP 5.00 to GBP 0.01 per share) amounting to GEL 745,637 thousand. The reduction represents a legal and accounting adjustment and did not, in itself, have any direct impact on TBCG shares’ market value. As a result of the reduction, the Group’s total additional paid-in capital outstanding at the time became distributable to the shareholders and was fully reclassified to retained earnings.

These transactions were treated as a reorganisation of an existing entity that has not changed the substance of the reporting entity. The consolidated financial statements of TBCG are presented using the values from the consolidated financial statements of JSC TBC Bank. On the date that TBCG became the new parent of the Group, the statutory amounts of share capital and share premium of the Company have been recognised through an adjustment in the Statement of Changes in Equity under the heading ‘Change of parent company to TBCG’. The resulting difference has been recognised as a component of equity under the heading ‘Group reorganisation reserve’.

On 25 April 2016, at the annual general meeting JSC TBC Bank’s shareholders agreed on a dividend of GEL 1.09 per share, based on the 2015 audited financial statements. The dividend was recorded on 3 May 2016 and on 11 May 2016 shareholders received the payment of the total GEL 54,560 dividends. On 19 May 2015, at the annual general meeting JSC TBC Bank’s shareholders agreed on a dividend of GEL 0.79 per share, based on the 2014 audited financial statements. The dividend was recorded on 26 May 2015 and on 2 June 2015 shareholders received the payment of the total GEL 39,128 dividends.

On 4 March 2014, at the annual general meeting JSC TBC Bank’s shareholders agreed on a dividend of GEL 0.64 per share, based on the 2013 audited financial statements. The dividend was recorded on 4 March 2014 and on 4 March 2014 shareholders received the payment of the total GEL 26,492 dividends.

26 Share Based Payments

June 2013 arrangement:

In June 2013, the Bank's Supervisory Board approved a new management compensation scheme for the years 2013 – 2015 and authorised a maximum of 4,150 new shares to be issued in accordance with the scheme. The authorized number of new shares has increased to 1,037,500 in order to reflect the share split 250-for-1 approved by the shareholders on 4 March 2014. According to the scheme, each year, (subject to predefined performance conditions) a certain number of shares will be awarded to the top management and some of the middle managers of the Group.

The performance evaluation is divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded (legally transferred) depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the award date. The team goals primarily focus on meeting the target for growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achieving the team goals. Individual performance indicators are defined on an individual basis and are used to calculate the number of shares to be awarded to each employee out of the total bonus pool. Once awarded, these shares carry service conditions and, before those conditions are met, are eligible to dividends. However, they do not carry voting rights and cannot be sold or transferred to third parties. Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2013, 2014 and 2015 tranche gradually ran over on the second, third, and fourth year following the performance appraisal. Eighty percent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to June 2019.

Under the new management compensation scheme, both shareholders and Supervisory Board hold put options on the shares to be awarded. In addition, they both hold put options on all bonus shares awarded under the previous share-based payment arrangements. All the put-options became null and void upon the listing on the LSE in June 2014. At no point of the operation of the share-based payment scheme did the management expect the put-options to be exercised. Consequently, the scheme was accounted for as equity-settled scheme and no obligation was recognized for the put-options.

In 2013 the Group considered 20 June as the grant date. Based on the management's expectation of performance and service conditions, 732,000 shares have been granted and will be gradually awarded to the members of the described scheme. An external evaluator assessed the fair value per share at the grant date at GEL 13.93 adjusted for the effect of 250-for-1 share split. Income and market approaches were applied for the evaluation. The market approach involved an estimate of the market capitalization to book value of equity multiple and deal price to book value of equity multiple for comparable banks. When selecting comparable banks, the appraiser chose lenders operating in the Black Sea region and Central and Eastern Europe with a portfolio mix and growth priorities similar to TBC Bank. The income approach involved discounting free cash flows to equity estimated over a 10-year horizon. When developing the projections, the following major assumptions were made:

- Over the 2013-2023 periods, the compound annual growth rate was assumed at 15.2% for loans and at 15.1% for customer accounts.
- The spread on the Bank's customer business was assumed to gradually decline from an estimated 10.2% in 2013 to stabilize at 5.8% by 2021.
- Over 2013-2023 period, non-interest income was forecast to average 1.8% of customer volume (i.e. gross loans and deposits).
- YoY growth in various components of employee's compensation was assumed at 37.6%-56.0% in 2014, 2.4%-9.8% in 2015 and was then assumed to gradually decline to 2.1%-3.6% in 2023. YoY growth in administrative expenses was assumed at 38.3% in 2014, 10.4% in 2015 and to gradually decline to 3.3% in 2023.
- The Bank's terminal value was estimated using the Gordon growth model, applying US long-term inflation forecast (2.1%) as the Bank's terminal cash flows growth rate.
- Bank's cost of equity was estimated at 15.10%.

The final valuation was based on the income approach and the market one was used to check the results obtained by the former. The calculated value of Bank's equity was then divided by the number of ordinary shares issued as of date and further reduced with the discount for lack of control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

31 DECEMBER 2016

26 Share Based Payments continued

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved new management compensation scheme for the top and middle management and it accordingly authorised the issue of a maximum 3,115,890 new shares. The new system will be enforced from 2015 through 2018, replacing the system introduced in June 2013 -- the performance evaluation as well as the respective compensation for 2015 year-end results will be paid under the new system. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares will be awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Supervisory Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management will also receive the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they do not carry voting rights and cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted. The shares will be gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme was updated, and TBC Bank Group PLC distributes its shares to the scheme's participants. The shares' value is recharged to the JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries, which is accounted as cash settled part. Tabular information on both of the schemes is given below:

	31 December 2016	31 December 2015	31 December 2014
<i>In GEL except for number of shares</i>			
Number of unvested shares at the beginning of the period	2,756,605	803,336	2,797
Number of shares granted	-	1,908,963	-
Increase in the number of unvested shares due to 250-for-1 split	-	-	696,453
Change in estimate of number of shares expected to vest based on performance conditions	(11,904)	75,016	104,086
Forfeited during the period	(35,146)	-	-
Number of shares vested	(86,848)	(30,710)	-
Number of unvested shares at the end of the period	2,622,707	2,756,605	803,336
Value at grant date per share (GEL) old remuneration system	13.93	13.93	13.93
Value at grant date per share (GEL) new remuneration system	24.64	24.64	-
Expense on equity-settled part (GEL thousand)	12,599	8,559	2,592
Decrease in equity due to utilisation of cash compensation alternative (GEL thousand)	(817)	-	-
Expense on cash-settled part (GEL thousand)	10,271	5,967	1,710
Expense recognised as staff cost during the period (GEL thousand)	22,053	14,526	4,302

Liability in respect of the cash-settled part of the award amounted to GEL 13,725 thousand as of 31 December 2016 (2015: GEL 6,560 thousand; 2014: GEL 1,710 thousand).

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

On 31 December 2016 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 11,904 (31 December 2015: 75,016, 31 December 2014: 104,086).

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to the owners of the Bank by the weighted average number of ordinary shares in issue during the year.

<i>In thousands of GEL except for number of shares</i>	2016	2015	2014
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)	298,130	216,400	156,469
Weighted average number of ordinary shares in issue	49,592,658	48,962,112	45,524,938
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	6.0	4.4	3.4

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year:

<i>In thousands of GEL except for number of shares</i>	2016	2015	2014
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 –	299,037	218,227	157,071
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	50,946,636	49,607,204	45,968,817
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	5.9	4.4	3.4

28 Segment Analysis

The Management Board (the "Board") is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. In 2014, the Board changed its analysis' process in order to enhance the control and monitoring of the Group's performance. This has resulted in creating a new segment – the 'Corporate Centre and Other Operations' – and in changing the presentation of segment information. In 2015, following the merger of Bank Constanta, the Board revised the composition of "segment" in order to further enhance the control and monitoring of the Group's performance. The result was the transfer of certain customers to different segments. Comparative information as of 31 December 2014 has not been updated due to impracticability.

The operating segments were determined as of 31 December 2014 as follows:

- Corporate – business customers with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to US\$1.5 million or more. Some other significant legal entity customers may also be assigned to the corporate segment on a discretionary basis; for example clients that the Group assessed as having strong growth potential.
- SME – business customers that are not included either in the corporate or micro segments.
- Micro – all of Bank Constanta's business customers, that have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds US\$150 thousand.
- Retail – all individual customers of the Group as well as customers that have been granted gold-pawn loans.
- Corporate Centre and Other Operations – comprises of the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The operating segments according to the new definition are now determined as follows:

- Corporate – all business customers with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to US\$1.5 million or more. Some other business customers may also be assigned to the Corporate segment on a discretionary basis;
- SME – all business customers who are not included in either Corporate or Micro segments; Some other legal entity customers may also be assigned to the SME segment on a discretionary basis;
- Micro – all business customers with loans up to US\$70 thousand, as well as pawn loans, credit cards and cash cover loans granted in TBC Bank Constanta branches, and/or clients of TBC Bank Constanta branches with deposits up to US\$20 thousand in urban areas and up to US\$100 thousand in rural areas. Some other customers may also be assigned to the Micro segment on a discretionary basis;
- Retail – all individual customers not included in the other categories.
- Corporate Centre and Other Operations – comprises of the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax.

The reportable segments are the same as the operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2016, 2015 or 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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28 Segment Analysis continued

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in note 35.

A summary of the Group's reportable segments for the years ended 31 December 2016, 2015 and 2014 is provided below:

<i>In thousands of GEL</i>	Corporate	Retail	SME	Micro	Corporate centre and other operations	Total
31 December 2016						
- Interest income	162,277	341,577	68,693	116,177	77,702	766,426
- interest expense	(45,586)	(99,664)	(7,796)	(1,794)	(121,133)	(275,973)
- Inter-segment interest income/(expense)	(22,186)	(29,236)	(2,480)	(39,092)	92,994	-
- Net interest income	94,505	212,677	58,417	75,291	49,563	490,453
- Fee and commission income	23,050	92,989	15,506	7,263	3,992	142,800
- Fee and commission expense	(3,395)	(40,467)	(3,908)	(3,763)	(999)	(52,532)
- Net Fee and commission income	19,655	52,522	11,598	3,500	2,993	90,268
- Insurance Profit	-	-	-	-	256	256
- Net gains from trading in foreign currencies	23,945	16,367	25,845	1,876	2,236	70,269
- Net losses from foreign exchange translation	-	-	-	-	(2,507)	(2,507)
- Net losses from derivative financial instruments	-	-	-	-	(206)	(206)
- Net gains from disposal of available for sale investment securities	-	-	-	-	9,293	9,293
- Other operating income	9,837	5,714	783	351	6,551	23,236
- Other operating non-interest income	33,782	22,081	26,628	2,227	15,623	100,341
- Provision for loan impairment	49,548	(56,835)	(15,774)	(26,141)	-	(49,202)
- Provision for performance guarantees and credit related commitments	(388)	(834)	456	(5)	-	(771)
- Provision for impairment of investments in finance lease	-	-	-	-	(558)	(558)
- Provision for impairment of other financial assets	(863)	(91)	(92)	(62)	(1,745)	(2,853)
- Impairment of investment securities available for sale	-	-	-	-	(11)	(11)
- Profit before administrative and other expenses and income taxes	196,239	229,520	81,233	54,810	65,865	627,667
- Staff costs	(23,995)	(87,918)	(17,591)	(30,116)	(12,601)	(172,221)
- Depreciation and amortisation	(1,066)	(16,941)	(2,126)	(6,053)	(1,896)	(28,082)
- Provision for liabilities and charges	-	-	-	-	(2,210)	(2,210)
- Administrative and other operating expenses	(6,763)	(54,329)	(8,673)	(15,977)	(23,733)	(109,475)
- Operating expenses	(31,824)	(159,188)	(28,390)	(52,146)	(40,440)	(311,988)
- Profit before tax	164,415	70,332	52,843	2,664	25,425	315,679
- Income tax expense	(25,010)	(8,561)	(8,707)	(459)	25,316	(17,422)
- Profit for the year	139,405	61,771	44,136	2,205	50,741	298,258
Total gross loans and advances to customers reported	2,060,172	3,763,255	857,552	677,746	-	7,358,725
Total customer accounts reported	1,795,503	3,666,385	888,475	104,586	-	6,454,949
Total credit related commitments and performance guarantees	724,402	189,604	221,975	10,839	-	1,146,820

