TBC BANK

Make Life **Easier**

MANAGEMENT REPORT AND FINANCIAL STATEMENTS **2019**

2019

TBC BANK[1] is the largest banking group in Georgia – serving around 90% of the country's adult population.

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For more information visit our website www.tbcbank.ge

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

WHO WE ARE ?

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

COMPLETE SUIT OF TRADITIONAL FINANCIAL SERVICES

TBC BANK

TBC LEASING

TBC CAPITAL

For more information please refer to 16-29, 32-33 pages

FULLY DIGITAL BANK

SPACE

For more information please refer to 30-31 pages

OUR MISSION > Make Life Easier

OUR VISION

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

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

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

TBC CULTURE IS BASED ON OUR TEAM, WHICH IS

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

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

STRONG FINANCIAL PERFORMANCE

₾ 545.7 mln
+ 25.9% YoY
NET PROFIT

₾ 10,112.0 mln
+ 7.1% YoY
TOTAL DEPOSITS

23.8%
+ 1.1pp YoY
RETURN ON AVERAGE EQUITY

₾ 12,662.0 mln
+ 22.1% YoY
TOTAL LOANS

BEST-IN-CLASS DIGITAL CAPABILITIES

- World's best in mobile banking 2019[1]
- 93% retail offloading ratio

SUPERIOR CUSTOMER EXPERIENCE

- Best service company in Georgia[2]

HIGH EMPLOYEE SATISFACTION LEVELS

- 1.76 Employee happiness index[3]

STRONG BRAND

- 100% Aided brand awareness among Georgian population[4]
- 41% Top of mind in banking sector[4]

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

Dear shareholders,

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

FINANCIAL PERFORMANCE

Our net profit amounted to GEL 545.7 million, up by 26.0% year-on-year, reflecting the growth in net fee and commissio income and interest income. The growth in net profit was also strongly supported by a decrease in credit loss allowance, which was driven by improved performance across all segments as well as by a change in the product mix. We continue to maintain a close focus on cost efficiency and strictly control operating expenses across the Group. Consequently, our cost-to-income ratio stood at 37.7%. Over the same period, the Bank's standalone cost-to-income ratio remained broadly stable year-on-year at 35.9%.[1] As a result, our return on equity stood at 23.8% and our return on assets stood at 3.3%.

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

STRATEGIC PROGRESS

We continue to move into a new era by delivering best-in-class digital solutions, harnessing our advanced data analytical capabilities and providing implacable customer experience across our multichannel:

- Our offloading ratio stood as high as 92.7% as of the end of 2019 up by 2.1 pp year-on-year. This was mainly driven by increased number of mobile banking transactions. We are also proud to be named World's Best in Mobile Banking 2019 by Global Finance Magazine in additon to winning multilple regional and country awards in various digital categories.
- In November 2019, our neobank, Space, has signed a partnership agreement with Visa, a world's leader in digital payments, to jointly develop innovative banking services. Space, is quickly gaining popularity on a Georgian market with the number of total registered customers reaching around 181,000. Total loans outstanding to Space customers amounted to GEL 27.0 million as of 31 December 2019. In December 2019, we have also launched saving pots in Space, which is a modern alternative to traditional saving and deposit products.
- As we aspire to transform into data driven organization, we implemented various industry leading analytical projects across the bank, designed with the help of world's leading consultants. Furthermore we have developed strong in-house data analytical capabilities by recruiting and training the best talent.
- We maintain the highest customer satistaction scores not only among the banking industry in Georgia, but also among the leading retail providers in the country[2].
- In the fast-changing environment we have to quickly react to markets, therefore agile transformation will help us achieve more efficient cross-company collaboration and strengthen our status of digital innovators. by the end of 2018, we started agile company-wide transformation. During 2019, it has been implemented successfully in the retail, MSME and IT departments and we plan to roll it out to other deparments in 2020 as well.

CHANGES IN THE MANAGEMENT BOARD

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

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

MACROECONOMIC OVERVIEW

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

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

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

OUR RESPONSE TO COVID-19

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

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

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

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

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

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

OUTLOOK

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

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

Vakhtang Butskhrikidze
CEO
28 April 2020

1 For the ratio calculation all relevant group recurring costs are allocated to the bank
2 Based on survey conducted by independent research company IPM among the retail segment in December 2019.

IMPLICATIONS OF COVID-19

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

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

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

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

In relation to capital adequacy requirements, this means:

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

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

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

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

- We introduced additional security and infection prevention measures in our branches, including glass barriers and antiseptic solutions for employees and customers;
- We promptly changed our operational model so that 95% of head and back office employees, over 2,200 people, including call center staff, are already working from home;
- We provided additional incentives to our customers to use our market-leading digital banking platform. Since our offloading ratio is as high as 93%, this proved very useful during this difficult time.
- We also work closely with the NBG, government and other businesses;
- We decided to provide a three-month grace period on principal and interest payments for individual and MSME customers and those corporate customers who are affected by the current situation;
- In addition, as part of the stress testing exercise, we have analysed multiple scenarios to ensure that the Group has sufficient liquidity and capital to meet updated regulatory capital and liquidity requirements;
- To optimize costs, top management has decided to forgo their entire annual bonuses for 2020.
- The provision charges to be set aside for the first quarter 2020 is expected to be in the range of 1.7%- 2.0% of the average loan book mainly attributable to Covid-19;