28 Segment Analysis continued

<i>In thousands of GEL</i>	Corporate	Retail	SME	Micro	Corporate centre and other operations	Total
31 December 2015						
- Interest income	135,615	271,083	68,303	107,326	66,732	649,059
- interest expense	(31,189)	(94,656)	(9,376)	(2,268)	(99,396)	(236,885)
- Inter-segment interest income/(expense)	(34,855)	12,828	(2,455)	(26,788)	51,270	-
- Net interest income	69,571	189,255	56,472	78,270	18,606	412,174
- Fee and commission income	18,397	72,242	11,739	6,880	4,579	113,837
- Fee and commission expense	(3,864)	(31,698)	(3,917)	(1,242)	(825)	(41,546)
- Net Fee and commission income	14,533	40,544	7,822	5,638	3,754	72,291
- Net gains from trading in foreign currencies	23,647	15,038	21,488	1,787	2,682	64,642
- Net gains from foreign exchange translation	-	-	-	-	2,579	2,579
- Net losses from derivative financial instruments	-	-	-	-	(575)	(575)
- Other operating income	13,808	2,299	1,089	95	8,592	25,883
- Other operating non-interest income	37,455	17,337	22,577	1,882	13,278	92,529
- Provision for loan impairment	(15,396)	(29,004)	(11,628)	(16,763)	-	(72,791)
- Provision for performance guarantees and credit related commitments	4,581	(4,113)	731	(82)	-	1,117
- Provision for impairment of investments in finance lease	-	-	-	-	(967)	(967)
- Provision for impairment of other financial assets	(561)	(735)	(388)	(317)	(1,350)	(3,351)
- Profit before administrative and other expenses and income taxes	110,183	213,284	75,586	68,628	33,321	501,002
- Staff costs	(16,947)	(69,497)	(16,439)	(30,470)	(9,424)	(142,777)
- Depreciation and amortisation	(1,092)	(15,295)	(2,138)	(6,436)	(1,325)	(26,286)
- Provision for liabilities and charges	-	-	-	-	(1,102)	(1,102)
- Administrative and other operating expenses	(4,879)	(46,438)	(7,712)	(14,531)	(9,404)	(82,964)
- Operating expenses	(22,918)	(131,230)	(26,289)	(51,437)	(21,255)	(253,129)
- Profit before tax	87,265	82,054	49,297	17,191	12,066	247,873
- Income tax expense	(13,384)	(11,119)	(7,719)	(2,578)	5,624	(29,176)
- Profit for the year	73,881	70,935	41,578	14,613	17,690	218,697
Total gross loans and advances to customers reported	1,500,104	2,019,969	625,628	493,328	-	4,639,029
Total customer accounts reported	1,001,341	2,469,878	633,211	73,501	-	4,177,931
Total credit related commitments and performance guarantees	446,380	130,402	77,781	4,412	-	658,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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28 Segment Analysis continued

<i>In thousands of GEL</i>	Corporate	Retail	SME	Micro	Corporate centre and other operations	Total
31 December 2014						
- Interest income	116,404	237,804	53,739	57,573	46,837	512,357
- interest expense	(21,845)	(80,808)	(7,196)	(192)	(63,668)	(173,709)
- Inter-segment interest income/(expense)	(42,246)	7,499	(3,640)	(18,468)	56,855	-
- Net interest income	52,313	164,495	42,903	38,913	40,024	338,648
- Fee and commission income	18,093	46,368	9,268	3,498	10,976	88,203
- Fee and commission expense	(1,312)	(26,230)	(906)	(911)	(164)	(29,523)
- Net Fee and commission income	16,781	20,138	8,362	2,587	10,812	58,680
- Net gains from trading in foreign currencies	12,456	9,932	13,286	1,820	2,236	39,730
- Net gains from foreign exchange translation	-	-	-	-	2,359	2,359
- Net losses from derivative financial instruments	-	-	-	-	(683)	(683)
- Other operating income	-	-	-	-	19,600	19,600
- Other operating non-interest income	12,456	9,932	13,286	1,820	23,512	61,006
- Provision for loan impairment	(18,995)	(22,046)	(1,625)	(6,006)	-	(48,672)
- Provision for performance guarantees and credit related commitments	885	-	17	-	-	902
- Provision for impairment of investments in finance lease	-	-	-	-	(77)	(77)
- Provision for impairment of other financial assets	-	-	-	-	(1,236)	(1,236)
- Impairment of investment securities available for sale	-	-	-	-	(22)	(22)
- Profit before administrative and other expenses and income taxes	63,440	172,519	62,943	37,314	73,013	409,229
- Staff costs	(11,826)	(55,427)	(10,755)	(15,808)	(29,019)	(122,835)
- Depreciation and amortisation	(780)	(13,132)	(1,915)	(3,579)	(5,021)	(24,427)
- Provision for liabilities and charges	-	-	-	-	(5,500)	(5,500)
- Administrative and other operating expenses	(4,432)	(36,026)	(4,981)	(9,600)	(18,509)	(73,548)
- Operating expenses	(17,038)	(104,585)	(17,651)	(28,987)	(58,049)	(226,310)
- Profit before tax	46,402	67,934	45,292	8,327	14,964	182,919
- Income tax expense	(6,207)	(9,087)	(6,059)	(1,114)	(2,001)	(24,468)
- Profit for the year	40,195	58,847	39,233	7,213	12,963	158,451
Total gross loans and advances to customers reported	1,231,729	1,666,913	533,919	273,699	-	3,706,260
Total customer accounts reported	832,555	1,977,172	507,816	4,885	-	3,322,428
Total credit related commitments and performance guarantees	515,026	125,250	62,578	2,598	-	705,452

28 Segment Analysis continued

Reportable segments' assets were reconciled to total assets as follows:

<i>In thousands of GEL</i>	31 December 2016	31 December 2015	31 December 2014
Total segment assets (gross loans and advances to customers)	7,358,725	4,639,029	3,706,260
Provision for loan impairment	(225,023)	(194,143)	(149,764)
Cash and cash equivalents	945,180	720,347	532,118
Mandatory cash balances with National Bank of Georgia	990,642	471,490	336,075
Due from other banks	24,725	11,042	33,704
Investment securities available for sale	430,703	307,310	466,510
Bonds carried at amortized cost	372,956	372,092	–
Current income tax prepayment	7,430	9,856	251
Deferred income tax asset	3,511	1,546	383
Other financial assets	94,627	64,317	43,857
Investments in finance leases	95,031	75,760	50,907
Other assets	171,263	103,912	77,775
Premises and equipment	314,032	247,767	208,692
Intangible assets	60,957	44,344	37,756
Investment properties	95,615	57,600	76,216
Goodwill	28,658	2,726	2,726
Total assets per statement of financial position	10,769,032	6,934,995	5,423,466

Reportable segments' liabilities are reconciled to total liabilities as follows:

<i>In thousands of GEL</i>	31 December 2016	31 December 2015	31 December 2014
Total segment liabilities (customer accounts)	6,454,949	4,177,931	3,322,428
Due to Credit institutions	2,197,577	1,113,574	749,285
Debt securities in issue	23,508	21,714	20,423
Current income tax liability	2,577	912	12,433
Deferred income tax liability	5,646	29,244	23,187
Provisions for liabilities and charges	16,026	9,461	11,898
Other financial liabilities	50,998	39,435	41,346
Other liabilities	66,739	40,627	34,975
Subordinated debt	368,381	283,648	188,015
Total liabilities per statement of financial position	9,186,401	5,716,546	4,403,990

29 Interest Income and Expense

<i>In thousands of GEL</i>	2016	2015	2014
Interest income			
Loans and advances to customers	688,724	582,327	465,520
Bonds carried at amortised cost	30,714	22,950	–
Investment securities available for sale (Note10)	25,707	20,927	30,361
Investments in leases	16,566	15,217	10,265
Due from other banks	4,550	7,638	6,211
Other	165	–	–
Total interest income	766,426	649,059	512,357
Interest expense			
Customer accounts	154,840	137,489	110,041
Due to credit institutions	85,030	70,834	43,384
Subordinated debt	34,325	26,363	19,069
Debt securities in issue	1,778	2,105	928
Other	–	94	287
Total interest expense	275,973	236,885	173,709
Net interest income	490,453	412,174	338,648

In the year ended 31 December 2016 the interest accrued on impaired loans amounted to GEL 23,825 thousand (2015: 25,756 thousand, 2014: 18,134 thousand).

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30 Fee and Commission Income and Expense

<i>In thousands of GEL</i>	2016	2015	2014
Fee and commission income			
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>			
– Card operations	61,115	49,424	35,247
– Settlement transactions	43,434	31,218	23,892
– Cash transactions	13,013	10,930	6,507
– Guarantees issued	11,699	8,949	9,140
– Issuance of letters of credit	6,215	5,859	6,889
– Foreign exchange operations	1,277	1,410	1,169
– Other	6,047	6,047	5,359
Total fee and commission income	142,800	113,837	88,203
Fee and commission expense			
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss:</i>			
– Card operations	34,906	27,169	16,053
– Settlement transactions	5,795	3,904	2,594
– Guarantees received	2,420	3,165	4,161
– Cash transactions	2,633	2,707	2,592
– Self-service and POS terminal transactions	4,692	3,556	3,532
– Other	2,086	1,045	591
Total fee and commission expense	52,532	41,546	29,523
Net fee and commission income	90,268	72,291	58,680

31 Other Operating Income

<i>In thousands of GEL</i>	2016	2015	2014
Revenues from operational leasing	5,772	8,539	6,997
Recovery from repayment of purchased impaired loans	4,995	–	–
Gain from sale of investment properties	2,623	4,896	5,795
Gain from sale of inventories of repossessed collateral	2,382	1,836	1,644
Revenues from sale of cash-in terminals	1,100	777	852
Revenues from non-credit related fines	658	286	236
Administrative fee income from international financial institutions	644	708	982
Gain on disposal of premises and equipment	208	118	126
Gain on sale of financial asset	–	4,692	–
Other	4,854	4,031	2,968
Total other operating income	23,236	25,883	19,600

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the inventories of repossessed collateral disposed in the year ended 31 December 2016 was GEL 26,972 thousand (2015: GEL 9,777 thousand; 2014: GEL 13,721 thousand).

32 Staff Costs

<i>In thousands of GEL</i>	2016	2015	2014
Salaries and bonuses	146,840	124,676	116,302
Share based compensation	22,053	14,526	4,302
Other compensation cost	3,328	3,575	2,231
Salaries and other employee benefits	172,221	142,777	122,835

32 Staff Costs continued

In 2016 the average total number of persons employed by the Group was 5,537 people (2015:5,241; 2014:4,728). Breakdown of average employees by categories is as follows:

	2016	2015	2014
Headquarters*	2,243	2,084	1,885
Branches*	2,902	2,827	2,600
Other administrative staff **	392	330	243

* Under 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.

33 Administrative and Other Operating Expenses

<i>In thousands of GEL</i>	2016	2015	2014
Professional services	29,926	8,418	11,969
Rent	18,294	16,468	11,943
Advertising and marketing services	13,796	11,451	14,121
Intangible asset enhancement	7,446	6,062	4,371
Utility services	5,108	4,501	3,681
Taxes other than on income	4,699	4,598	3,900
Communications and supply	4,183	3,433	3,455
Premises and equipment maintenance	3,889	2,959	1,893
Stationery and other office expenses	3,448	3,471	2,632
Insurance	2,687	2,301	1,899
Impairment of intangible assets	2,043	4,982	-
Security services	1,883	1,622	1,578
Business trip expenses	1,880	1,589	1,610
Loss on disposal of inventories	1,690	86	208
Transportation and vehicle maintenance	1,386	1,328	1,216
Personnel training and recruitment	1,272	1,230	919
Charity	884	928	898
Loss on disposal of premises and equipment	423	34	18
Reversal of previously written-down current assets to fair value less costs to sell	(4,424)	(178)	190
Other	8,962	7,678	7,047
Total administrative and other operating expenses	109,475	82,964	73,548

Included in professional services, in the year ended 31 December 2016, are transaction costs related to the acquisition of Bank Republic, comprising GEL 8,000 thousands.

Auditors' remuneration is included within professional services expenses above and comprises:

<i>In thousands of GEL</i>	Audit	Audit Related	Other Services	Total
2016				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,588	-	-	1,588
Review of TBC Bank Group and subsidiaries interim financial statements	-	360	-	360
Other assurance services	-	5	5,432	5,437
Total auditor's remuneration	1,588	365	5,432	7,385
2015				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,104	-	-	1,104
Review of TBC Bank Group and subsidiaries interim financial statements	-	163	-	163
Other assurance services	-	102	231	333
Total auditor's remuneration	1,104	265	231	1,600
2014				
Audit of TBC Bank Group and subsidiaries annual financial statements	501	-	-	501
Review of TBC Bank Group and subsidiaries interim financial statements	-	270	-	270
Other assurance services	-	19	892	911
Total auditor's remuneration	501	289	892	1,682

Included in Other assurance services as of 31 December 2016, GEL3,797 thousands is attributable to reporting accountant fees related to listing of TBCG shared on LSE.

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34 Income Taxes

Income tax expenses comprises of the following:

<i>In thousands of GEL</i>	2016	2015	2014
Current tax charge	36,601	29,697	29,365
Deferred tax (credit)/charge	(19,180)	(521)	(4,897)
Income tax expense for the year	17,421	29,176	24,468

The income tax rate applicable to the majority of the Group's income was 15% (2015: 15%; 2014: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2015: 15% – 20%; 2014: 15% – 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of GEL</i>	2016	2015	2014
Profit before tax	315,679	247,873	182,919
Theoretical tax charge at statutory rate (2016: 15%; 2015: 15%; 2014: 15%)	46,703	37,181	27,438
Tax effect of items which are not deductible or assessable for taxation purposes:			
– Income which is exempt from taxation	(9,638)	(7,281)	(4,678)
– Non-deductible expenses and other differences	3,706	(724)	1,708
– Effect of change in tax legislation	(24,204)	–	–
– Recognition of previously unrecognized deferred tax assets	–	–	–
Other differences	854	–	–
Income tax expense for the year	17,421	29,176	24,468

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% (2015: 15%; 2014: 15%) for Georgia and 20% for Azerbaijan and United Kingdom (2015: 20%; 2014: 20%).

<i>In thousands of GEL</i>	31 December 2015	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	Changes due to the business combination	31 December 2016
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards					
Premises and equipment	(25,802)	11,112	11,011	(1,644)	(5,323)
Loan impairment provision	(9,167)	11,729	–	(2,574)	(92)
Fair valuation of investment securities available for sale	(1,595)	461	1,565	(267)	165
Other financial assets	5,952	(3,830)	–	246	2,368
Other assets	6,407	(5,734)	–	(634)	39
Investment in leases	(556)	556	–	–	–
Investment property	(4,247)	4,275	–	(1,010)	(982)
Due to credit institutions	(475)	(820)	–	–	(1,295)
Subordinated debt	(327)	242	–	–	(85)
Other financial liabilities	60	137	–	–	197
Other liabilities	1,311	1,146	–	(232)	2,226
Share based payment	741	(65)	–	–	676
Tax loss carry forwards	–	(29)	–	–	(29)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,115)	(2,135)
Recognised deferred tax asset	1,546	1,719	–	246	3,511
Recognised deferred tax liability	(29,244)	17,461	12,576	(6,361)	(5,646)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,115)	(2,135)

34 Income Taxes continued

<i>In thousands of GEL</i>	31 December 2014	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(20,040)	(1,393)	(4,369)	(25,802)
Loan impairment provision	(4,718)	(3,858)	(591)	(9,167)
Fair valuation of investment securities available for sale	(1,224)	108	(479)	(1,595)
Other financial assets	4,483	1,469	–	5,952
Other assets	4,164	2,211	32	6,407
Investment in leases	29	(585)	–	(556)
Investment property	(6,436)	2,189	–	(4,247)
Due to credit institutions	(292)	(183)	–	(475)
Subordinated debt	(259)	(68)	–	(327)
Other Financial liabilities	1,817	(1,757)	–	60
Other Liabilities	(380)	1,697	(6)	1,311
Share based payment	52	689	–	741
Net deferred tax asset/(liability)	(22,804)	519	(5,413)	(27,698)
Recognised deferred tax asset	383	1,163	–	1,546
Recognised deferred tax liability	(23,187)	(644)	(5,413)	(29,244)
Net deferred tax asset/(liability)	(22,804)	519	(5,413)	(27,698)

<i>In thousands of GEL</i>	1 January 2014	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(18,306)	(2,039)	305	(20,040)
Loan impairment provision	(5,666)	948	–	(4,718)
Fair valuation of investment securities available for sale	(557)	(475)	(192)	(1,224)
Other financial assets	191	4,292	–	4,483
Other assets	1,741	2,423	–	4,164
Investment in leases	(13)	42	–	29
Investment property	(7,012)	576	–	(6,436)
Due to credit institutions	464	(756)	–	(292)
Subordinated debt	(289)	30	–	(259)
Other Financial liabilities	1,027	790	–	1,817
Other Liabilities	301	(681)	–	(380)
Share based payment	305	(253)	–	52
Net deferred tax asset/(liability)	(27,814)	4,897	113	(22,804)
Recognised deferred tax asset	–	383	–	383
Recognised deferred tax liability	(27,814)	4,514	113	(23,187)
Net deferred tax asset/(liability)	(27,814)	4,897	113	(22,804)

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

35 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.

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35 Financial and Other Risk Management continued

The TBC Bank Group's governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. The Risks, Ethics and Compliance Committee is responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the Board. Namely, the committee carries out following duties: 1) Review and assessment of the Group's risk management strategy, risk appetite and tolerance, risk management system and risk policies; 2) Review and monitoring of the processes for compliance with laws, regulations and ethical codes of practice; 3) monitoring of the remediation of internal control deficiencies identified by internal and external auditors around compliance, ethics and risk management functions; 4) Annual self-assessment of the committee's performance and reporting of the results to the Board; 5) Review of the key risk management framework and other policy documents and make recommendations to the Board for their approval.

On the Bank level, risk management is the duty of the Supervisory Board, which has the overall responsibility to set the tone at the top and monitor compliance with established objectives. At the same time, Management Board governs and directs Groups' daily activities.

Both the Supervisory Board and the management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Bank's Risk Appetite, supervises risk profile and risk governance practice within the Bank while Audit Committee is responsible for implementation of key accounting policies and facilitation of activities of internal and external auditors. Management Board Risk Committee is established to guide group-wide risk management activities and monitor major risk trends to make sure risk profile complies with the established Risk Appetite of the Group. Operational Risk Committee makes decisions related to operational risk governance while Asset-Liability Management Committee ("ALCO") is responsible for implementation of ALM policies.

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 fulfilment of all the required risk management functions within the second line of defense by highly skilled professionals with a balanced mix of credentials in banking and real sectors both on the local and international markets.

In addition to the above-mentioned risk teams, the Compliance Department (reporting directly to CEO) is specifically in charge of AML and compliance risk management. As the third line of defense, the Internal Audit Department provides an independent and objective assurance and recommendations to Group that facilitates further improvement of operations and risk management.

For the management of each significant risk, the Bank puts in place specific policies and procedures, governance tools and techniques, methodologies for risk identification, assessment and quantification. Sound risk reporting systems and IT infrastructure are important tools for efficient risk management of TBC Bank. Thus, significant emphasis and investments are made by the Bank to constantly drive the development of required solutions. Comprehensive reporting framework is in place for the Management Board, 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.

35 Financial and Other Risk Management continued

Credit risk. The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values. For maximum exposure on off-balance sheet commitments refer to note 37.

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, SME, Retail and Micro customers (except those products which are assessed applying scorecards). The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of respective Loan Approval Committees) ensure that the borrower and the proposed credit exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers or exceeding 5% of the Bank's regulatory capital requires the review and the approval of the Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties resulting in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

Credit Risk Monitoring: The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react timely to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as they encompass individual credit exposures, overall portfolio performance and external trends that may impact the portfolio's risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

Reports relating to the credit quality of the credit portfolio are presented to the Board's Risk, Ethics and Compliance Committees on a quarterly basis. By comparing current data with historical figures and analysing forecasts, the management believes that it is capable identifying risks and responding to them by amending its policies in a timely manner.

Credit Risk Mitigation: Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, the Group uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The reliance that can be placed on these mitigants is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor.

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

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35 Financial and Other Risk Management continued

Credit Risk Restructuring and Collection: A comprehensive portfolio supervision system is in place to identify weakened or problem credit exposures in a timely manner and to take prompt remedial actions. Dedicated restructuring units manage weakened borrowers across all business segments. The primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category. The sophistication and complexity of rehabilitation process differs based on the type and size of exposure.

A centralised monitoring team monitors retail borrowers in delinquency, which coupled with branches' efforts, are aimed at maximizing collection. The specialised software is applied for early collection processes management. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile.

Dedicated recovery units manage loans with higher risk profile. Corporate and SME borrowers are transferred to a recovery unit in case of a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Retail and micro loans are generally transferred to the recovery unit or external collection agencies (in the case of unsecured loans) at 90 days overdue, although they may be transferred earlier if it is evident that the borrower is unable to repay the loan.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities as of 31 December 2016 is set out below:

<i>In thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	549,279	389,223	6,678	945,180
Due from other banks	5,874	18,851	-	24,725
Mandatory cash balances with National Bank of Georgia	990,642	-	-	990,642
Loans and advances to customers	6,923,037	88,616	122,049	7,133,702
Investment securities available for sale	429,985	-	718	430,703
Bonds carried at amortised cost	372,956	-	-	372,956
Investments in leases	95,031	-	-	95,031
Other financial assets	94,398	229	-	94,627
Total financial assets	9,461,202	496,919	129,445	10,087,566
Non-financial assets	676,665	29	4,772	681,466
Total assets	10,137,867	496,948	134,217	10,769,032
Liabilities				
Due to credit institutions	718,699	1,408,693	70,185	2,197,577
Customer accounts	5,421,782	530,370	502,797	6,454,949
Debt securities in issue	13,261	-	10,247	23,508
Other financial liabilities	49,092	1,286	620	50,998
Subordinated debt	-	233,657	134,724	368,381
Total financial liabilities	6,202,834	2,174,006	718,573	9,095,413
Non-financial liabilities	89,298	1,098	592	90,988
Total liabilities	6,292,132	2,175,104	719,165	9,186,401
Net balance sheet position	3,845,735	(1,678,156)	(584,948)	1,582,631
Performance guarantees	274,614	56,406	95,588	426,608
Credit related commitments	706,646	10,175	3,391	720,212

35 Financial and Other Risk Management continued

The geographical concentration of the Group's assets and liabilities as of 31 December 2015 is set out below:

<i>In thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	509,000	199,383	11,964	720,347
Due from other banks	2,976	8,066	-	11,042
Mandatory cash balances with National Bank of Georgia	471,490	-	-	471,490
Loans and advances to customers	4,192,155	123,643	129,088	4,444,886
Investment securities available for sale	297,975	9,335	-	307,310
Bonds carried at amortised cost	372,092	-	-	372,092
Investments in leases	75,760	-	-	75,760
Other financial assets	64,302	15	-	64,317
Total financial assets	5,985,750	340,442	141,052	6,467,244
Non-financial assets	465,094	39	2,618	467,751
Total assets	6,450,844	340,481	143,670	6,934,995
Liabilities				
Due to credit institutions	408,475	637,367	67,732	1,113,574
Customer accounts	3,378,566	462,400	336,965	4,177,931
Debt securities in issue	4,798	-	16,916	21,714
Other financial liabilities	36,772	2,591	72	39,435
Subordinated debt	-	283,648	-	283,648
Total financial liabilities	3,828,611	1,386,006	421,685	5,636,302
Non-financial liabilities	78,624	834	786	80,244
Total liabilities	3,907,235	1,386,840	422,471	5,716,546
Net balance sheet position	2,543,609	(1,046,359)	(278,801)	1,218,449
Performance guarantees	234,695	1,786	6,702	243,183
Credit related commitments	401,590	13,199	1,003	415,792

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35 Financial and Other Risk Management continued

The geographical concentration of the Group's assets and liabilities as of 31 December 2014 is set out below:

<i>In thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	348,237	91,896	91,985	532,118
Due from other banks	615	3,910	29,179	33,704
Mandatory cash balances with National Bank of Georgia	336,075	–	–	336,075
Loans and advances to customers	3,397,855	71,971	86,670	3,556,496
Investment securities available for sale	460,370	6,140	–	466,510
Investments in leases	50,907	–	–	50,907
Other financial assets	43,802	55	–	43,857
Total financial assets	4,637,861	173,972	207,834	5,019,667
Non-financial assets	401,744	22	2,033	403,799
Total assets	5,039,605	173,994	209,867	5,423,466
Liabilities				
Due to credit institutions	279,445	411,605	58,235	749,285
Customer accounts	2,931,114	312,470	78,844	3,322,428
Debt securities in issue	3,718	–	16,705	20,423
Other financial liabilities	37,677	3,454	215	41,346
Subordinated debt	6,204	181,811	–	188,015
Total financial liabilities	3,258,158	909,340	153,999	4,321,497
Non-financial liabilities	81,365	178	950	82,493
Total liabilities	3,339,523	909,518	154,949	4,403,990
Net balance sheet position	1,700,082	(735,524)	54,918	1,019,476
Performance guarantees	183,528	–	–	183,528
Credit related commitments	513,746	–	–	513,746

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 2016, the Bank maintained an aggregate open currency position of 3.2% of regulatory capital (2015: 1.6%; 2014: 3.1%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

35 Financial and Other Risk Management continued

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. In 2016 within the ICAAP framework the Bank developed methodology for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers all provisions to be denominated in the local currency. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented:

<i>In thousands of GEL</i>	As of 31 December 2016			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Lari	3,484,840	2,478,715	9,394	1,015,519
US Dollars	5,821,734	5,848,266	(8,905)	(35,437)
Euros	690,728	697,568	(13)	(6,853)
Other	90,264	70,864	(288)	19,112
Total	10,087,566	9,095,413	188	992,341

<i>In thousands of GEL</i>	As of 31 December 2015				As of 31 December 2014			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Lari	2,442,850	1,646,864	3,430	799,416	1,979,583	1,336,626	55,335	698,292
US Dollars	3,507,494	3,428,146	(71,933)	7,415	2,704,810	2,573,475	(193,200)	(61,865)
Euros	466,450	499,702	32,715	(537)	262,113	376,934	117,668	2,847
Other	50,436	61,531	36,285	25,190	72,543	34,414	18,313	56,442
Total	6,467,230	5,636,243	497	831,484	5,019,049	4,321,449	(1,884)	695,716

To assess the currency risk the Bank performs a value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Group's income determined by possible worst movement of currency rates against the Georgian Lari, with all other variables held constant. To identify the maximum expected losses resulting from currency fluctuations, a 99% confidence level is defined based on the monthly variations in exchange rates over 3 year look-back period. During the years ended 31 December 2016, 2015 and 2014, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

<i>In thousands of GEL</i>	As of 31 December 2016	As of 31 December 2015	As of 31 December 2014
Maximum loss (VAR, 99% confidence level)	(1,184)	(449)	(2,572)
Maximum loss (VAR, 95% confidence level)	(868)	(285)	(1,886)

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 most loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

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35 Financial and Other Risk Management continued

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Currency and interest rate swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables. The tables consider both reserves placed with NBG and Interest bearing Nostro accounts. Income on NBG reserves and Nostros are calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates are considered in case of USD and EUR respectively. Therefore, they have impact on the Group's net interest income in case of both upward and downward shift of interest rates.

<i>In thousands of GEL</i>	Less than 1 year	More than 1 year	Total
31 December 2016			
Total financial assets	5,519,746	4,606,991	10,126,737
Total financial liabilities	6,633,005	2,501,580	9,134,585
Net interest sensitivity gap as of 31 December 2016	(1,113,259)	2,105,411	992,153
31 December 2015			
Total financial assets	3,634,967	2,847,165	6,482,132
Total financial liabilities	3,747,595	1,903,627	5,651,222
Net interest sensitivity gap as of 31 December 2015	(112,628)	943,538	830,910
31 December 2014			
Total financial assets	2,566,552	2,480,230	5,046,782
Total financial liabilities	2,763,543	1,584,484	4,348,027
Net interest sensitivity gap as of 31 December 2014	(196,991)	895,746	698,755

As of 31 December 2016, if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 9.5 million higher (2015: GEL 6,748 thousand; 2014 GEL 4,932 thousand;), mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 1,516 thousand higher (2015: GEL 927 thousand, 2014: GEL 5,482 thousand), as a result of an increase in the fair value of fixed rate financial assets classified as available for sale and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 9.5 million lower (2015: GEL 777 thousand 2014: GEL 1,329 thousand), mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 2,118 thousand lower (2015: GEL 911 thousand, 2014: GEL 5,278 thousand), as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

With the assistance of Ernst & Young LLC the Bank has developed an advanced model to manage the interest rate risk on a standalone basis. The interest rate risk analysis is performed monthly by the Financial Risk Management Department.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes.

In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Ethics and Compliance Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

35 Financial and Other Risk Management continued

Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses the Liquidity Coverage ratio and the Net Stable Funding ratio set forth under Basel III, as well as minimum liquidity ratio defined by the NBG. In addition the Bank performs stress tests, what if and scenarios analysis.

The *Liquidity Coverage ratio* is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time bands and ensure that liquidity coverage ratio limits are put in place. TBC Bank also stress tests the results of liquidity through large shock scenarios set by the NBG. Internal liquidity coverage ratio and stress tests are carried out on a weekly basis.

The *Net Stable Funding ratio* is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with NBG's accounting rules.

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

The loan to deposit ratio (defined as total value of net loans divided by total value of deposits) stood at 110.5%, 106.4% and 107.1%, at the 31 December 2016, 2015 and 2014 respectively.

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

In addition, TBC Bank has a **liquidity contingency plan**, which is part of the Bank's overall prudential liquidity policy and is designed to ensure that TBC Bank is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business.

The Bank calculates its liquidity ratio on a daily basis in accordance with the NBG's requirements. The limit is set by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months. As of 31 December the ratios were well above the prudential limit set by the NBG as follows:

	2016	2015	2014
Average Liquidity Ratio	30.8%	34.4%	31.1%

According to daily cash flow forecasts and the surplus in liquidity standing, the Treasury Department places funds in short-term liquid assets, largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2016. 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.

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35 Financial and Other Risk Management continued

The maturity analysis of financial liabilities as of 31 December 2016 is as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	837,188	310,447	1,103,959	168,271	2,419,865
Customer accounts – individuals	2,147,015	1,284,067	360,609	39,578	3,831,269
Customer accounts – other	2,287,043	238,551	134,293	74,180	2,734,067
Other financial liabilities	46,971	2,883	1,144	–	50,998
Subordinated debt	4,853	29,510	238,224	360,551	633,138
Debt securities in issue	616	6,584	22,745	–	29,945
Gross settled forwards	16,084	3,641	369	–	20,094
Performance guarantees	60,552	154,616	210,595	845	426,608
Financial guarantees	117,994	102,311	50,657	140	271,102
Other credit related commitments	449,110	–	–	–	449,110
Total potential future payments for financial obligations	5,967,426	2,132,610	2,122,595	643,565	10,866,196

The maturity analysis of financial liabilities as of 31 December 2015 is as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	518,915	148,380	520,673	24,181	1,212,149
Customer accounts – individuals	1,346,154	889,799	348,627	23,859	2,608,439
Customer accounts – other	1,419,830	119,695	98,836	23,739	1,662,100
Other financial liabilities	36,099	1,196	2,140	–	39,435
Subordinated debt	2,284	54,214	215,062	132,636	404,196
Debt securities in issue	480	17,996	5,061	–	23,537
Gross settled forwards	94,368	1,967	–	–	96,335
Performance guarantees	16,023	88,666	137,944	550	243,183
Financial guarantees	75,707	65,959	26,836	131	168,633
Other credit related commitments	247,159	–	–	–	247,159
Total potential future payments for financial obligations	3,757,019	1,387,872	1,355,179	205,096	6,705,166

The maturity analysis of financial liabilities as of 31 December 2014 is as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	287,557	102,151	377,385	44,602	811,695
Customer accounts – individuals	1,027,688	737,972	250,916	24,333	2,040,909
Customer accounts – other	1,115,065	98,241	113,422	35,865	1,362,593
Other financial liabilities	39,934	1,300	112	–	41,346
Subordinated debt	1,176	19,430	178,206	70,795	269,607
Debt securities in issue	78	236	22,008	–	22,322
Gross settled forwards	190,644	60,213	–	–	250,857
Performance guarantees	27,214	53,553	114,531	517	195,815
Financial guarantees	119,510	91,717	28,024	–	239,251
Other credit related commitments	284,284	–	–	–	284,284
Total potential future payments for financial obligations	3,093,150	1,164,813	1,084,604	176,112	5,518,679

The 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.

35 Financial and Other Risk Management continued

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 2016 the analysis by expected maturities may be as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	945,180	–	–	–	945,180
Due from other banks	4,417	5,210	5,544	9,554	24,725
Mandatory cash balances with National Bank of Georgia	990,642	–	–	–	990,642
Loans and advances to customers	1,119,128	1,481,095	2,949,227	1,584,252	7,133,702
Investment securities available for sale	430,703	–	–	–	430,703
Bonds carried at amortised cost	123,763	94,250	128,201	26,742	372,956
Finance lease receivables	18,770	30,600	45,661	–	95,031
Other financial assets	64,328	10,595	19,704	–	94,627
Total financial assets	3,696,931	1,621,750	3,148,337	1,620,548	10,087,566
Liabilities					
Due to Credit institutions	796,148	260,046	986,857	154,526	2,197,577
Customer accounts	723,340	154,513	–	5,577,096	6,454,949
Debt securities in issue	145	5,277	18,086	–	23,508
Other financial liabilities	46,971	2,883	1,144	–	50,998
Subordinated debt	3,333	4,893	125,174	234,981	368,381
Total financial liabilities	1,569,937	427,612	1,131,261	5,966,603	9,095,413
Credit related commitments and performance guarantees					
Performance guarantees	2,635	–	–	–	2,635
Financial guarantees	8,049	–	–	–	8,049
Other credit related commitments	45,854	–	–	–	45,854
Credit related commitments and performance guarantees	56,538	–	–	–	56,538
Net liquidity gap as of 31 December 2016	2,070,456	1,194,138	2,017,076	(4,346,055)	935,615
Cumulative gap as of 31 December 2016	2,070,456	3,264,594	5,281,670	935,615	

The management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

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35 Financial and Other Risk Management continued

As of 31 December 2015 the analysis by expected maturities may be as follows::

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	720,347	–	–	–	720,347
Due from other banks	1,290	1,059	–	8,693	11,042
Mandatory cash balances with National Bank of Georgia	471,490	–	–	–	471,490
Loans and advances to customers	697,228	950,170	1,907,830	889,658	4,444,886
Investment securities available for sale	307,310	–	–	–	307,310
Bonds carried at amortised cost	86,357	113,248	145,720	26,767	372,092
Finance lease receivables	16,555	24,444	34,761	–	75,760
Other financial assets	41,544	5,704	17,069	–	64,317
Total financial assets	2,342,121	1,094,625	2,105,380	925,118	6,467,244
Liabilities					
Due to Credit institutions	513,415	114,093	462,636	23,430	1,113,574
Customer accounts	346,674	27,885	–	3,803,372	4,177,931
Debt securities in issue	32	16,916	4,766	–	21,714
Other financial liabilities	36,099	1,196	2,140	–	39,435
Subordinated debt	1,303	33,042	145,566	103,737	283,648
Total financial liabilities	897,523	193,132	615,108	3,930,539	5,636,302
Credit related commitments and performance guarantees					
Performance guarantees	1,472	–	–	–	1,472
Financial guarantees	5,589	–	–	–	5,589
Other credit related commitments	36,982	–	–	–	36,982
Credit related commitments and performance guarantees	44,043	–	–	–	44,043
Net liquidity gap as of 31 December 2015	1,400,555	901,493	1,490,272	(3,005,421)	786,899
Cumulative gap as of 31 December 2015	1,400,555	2,302,048	3,792,320	786,899	

As of 31 December 2014 the analysis by expected maturities may be as follows::

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	532,118	–	–	–	532,118
Due from other banks	14	29,179	–	4,511	33,704
Mandatory cash balances with National Bank of Georgia	336,075	–	–	–	336,075
Loans and advances to customers	534,371	770,034	1,560,670	691,421	3,556,496
Investment securities available for sale	466,510	–	–	–	466,510
Investment in finance leases	10,300	17,627	22,980	–	50,907
Other financial assets	20,280	5,965	17,612	–	43,857
Total financial assets	1,899,668	822,805	1,601,262	695,932	5,019,667
Liabilities					
Due to Credit institutions	285,677	82,439	338,609	42,560	749,285
Customer accounts	279,084	–	–	3,043,344	3,322,428
Debt securities in issue	–	–	20,423	–	20,423
Other financial liabilities	39,934	1,300	112	–	41,346
Subordinated debt	1,098	2,805	123,160	60,952	188,015
Total financial liabilities	605,793	86,544	482,304	3,146,856	4,321,497
Credit related commitments and performance guarantees					
Performance guarantees	4,912	–	–	–	4,912
Financial guarantees	3,266	–	–	–	3,266
Other credit related commitments	36,644	–	–	–	36,644
Credit related commitments and performance guarantees	44,822	–	–	–	44,822
Net liquidity gap as of 31 December 2014	1,249,053	736,261	1,118,958	(2,450,924)	653,348
Cumulative gap as of 31 December 2014	1,249,053	1,985,314	3,104,272	653,348	

35 Financial and Other Risk Management continued

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-1 months), (0-3 months), (0-6 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimate is based on statistical methods applied to historic information on the fluctuations of customer account balances.

Operating environment. Most of the Group's business is based in Georgia. Emerging economies, such as Georgia's, are subject to rapid change and are vulnerable to global market conditions and economic downturns. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has embarked in a number of civil, criminal, tax, administrative and commercial reforms that have positively affected the overall investment climate of the country. Today Georgia has an international reputation as a country with a favourable investment environment. Georgia continued to progress in the report "Doing Business 2016: Understanding Regulations for Small and Medium-Size Enterprises" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 16th easiest country in the world to do business (out of 190), up by 7 steps compared to the previous year rankings. The country improved its ranking in almost all categories, confirming its position as regional leader and outperforming most of the EU economies. Georgia also boasts low corruption levels, a low tax burden, and high transparency of its institutions according to the number of surveys by international institutions. The Parliamentary elections in October, 2016 were ruled free and just by all of international observers. The vote marked the continuation of economic reforms and country's pro-western orientation as affirmed by the ruling party. Peaceful elections positively influence the business confidence and further strengthen the image of Georgia as the country of democratic values and institutions.

In 2016 Georgian economy grew moderately by 2.4%, per initial estimates, below the initial growth target around 3-3.5% indicated by most of the international financial institutions. The growth has been negatively affected by a YoY decline in the transport sector, reflecting the slowdown in regional trade volumes. The construction sector, which has been the primary driver of growth in last 2 years, also decelerated. The manufacturing sector, the economy's second largest, showed improvements along with the recovery of exports.

By the end of 2016 the Georgian Lari depreciated against the US Dollar by 10.5% YoY, mostly driven by the depreciation of the Turkish Lira. Over the same period the GEL lost 7% of its value against the EUR. Following the contraction over the last 2 years, exports and remittances started to recover in the second half of 2016, supported by the expanding geographic area for the Georgian exports as well as relatively stable economic conditions in Russia and Ukraine. On the other hand, the economic situation continued to deteriorate in Azerbaijan, Turkey and Armenia, thus negatively affecting Georgian exports to these countries. Despite the continued challenges in the region, tourism revenues posted solid growth with the number of visitors reaching 6.4 million, up by 8% YoY.

After the close to zero inflation (+0.6% YoY) in Q4 2016, inflation picked up in January to 3.9% YoY. Reversal in inflation was driven by increased excise taxes on tobacco, petroleum and cars, core inflation stood at 2.8% YoY. Higher excise taxes fed into higher inflation expectations in the economy. To respond to unexpected shift in inflation expectations NBG raised policy rate by 0.25pps from 6.5% to 6.75% by the end of January 2016 and promised additional 0.25pp rate hike in the coming quarter. Given the inflation is primarily driven by one-off factors; NBG is not expected to over-react even if inflation goes temporarily above its target of 4% in 2017.

The fiscal policy remained pro-growth in 2016, with the fiscal deficit around 4%, financed mostly by the external liabilities. Despite this being over 3%, public debt levels remain, at around 45% of GDP, below the ceiling of 60% set out in the constitution. In line with the government's debt management strategy, the share of domestic debt in total public debt is gradually increasing – it stood at 21% at the end of 2016 – which reduces exchange rate risk and strengthens the sustainability profile of public debt.

In 2017, fiscal deficit is projected at 4.2% of GDP. Despite remaining high, this is mostly driven by increased capital expenditures. The government's long-term reform agenda centres on infrastructure development in the country, which should support long-term economic growth by reducing transportation costs and better harnessing the potential of Georgia's regions. In addition, better transport infrastructure should strengthen the country's position as the region's transport and logistics hub.

36 Management of Capital

The Group's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. Additionally, the Group's capital management objectives entail ensuring that the Bank complies with the capital requirements set by the Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the reports outlining their calculation and are reviewed and signed by the Bank's CFO and Deputy CFO.

The Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2014, 2015 and 2016.

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36 Management of Capital continued

NBG Basel I Capital adequacy ratio

Under the current capital requirements set by the NBG in 2016 banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the minimum level of 10.8% and a ratio of Tier 1 capital to risk weighted assets above the minimum level of 7.2%. No additional add-ons are in place. In mid-2015, the NBG removed previously established 3% capital add-on. The regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

<i>In thousands of GEL</i>	2016	2015	2014
Share capital	567,089	443,987	433,521
Retained earnings and other disclosed reserves	770,345	568,604	402,793
General loan loss provisions (up to 1.25% of risk – weighted assets)	115,559	87,037	64,627
Less intangible assets	(53,074)	(41,080)	(26,123)
Less Investments into subsidiary companies and capital of other banks	(61,855)	(50,840)	(117,962)
Less Investments in the capital of the resident banks	(351,040)	–	–
Subordinated debt (included in regulatory capital)	342,653	173,652	116,068
Total regulatory capital	1,329,677	1,181,360	872,924
Risk-weighted Exposures			
Credit risk weighted assets (including off-balance obligations)	6,750,917	5,304,184	4,125,740
Currency Induced Credit Risk minus general and special reserves	2,855,296 (205,968)	2,056,062 (205,131)	1,525,435 (155,192)
Risk-weighted assets	9,400,245	7,155,115	5,495,983
Tier 1 Capital adequacy ratio	10.9%	11.0%	12.2%
Total Capital adequacy ratio	14.1%	16.5%	15.9%

The breakdown of the Bank's assets into the carrying amounts based on the NBG accounting rules and relevant risk-weighted exposures as of the end of 2016, 2015, 2014 are given in the tables below:

<i>In thousands of GEL</i>	2016	
	Carrying Value	RW amount
<i>Risk weighted Exposures</i>		
Cash, cash equivalents, Interbank Deposits and Securities	2,372,263	163,294
Gross Loans and accrued interests	5,979,125	8,427,081
Repossessed Assets	46,441	46,441
Fixed Assets and intangible assets	328,184	275,110
Other assets	620,428	278,394
Total	9,346,441	9,190,320
Total Off-balance sheet	875,585	415,893
minus general and special reserves	(205,968)	(205,968)
Total Amount	10,016,058	9,400,245

<i>In thousands of GEL</i>	2015	
	Carrying Value	RW amount
<i>Risk weighted Exposures</i>		
Cash, cash equivalents, Interbank Deposits and Securities	1,794,873	85,733
Gross Loans and accrued interests	4,671,693	6,445,027
Repossessed Assets	44,253	44,253
Fixed Assets and intangible assets	306,368	265,288
Other assets	177,111	151,073
Total	6,994,298	6,991,374
Total Off-balance sheet	696,260	368,872
minus general and special reserves	(205,131)	(205,131)
Total Amount	7,485,427	7,155,115

36 Management of Capital continued

In thousands of GEL Risk weighted Exposures	2014	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Deposits and Securities	1,426,453	257,522
Gross Loans and accrued interests	3,353,985	4,668,750
Reposessed Assets	67,381	67,381
Fixed Assets and intangible assets	201,721	175,598
Other assets	198,146	112,829
Total	5,247,686	5,282,080
Total Off-balance sheet	868,270	369,095
minus general and special reserves	(155,192)	(155,192)
Total Amount	5,960,764	5,495,983

NBG Basel II Capital adequacy ratio

After adopting the NBG Basel II/III requirements, the Bank, in addition to above capital ratios calculates its capital requirements and risk weighted assets separately for Pillar 1. The NBG provides detailed instructions of Pillar 1 calculations. The reporting started at the end of 2013. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

In thousands of GEL	2016	2015	2014
Tier 1 Capital	1,041,270	953,403	783,360
Tier 2 Capital	380,751	245,705	163,505
Regulatory capital	1,422,021	1,199,108	946,865
Risk-weighted Exposures			
Credit Risk Weighted Exposures	9,399,140	7,005,711	5,879,120
Risk Weighted Exposures for Market Risk	45,689	18,651	27,186
Risk Weighted Exposures for Operational Risk	576,628	452,089	390,378
Total Risk-weighted Exposures	10,021,457	7,476,451	6,296,684
Minimum Tier 1 ratio	8.5%	8.5%	8.5%
Tier 1 Capital adequacy ratio	10.4%	12.8%	12.4%
Minimum total capital adequacy ratio	10.5%	10.5%	10.5%
Total Capital adequacy ratio	14.2%	16.0%	15.0%

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December 2016, 2015 and 2014 are given in the tables below:

In thousands of GEL	2016	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Exposures and Securities	2,397,259	1,086,262
Gross loans and accrued interests,	5,771,369	7,149,145
Reposessed Assets	46,441	46,441
Fixed Assets and intangible assets	328,184	273,176
Other assets	647,261	536,747
minus general provision, penalty and interest provision	(45,534)	(45,534)
Total	9,144,980	9,046,237
Total Off-balance	978,221	352,903
Market Risk	45,689	45,689
Operational Risk	403,640	576,628
Total Amount	10,572,530	10,021,457

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36 Management of Capital continued

In thousands of GEL	2015	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Exposures and Securities	1,857,283	570,748
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	4,442,340	5,555,538
Repossessed Assets	44,253	44,253
Fixed Assets and intangible assets	306,368	334,472
Other assets	179,535	219,572
<i>minus general provision, penalty and interest provision</i>	(36,630)	(36,630)
Total	6,793,149	6,687,953
Total Off-balance	789,224	317,758
Market Risk	18,651	18,651
Operational Risk	316,462	452,089
Total Amount	7,917,486	7,476,451

In thousands of GEL	2014	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Exposures and Securities	1,524,235	682,162
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	3,254,912	4,330,991
Repossessed Assets	67,381	67,381
Fixed Assets and intangible assets	201,721	187,918
Other assets	199,439	307,609
<i>minus general provision, penalty and interest provision</i>	(48,030)	(48,030)
Total	5,199,658	5,528,031
Total Off-balance	934,174	351,089
Market Risk	27,186	27,186
Operational Risk	273,265	390,378
Total Amount	6,434,283	6,296,684

Capital adequacy ratio under Basel Capital Accord 1988

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements. These requirements include capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	2016	2015	2014
Tier 1 capital			
Share capital	524,778	427,061	425,234
Retained earnings and disclosed reserves	983,387	725,498	537,616
Less: Goodwill	(26,892)	(2,726)	(2,726)
Non-controlling interest	4,383	7,189	7,371
Total tier 1 capital	1,485,656	1,157,022	967,495
Tier 2 capital			
Revaluation reserves	59,240	58,701	49,255
General Reserve	88,300	59,770	49,367
Subordinated debt (included in tier 2 capital)	323,087	173,652	122,070
Total tier 2 capital	470,627	292,123	220,692
Total capital	1,956,283	1,449,145	1,188,187
Credit risk weighted assets (including off-balance obligations)	7,064,035	4,781,605	3,949,360
Less: General Reserve	(136,721)	(134,373)	(100,397)
Market Risk	46,484	32,605	61,864
Total Risk-weighted assets	6,973,798	4,679,837	3,910,827
<i>Minimum Tier 1 ratio</i>	4.0%	4.0%	4.0%
Tier 1 Capital adequacy ratio	21.3%	24.7%	24.7%
<i>Minimum total capital adequacy ratio</i>	8.0%	8.0%	8.0%
Total Capital adequacy ratio	28.1%	31.0%	30.4%

36 Management of Capital continued

Following the Basel I guidelines the General Reserve is defined by the management as the minimum among the following:

- IFRS provisions created on loans without impairment trigger event
- 2% of loans without impairment trigger event
- 1.25% of total RWA (Risk Weighted Assets)

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2016, 2015, 2014 is provided in the tables below:

<i>In thousands of GEL</i> <i>Risk weighted Exposures</i>	2016	
	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	2,762,892	133,527
Gross loans and accrued interests	7,358,725	5,609,312
Repossessed assets	90,873	90,873
Fixed assets and intangible assets	401,174	374,282
Other assets	373,118	373,118
Total	10,986,782	6,581,112
Total Off-balance	1,290,813	482,923
<i>Less: Loan loss provision minus General Reserve</i>	<i>(136,721)</i>	<i>(136,721)</i>
Market Risk	46,484	46,484
Total Amount	12,187,358	6,973,798

<i>In thousands of GEL</i> <i>Risk weighted Exposures</i>	2015	
	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,882,281	103,406
Gross loans and accrued interests	4,639,029	3,757,464
Repossessed assets	85,216	85,216
Fixed assets and intangible assets	294,837	292,111
Other assets	227,775	227,775
Total	7,129,138	4,465,972
Total Off-balance	849,295	315,633
<i>Less: Loan loss provision minus General Reserve</i>	<i>(134,373)</i>	<i>(134,373)</i>
Market Risk	32,605	32,605
Total Amount	7,876,665	4,679,837

<i>In thousands of GEL</i> <i>Risk weighted Exposures</i>	2014	
	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,368,407	63,462
Gross loans and accrued interests	3,706,260	3,035,718
Repossessed assets	60,480	60,480
Fixed assets and intangible assets	249,174	246,448
Other assets	188,909	188,909
Total	5,573,230	3,595,017
Total Off-balance	1,028,774	354,343
<i>Less: Loan loss provision minus General Reserve</i>	<i>(100,397)</i>	<i>(100,397)</i>
Market Risk	61,864	61,864
Total Amount	6,563,471	3,910,827

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37 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in a number of legal claims. When determining the level of provision to be set up with regards to such claims, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. 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 2016, 2015 and 2014 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as of 31 December 2016, the future minimum lease payments under non-cancellable operating leases over the next year amounted to GEL 5,016 thousand (31 December 2015: 4,891 thousand, 31 December 2014: 4,766 thousand).

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. As disclosed in Note 18, as of 31 December 2016, TBC Kredit had breached certain borrowing covenants agreed with foreign financial institution lenders. The major reason for the breach was drastic devaluation of Azerbaijani Manat in February and December 2015. The Group was in compliance with all other covenants as of 31 December 2016 and with all covenants as of 31 December 2015 and 31 December 2014.

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party 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 credit related commitments and performance guarantees are as follows:

<i>In thousands of GEL</i>	2016	2015	2014
Performance guarantees issued	426,608	243,183	188,440
Financial guarantees issued	116,260	71,999	86,770
Undrawn credit lines	449,110	247,159	284,284
Letters of credit issued	154,842	96,634	145,958
Total credit related commitments and performance guarantees (before provision)	1,146,820	658,975	705,452
Provision for performance guarantees	(2,635)	(1,472)	(4,912)
Provision for credit related commitments and financial guarantees	(8,049)	(5,589)	(3,266)
Total credit related commitments and performance guarantees	1,136,136	651,914	697,274

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 2016 were GEL 169,831 thousand (2015: GEL 136,867 thousand; 2014: GEL 138,296 thousand).

37 Contingencies and Commitments continued

Fair value of credit related commitments and financial guarantees were GEL 8,049 thousand as of 31 December 2016 (2015: GEL 5,589 thousand; 2014: GEL 3,266 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

<i>In thousands of GEL</i>	2016	2015	2014
Georgian Lari	409,498	259,749	254,554
US Dollars	545,621	319,941	377,964
Euro	101,892	44,874	46,057
Other	89,809	34,411	26,877
Total	1,146,820	658,975	705,452

Capital expenditure commitments. As of 31 December 2016, the Group has contractual capital expenditure commitments amounting to GEL 5,665 thousand (2015: 6,771 thousand; 2014: 511).

38 Non-Controlling Interest

The following table provides information about each subsidiary with non-controlling interest as of 31 December 2016:

<i>In thousands of GEL</i>	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Bank JSC including:	1.52%	(887)	28,264	-
TBC Leasing JSC	0.39%	9	56	-
TBC Kredit LLC	25%	(2,865)	3,890	-
United Financial Corporation JSC	1.34%	50	436	-

The summarised financial information of these subsidiaries was as follows as of 31 December 2016:

<i>In thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Bank JSC	5,492,825	5,268,934	7,105,314	2,084,656	679,912	302,491	303,031	224,421
TBC Leasing JSC	71,484	49,140	54,930	51,283	11,566	2,316	2,316	(5,425)
TBC Kredit LLC	20,649	19,458	16,034	17,867	8,367	(11,461)	(11,461)	(4,291)
United Financial Corporation JSC	9,271	5,800	9,114	45	11,979	3,737	3,737	(1,243)

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2015:

<i>In thousands of GEL</i>	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	0.43%	8	47	-
TBC Kredit LLC	25%	(250)	6,756	-
United Financial Corporation JSC	1.33%	60	386	-

The summarised financial information of these subsidiaries was as follows as of 31 December 2015:

<i>In thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Leasing JSC	69,642	36,323	29,607	65,378	9,511	1,960	1,960	8,769
TBC Kredit LLC	41,703	36,053	57,773	1,509	15,319	(1,002)	(1,002)	7,290
United Financial Corporation JSC	5,453	6,470	675	73	12,512	4,476	4,476	1,908

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38 Non-Controlling Interest continued

The following table provides information about each subsidiary with non-controlling interest as of 31 December 2014:

<i>In thousands of GEL</i>	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	0.52%	6	38	–
TBC Kredit LLC	25%	970	7,006	–
United Financial Corporation JSC	1.33%	24	327	–

The summarised financial information of these subsidiaries was as follows as of 31 December 2014:

<i>In thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Leasing JSC	43,541	29,236	20,625	44,710	6,130	1,204	1,204	(2,745)
TBC Kredit LLC	45,238	45,927	11,949	47,743	12,881	3,880	3,880	590
United Financial Corporation JSC	2,846	4,772	431	487	9,212	1,792	1,792	432

39 Offsetting Financial Assets and Financial Liabilities

As of 31 December 2016, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

<i>In thousands of GEL</i>	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) – (d) – (e)
				Financial instruments (d)	Cash collateral received (e)	
ASSETS						
Other financial assets:						
– Receivables on credit card services and money transfers	26,959	2,158	24,801	–	–	24,801
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	26,959	2,158	24,801	–	–	24,801
LIABILITIES						
Other financial liabilities:						
– Payables on credit card services and money transfers	14,563	2,158	12,405	–	–	12,405
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	14,563	2,158	12,405	–	–	12,405

39 Offsetting Financial Assets and Financial Liabilities continued

As of 31 December 2015, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c) - (d) - (e)
<i>In thousands of GEL</i>						
ASSETS						
Cash and cash equivalents						
- Reverse repo	47,768	-	47,768	47,768	-	-
Other financial assets:						
- Receivables on credit card services and money transfers	17,821	2,749	15,072	-	-	15,072
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	65,589	2,749	62,840	47,768	-	15,072
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	15,300	2,749	12,551	-	-	12,551
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	15,300	2,749	12,551	-	-	12,551

As of 31 December 2014, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c) - (d) - (e)
<i>In thousands of GEL</i>						
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	11,399	1,959	9,440	-	-	9,440
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	11,399	1,959	9,440	-	-	9,440
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	10,781	1,959	8,822	-	-	8,822
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	10,781	1,959	8,822	-	-	8,822

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.

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40 Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

<i>In thousands of GEL</i>	2016	2015	2014
Fair value of gross settled currency swaps, included in other financial assets or due from banks	508	605	618
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(320)	(108)	(2,502)
Fair value of Interest rate swaps, included in other financial liabilities	(1,055)	(2,303)	(3,137)
Total	(867)	(1,806)	(5,021)

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.

<i>In thousands of GEL</i>	2016		2015		2014	
	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 (-)	-	(13,125)	-	(85,754)	-	(222,231)
- USD receivable on settlement (+)	4,220	-	13,821	-	29,031	-
- GEL payable on settlement (-)	-	(1,604)	-	(10,427)	-	(26,530)
- GEL receivable on settlement (+)	10,998	-	13,857	-	81,865	-
- EUR payable on settlement (-)	-	(3,214)	-	(1,309)	-	(604)
- EUR receivable on settlement (+)	3,201	-	34,024	-	118,272	-
- Other payable on settlement (-)	-	(2,150)	-	(1,963)	-	(1,479)
- Other receivable on settlement (+)	1,862	-	38,248	-	19,792	-
Fair value of foreign exchange forwards and gross settled currency swaps	20,281	(20,093)	99,950	(99,453)	248,960	(250,844)
Net fair value of foreign exchange forwards and gross settled currency swaps	188		497			(1,884)

Interest rate swaps. In March 2010 TBC Bank entered into an interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers the payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expires in November 2018. At the reporting date the fair value of interest rate swaps was estimated to be negative GEL 1,055 thousand (2015: negative GEL 2,303 thousand; 2014: negative GEL 3,137 thousand).

Information on related party balances is disclosed in Note 43.

41 Fair Value Disclosures

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

<i>In thousands of GEL</i>	31 December 2016				31 December 2015				31 December 2014			
	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												
<i>Investment securities available for sale</i>												
- Government notes	-	1,016	-	1,016	-	998	-	998	-	232,934	-	232,934
- Certificates of Deposits of National Bank of Georgia	-	36,002	-	36,002	-	84,849	-	84,849	-	198,233	-	198,233
- Corporate bonds	-	150,073	-	150,073	-	174,916	-	174,916	-	25,034	-	25,034
- Ministry of Finance Treasury Bills	-	241,810	-	241,810	-	33,445	-	33,445	-	476	-	476
- Corporate shares (Visa Inc)	-	-	-	-	9,335	-	-	9,335	6,140	-	-	6,140
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	508	-	508	-	604	-	604	-	618	-	618
NON-FINANCIAL ASSETS												
- Premises and leasehold improvements	-	-	229,549	229,549	-	-	175,184	175,184	-	-	132,346	132,346
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS												
	-	429,409	229,549	658,958	9,335	294,812	175,184	479,331	6,140	457,295	132,346	595,781
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
- Interest rate swaps included in other financial liabilities	-	1,055	-	1,055	-	2,303	-	2,303	-	3,137	-	3,137
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	320	-	320	-	108	-	108	-	2,502	-	2,502
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS												
	-	1,375	-	1,375	-	2,411	-	2,411	-	5,639	-	5,639

There were no transfers between levels 1 and 2 during the year ended 31 December 2016 (2015: none, 2014: none).

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41 Fair Value Disclosures continued

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

In thousands of GEL	Fair value at 31 December			Valuation technique	Inputs used
	2016	2015	2014		
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	428,901	294,208	456,677	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	508	604	618	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	429,409	294,812	457,295		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps included in other financial liabilities	1,055	2,303	3,137	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	320	108	2,502	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	1,375	2,411	5,639		

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 2016 (2015: none; 2014: none).

For details the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 15. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

41 Fair Value Disclosures continued

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of GEL	31 December 2016				31 December 2015				31 December 2014			
	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	945,180	-	-	945,180	720,347	-	-	720,347	532,118	-	-	532,118
Due from other banks	-	24,725	-	24,725	11,042	-	-	11,042	33,704	-	-	33,704
Mandatory cash balances with the NBG	-	990,642	-	990,642	-	471,490	-	471,490	-	336,075	-	336,075
Loans and advances to customers:	-	-	-	-	-	-	-	-	-	-	-	-
- Corporate loans	-	-	2,086,791	1,970,671	-	-	1,504,360	1,392,054	-	-	1,221,155	1,140,503
- Consumer loans	-	-	1,668,124	1,604,250	-	-	870,285	831,588	-	-	780,259	744,290
- Mortgage loans	-	-	1,844,243	1,788,092	-	-	906,240	892,139	-	-	729,013	707,979
- Small and micro loans	-	-	845,388	834,374	-	-	616,803	613,122	-	-	533,527	528,631
- Micro	-	-	682,785	649,228	-	-	493,125	475,309	-	-	264,303	266,091
- Others	-	-	286,438	287,087	-	-	241,733	240,674	-	-	168,231	169,002
Bonds carried at amortised cost	-	377,749	-	372,956	-	350,167	-	372,092	-	-	-	-
Investments in leases	-	-	95,907	95,031	-	-	80,018	75,760	-	-	50,907	50,907
Other financial assets	-	-	94,119	94,119	-	-	63,713	63,713	-	-	43,239	43,239
NON-FINANCIAL ASSETS												
Investment properties, at cost	-	-	123,852	95,615	-	-	105,972	57,600	-	-	79,057	76,216
TOTAL ASSETS	945,180	1,393,116	7,727,646	9,751,970	731,389	821,657	4,882,249	6,216,930	565,822	336,075	3,869,691	4,628,755
FINANCIAL LIABILITIES												
Due to credit institutions	-	2,197,016	-	2,197,577	-	1,113,666	-	1,113,574	-	749,285	-	749,285
Customer accounts	-	4,002,659	2,463,392	6,454,949	-	2,372,794	1,812,575	4,177,931	-	1,857,089	1,483,891	3,322,428
Debt securities in issue	-	23,508	-	23,508	-	21,714	-	21,714	-	20,423	-	20,423
Other financial liabilities	-	49,623	-	49,623	-	37,024	-	37,024	-	35,707	-	35,707
Subordinated debt	-	369,320	-	368,381	-	284,985	-	283,648	-	188,015	-	188,015
TOTAL LIABILITIES	-	6,642,126	2,463,392	9,094,038	-	3,830,183	1,812,575	5,633,891	-	2,850,519	1,483,891	4,315,858

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41 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 3).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount.

There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2016 (2015: none; 2014: none).

42 Presentation of Financial Instruments by Measurement Category

For the measurement purposes, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2016:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	945,180				945,180
Due from other banks	24,725	-	-	-	24,725
Mandatory cash balances with the National Bank of Georgia	990,642	-	-	-	990,642
Loans and advances to customers	7,133,702	-	-	-	7,133,702
Investment securities available for sale	-	430,703	-	-	430,703
Bonds carried at amortised cost	372,956	-	-	-	372,956
Investments in leases	-	-	95,031	-	95,031
Other financial assets:					
- Other financial receivables	94,119	-	-	508	94,627
TOTAL FINANCIAL ASSETS	9,561,324	430,703	95,031	508	10,087,566
NON-FINANCIAL ASSETS	-	-	-	-	681,466
TOTAL ASSETS	-	-	-	-	10,769,032

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2015:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	720,347	-	-	-	720,347
Due from other banks	11,042	-	-	-	11,042
Mandatory cash balances with the National Bank of Georgia	471,490	-	-	-	471,490
Loans and advances to customers	4,444,886	-	-	-	4,444,886
Investment securities available for sale	-	307,310	-	-	307,310
Bonds carried at amortised cost	372,092	-	-	-	372,092
Investments in leases	-	-	75,760	-	75,760
Other financial assets:					
- Other financial receivables	63,712	-	-	605	64,317
TOTAL FINANCIAL ASSETS	6,083,569	307,310	75,760	605	6,467,244
NON-FINANCIAL ASSETS	-	-	-	-	467,751
TOTAL ASSETS	-	-	-	-	6,934,995

42 Presentation of Financial Instruments by Measurement Category continued

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2014:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	532,118	–	–	–	532,118
Due from other banks	33,704	–	–	–	33,704
Mandatory cash balances with the National Bank of Georgia	336,075	–	–	–	336,075
Loans and advances to customers	3,556,496	–	–	–	3,556,496
Investment securities available for sale	–	466,510	–	–	466,510
Investments in leases	–	–	50,907	–	50,907
Other financial assets:					
– Other financial receivables	43,239	–	–	618	43,857
TOTAL FINANCIAL ASSETS	4,501,632	466,510	50,907	618	5,019,667
NON-FINANCIAL ASSETS	–	–	–	–	403,799
TOTAL ASSETS	–	–	–	–	5,423,466

As of 31 December 2016, 2015 and 2014, 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.

43 Related Party Transactions

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Parties with more than 10% of ownership stake in the TBCG or with representatives in the Board of Directors are considered as Significant Shareholders. The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members.

Transactions between TBC Bank Group PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

As of 31 December 2016, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 6.3 – 20%)		900	7,612
Impairment provisions for loans and advances to customers		2	26
Derivative financial liability	40	1,055	–
Due to credit institutions (contractual interest rate: 5.7 – 9.7%)		257,403	–
Customer accounts (contractual interest rate: 0 – 13.5%)		38,982	14,548
Guarantees		28,509	–
Provision on guarantees		192	–

The income and expense items with related parties except from key management compensation for the year 2016 were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel
Interest income		161	399
Interest expense		17,435	503
Gains less losses from trading in foreign currencies		115	18
Foreign exchange translation gains less losses		170	465
Fee and commission income		69	13
Fee and commission expense		580	–
Administrative and other operating expenses (excluding staff costs)		1	155
Net loss on derivative financial instruments	40	206	–

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43 Related Party Transactions continued

The aggregate loan amounts advanced to, and repaid, by related parties during 2016 were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	3,713	10,568
Amounts repaid by related parties during the year	(5,994)	(5,722)

As of 31 December 2016, transactions and balances of TBC Bank Group PLC with subsidiary company were as follows:

<i>In thousands of GEL</i>	Balance as of 31 December 2016
Gross amount of loans and advances granted to subsidiary	2,000
Customer accounts placed in subsidiary	2,320
Placement of cash in subsidiary	399
Investment in subsidiary	1,417,043

The income and expense items for TBC Bank Group PLC with subsidiary except from key management compensation for the year 2016 were as follows:

<i>In thousands of GEL</i>	2016
Interest income	1,149
Interest expense	32
Fee and commission expense	1

Included in Investment in subsidiary GEL 7,023 thousands relates to investment in JSC TBC Insurance and GEL 4,882 thousands to accrual of share based compensation.

As of 31 December 2015, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 7.3 – 20%)		3,179	1,963
Impairment provisions for loans and advances to customers		45	7
Derivative financial liability	40	2,303	–
Due to credit institutions (contractual interest rate: 5.2 – 11.3%)		63,810	–
Customer accounts (contractual interest rate: 0 – 7.5%)		8,924	10,253
Subordinated debt (contractual interest rate: –12.6%)		132,530	–

The income and expense items with related parties except from key management compensation for the year 2015 were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel
Interest income		438	139
Interest expense		20,747	537
Gains less losses from trading in foreign currencies		139	40
Foreign exchange translation gains less losses		1,160	28
Fee and commission income		12	16
Fee and commission expense		726	–
Administrative and other operating expenses (excluding staff costs)		48	288
Net loss on derivative financial instruments	40	575	–

43 Related Party Transactions continued

The aggregate loan amounts advanced to, and repaid, by related parties during 2015 were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	1,684	2,972
Amounts repaid by related parties during the year	(5,486)	(2,492)

As of 31 December 2014, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 7.5 – 23%)		5,383	1,315
Impairment provisions for loans and advances to customers		190	9
Derivative financial liability	40	3,137	–
Due to credit institutions (contractual interest rate: 0 – 13%)		63,542	–
Customer accounts (contractual interest rate: 0 – 9.5%)		5,925	7,302
Subordinated debt (contractual interest rate: 9.2 – 12%)		102,859	–

The income and expense items with related parties except from key management compensation for the year 2014 were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel
Interest income		551	114
Interest expense		15,408	350
Gains less losses from trading in foreign currencies		56	26
Foreign exchange translation gains less losses		331	51
Fee and commission income		9	10
Fee and commission expense		926	–
Administrative and other operating expenses (excluding staff costs)		70	164
Net loss on derivative financial instruments	40	(683)	–

As of 31 December 2014, other rights and obligations with related parties were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	2,074	3,042
Amounts repaid by related parties during the year	(7,501)	(3,204)

The compensation of the TBCG Board of Directors and the Bank's Management Board is presented below:

<i>In thousands of GEL</i>	2016		2015		2014	
	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	12,323	–	9,939	867	10,096	3,929
Cash settled bonuses related to share-based compensation	7,336	10,715	4,748	5,254	1,463	2,012
Equity-settled share-based compensation	9,923	–	6,864	–	2,192	–
Total	29,582	10,715	21,551	6,121	13,751	5,941

Included in salaries and bonuses for year 2016, GEL 247 thousand relates to compensation for directors of TBCG paid by TBC Bank Group PLC.

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44 Business Combination

Acquisition of JSC Bank Republic

On 20 October 2016, the Bank acquired 100% of the share capital of JSC Republic Bank, one of the leading universal banks operating in Georgia, from Société Générale and EBRD, and consequently obtained control through its ability to cast a majority of votes in the general meeting of shareholders. The acquisition was financed by cash consideration of US\$100,858,342 and 2,998,305 newly issued shares of TBC Bank Group PLC. The Transaction represents a key milestone in the consolidation of the Georgian banking sector. The acquired subsidiary is focused on the consumer and mortgage lending markets and is highly complementary to the Group's existing operations, providing an opportunity for significant synergies.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of GEL

Cash consideration paid	238,772
Shares issued	112,269
Total purchase consideration	351,041

Acquisition related transaction costs were expensed as general and administrative expenses.

The consideration paid by the Group was based on results of an appraisal by an internationally recognised investment bank, 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:

<i>In thousands of GEL</i>	Note	Attributed fair value
Cash and cash equivalents		150,341
Mandatory cash balance with the National Bank of Georgia		133,006
Due from financial institutions		20,686
Loans to customers		1,210,957
Investment securities		153,004
Property and equipment		57,939
Investment property		22,836
Intangible assets		6,534
Other assets		11,025
Deposits by banks		(118,640)
Deposits by customers		(739,645)
Provisions		(1,942)
Deferred income tax liabilities		(6,362)
Current income tax liabilities		(1,506)
Borrowed funds		(562,565)
Other liabilities		(8,793)
Subordinated debt		-
Fair value of acquired interest in net assets of subsidiary		326,875
Goodwill arising from the acquisition	17	24,166
Total purchase consideration		351,041
Less: Non-cash consideration		(112,269)
Less: cash and cash equivalents of subsidiary acquired		(150,341)
Outflow of cash and cash equivalents on acquisition		88,431

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

The acquired subsidiary contributed net revenues of GEL 38,053 thousand and profit of GEL 10,677 thousand to the Group for the period from the date of acquisition to 31 December 2016. If the acquisition had occurred on 1 January 2016, the contribution to the Group's net revenues for the year ended 31 December 2016 would have been of GEL 151,454 thousand and to profit would have been of GEL 57,810 thousand.

The gross amount of loans to customers and finance lease receivables was GEL 1,252 million of which GEL 40,808 thousand is not expected to be collected.

44 Business Combination continued

Acquisition of JSC Insurance Company Kopenbur

On 2 November 2016, the Bank acquired 100% of the share capital of JSC Insurance Company Kopenbur, for US\$1,422,500. Following the acquisition the company was renamed to "TBC Insurance". The Transaction is in line with TBC Bank Group PLC's strategy to enhance its product offering to its customers. JSC Insurance Company Kopenbur is focused on the retail segment in Georgia, with particular strength in motor insurance, and complements the traditional Bank assurance products and services offered to TBC Bank customers.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of GEL

Cash consideration paid	3,423
Total purchase consideration	3,423

Acquisition-related transaction costs were expensed as general and administrative expenses.

<i>In thousands of GEL</i>	Note	Attributed fair value
Cash and cash equivalents		491
Placements with banks		1,408
Insurance and other receivables		5,310
Deferred tax asset		246
Property and equipment		406
Intangible assets		228
Other assets		627
Insurance Contracts Liabilities		(2,887)
Provisions for liabilities and charges		(414)
Other Liabilities		(3,758)
Fair value of acquired interest in net assets of subsidiary		1,657
Goodwill arising from the acquisition	17	1,766
Total purchase consideration		3,423
Less: cash and cash equivalents of subsidiary acquired		(491)
Outflow of cash and cash equivalents on acquisition		2,932

The goodwill is primarily attributable to the profitability of the acquired business and the significant synergies expected to arise.

The acquired subsidiary contributed net revenues of GEL 15 thousand and loss of GEL 1,042 thousand to the Group for the period from the date of acquisition to 31 December 2016. If the acquisition had occurred on 1 January 2016, the contribution to the Group's net revenues for the year ended 31 December 2016 would have been of GEL 2,661 thousand and to profit would have been negative of GEL 1,554 thousand.

1 A full list of related undertakings and the country of incorporation is set out below.

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Bank Republic Group	2 Grigol Abashidze Street, 0179, Tbilisi Georgia
Ltd Merckhali Pirveli	27 Kostava street, 0179, Tbilisi Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	8 Bulachauri Street, 0160, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Real Estate Management Fund JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, 52520, Tel Aviv, Israel
Mali LLC	23 Chkheidze Street, 0102, Tbilisi, Georgia
JSC TBC Insurance	24B, Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
UFC International Ltd	Harneys Fiduciary, Craigmuir Chambers, Po Box 71, Road Town, Tortola Vg1110, British Virgin Islands
TBC Capital B.V	202 Oudegracht, 1811, CR Alkmaar Netherlands
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128, Tbilisi, Georgia
Ltd Georgian Mill Company	2 Abashidze street, 0179, Tbilisi Georgia

GLOSSARY

Bank	Joint Stock Company TBC Bank
Bankassurance	An arrangement in which a bank and an insurance company form a partnership, so that the insurance company can sell its products to the bank's client base
Bank Constanta	Joint Stock Company Bank Constanta
Bank Republic	Joint Stock Company Bank Republic
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of Board of Directors of the Company
Chief Executive Officer (or CEO)	Chief Executive Officer of TBC Bank Group PLC
Chief Financial Officer (or CFO)	Chief Financial Officer of TBC Bank Group PLC
Code	The UK Corporate Governance Code
Company	TBC Bank Group PLC
Corporate segment	Corporate segment comprises business customers that have annual revenues of GEL8 million or more, or have been granted loans equivalent to US\$1.5 million or more. Some other business customers may also be included on a discretionary basis
Deputy Chairman	Deputy chairman of Board of Directors of the Company
Director(s)	Members of the Board of TBC Bank Group PLC
Group	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and its subsidiaries
Internet banking penetration ratio	Number of active internet banking users divided by total number of active retail customers
Kopenbur Insurance Company	Joint Stock Company Insurance Company Kopenbur
Management Board	Management Board of Joint Stock Company TBC Bank
Micro segment	Micro segment comprises business customers with loans below US\$70,000, as well as pawnshops, credit cards and cash cover loans granted in TBC Bank Constanta branches, and deposits up to US\$20,000 in urban areas and up to US\$100,000 in rural areas of customers of TBC Bank Constanta branches. Some other business customers may also be included on a discretionary basis
Mobile banking penetration ratio	Number of active mobile banking users divided by total number of active retail clients
Offloading ratio	Number of transactions conducted in remote channels divided by total number of transactions, based on JSC TBC Bank standalone data
Product per customer ratio	Number of active products divided by number of active customers
Retail segment	Retail segment comprises individuals not included in other segments
SME segment	SME segment comprises business customers that are not in the corporate or micro segments. Some other business customers may also be included on a discretionary basis
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 GEL2,000 or a loan of GEL20,000 or more, or deposit of GEL20,000 or more
TBC Bank Group PLC	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank)
TBCG	TBC Bank Group PLC (except for Remuneration Report, where it means TBC Bank Group PLC and JSC TBC Bank together)
TBC Insurance	Joint Stock Company TBC Insurance, formerly Joint Stock Company Insurance Company Kopenbur
TBC JSC	Joint Stock Company TBC Bank
TBC PLC	TBC Bank Group PLC
VIP	Clients with a minimum deposit of US\$100,000 as well as on a discretionary basis
Wealth management for non-resident clients	Non-resident clients with a minimum deposit of US\$100,000 as well as on a discretionary basis

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants	FDI	Foreign direct investment	MB	Mobile banking
ADB	Asian Development Bank	FMO	Financierings-Maatschappij voor ontwikkelin	MBA	Master of Business Administration
AFS	Available for sale	FTSE	Financial Times Stock Exchange	MBO	Management-by-objectives
ALCO	Asset-liability management committee	FVOCI	Fair value through other comprehensive income	MSME	Micro, small and medium-sized enterprises
ATM	Automated teller machine	FVPL	Fair value through profit or loss	NBG	National Bank of Georgia
BNY	Bank of New York	GBP	Great British pound, national currency of the UK	NCI	Non-controlling interest
CAGR	Compounded annual growth rate	GDP	Gross domestic product	NIM	Net interest margin
CAR	Capital adequacy ratio	GDR	Global depositary receipt	NPL	Non-performing loans
CEO	Chief executive officer	GEL	Georgian lari, national currency of Georgia	NPS	Net promoter score
CFA	Chartered Financial Analyst	GHG	Greenhouse gas	OCI	Other comprehensive income
CFO	Chief financial officer	HR	Human resources	OECD	Organization for Economic Cooperation and Development
CGU	Cash generating unit	IAS	International Accounting Standards	PLC	Public limited company
CIB	Corporate investment banking	IASB	International Accounting Standards Board	POS	Point of sale
CRM	Customer relationship management	IB	Internet banking	PPP	Purchasing power parity
CRO	Chief risk officer	IDR	Issuer default rating	ROAA	Return on average assets
CSR	Corporate social responsibility	IFC	International Finance Corporation	ROAE	Return on average equity
CVP	Cost volume profit	IFI	International financial institution	SME	Small and medium-sized enterprises
DCF	Discounted cash flows	IFRIC	International Financial Reporting Interpretations Committee	SPPI	Solely payments of principal and interest
DCM	Debt capital markets	IFRS	International Financial Reporting Standards	STEM	Science, technology, engineering and mathematics
DEG	Deutsche investitions- und entwicklungsgesellschaft	IMF	International Monetary Fund	UK	United Kingdom of Great Britain and Northern Ireland
EBRD	European Bank of Reconstruction and Development	IPCC	Intergovernmental Panel on Climate Change	USD	The US dollar, national currency of the United States
ECL	Expected credit losses	IPO	Initial public offering	VIP	Very important person
EECG	Energy Efficiency Center Georgia	IT	Information technology	VAR	Value-at-risk
EMEA	Europe, Middle East and Africa	JSC	Joint stock company	WB	World Bank
EPS	Earnings per share	KPI	Key performance indicators	WM	Wealth management
ERM	Enterprise risk management	LED	Light-emitting diode	WRI	World Resources Institute
ESRM	Environmental and social risk management	LSE	London Stock Exchange		
EU	European Union				
EUR	Euro				



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