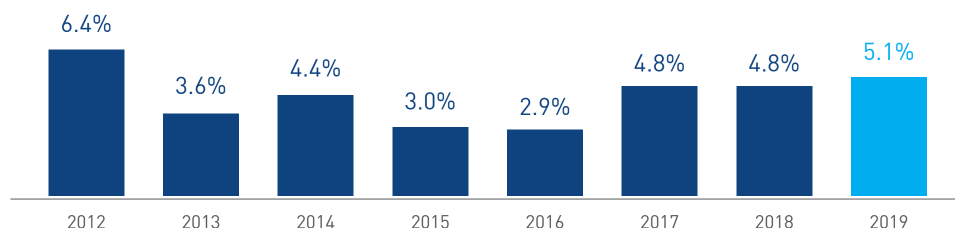
In 2020, our priorities will be prudent management of our capital and liquidity positions, leveraging our robust risk management system to closely monitor and proactively manage asset quality. In parallel, we will be focusing on cost optimization with a target to keep the Bank's cost to income flat for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

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

ECONOMIC GROWTH AND THE EXTERNAL SECTOR

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

REAL GDP GROWTH

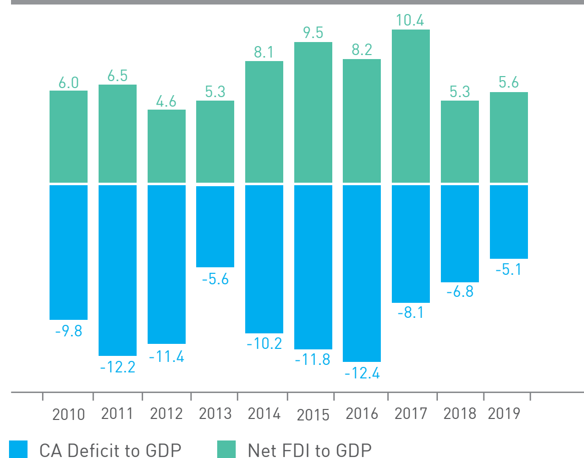


Source: GeoStat

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

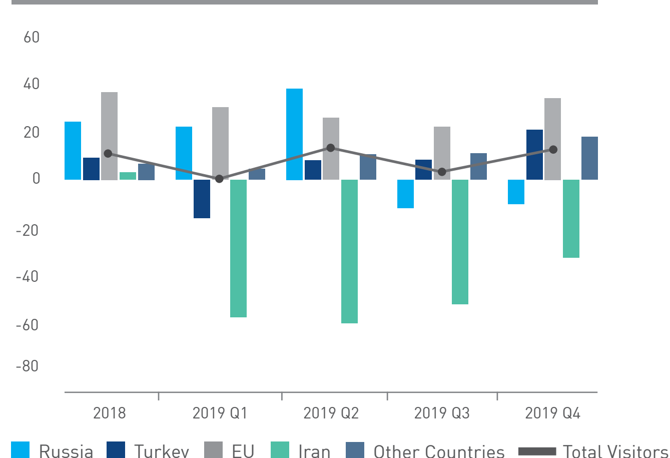
Overall, the dynamics of the external balance remained healthy. Following lower growth in tourism inflows, the balance of trade in services declined slightly from 12.7% of GDP in 2018 to 12.2% of GDP in 2019 which was counteracted by the lower deficit in trade in goods (down by 2.3% of GDP). As a result,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

CA DEFICIT AND NET FDI (% OF GDP)



Source: NBG, GeoStat

YOY GROWTH OF VISITORS BY COUNTRIES/REGIONS (%)



Source: GNTA

EXCHANGE RATE, MONETARY POLICY AND CREDIT

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

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

CPI INFLATION AND MONETARY POLICY RATE (%, YOY)

Source: GeoStat, NBG

FISCAL SPENDING

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

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

GOING FORWARD

Above 5.0% economic growth for the full year 2019 once more underlines the resilience and high growth potential of the Georgian economy. This growth is particularly encouraging given the challenges that the economy faced in 2019, the most important being Russia's flight ban. Per IMF projections, as of 14th April[2] , Georgian economy is expected to contract by 4.0% in 2020, while in 2021 the growth is expected to recover to 3.0%.

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

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

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

OUR BUSINESS MODEL

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

Our distinctive competitive advantages ...

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

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

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

... enabling us to deliver for all our stakeholders

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

1 Based on survey conducted by independent research companies IPM and ACT
2 Based on survey conducted by the independent research company, TNS in October 2019
3 The Banker, EMEA finance, Euromoney, Global Finance

OUR DISTINCTIVE COMPETITIVE ADVANTAGES

BEST-IN-CLASS DIGITAL CAPABILITIES

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

ADVANCED DATA ANALYTICAL CAPABILITIES

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

SUPERIOR CUSTOMER EXPERIENCE

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

STRONG BRAND AND REPUTATION

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

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

FIRST NEOBANK IN GEORGIA, SPACE

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

STRONG CORPORATE CULTURE

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

EXPERIENCED MANAGEMENT TEAM AND HIGH QUALITY OF CORPORATE GOVERNANCE

- We have a highly qualified and diverse Supervisory Board of directors with a strong commitment to the highest standards of corporate governance and business transparency;

EFFECTIVE RISK MANAGEMENT

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

OUR STRATEGY

In line with our mission to **make the lives of our customers easier**, we are continuously fine-tuning our advanced digital capabilities in order to develop the most innovative and modern solutions that meet customers' needs for high-tech products and services. We are also developing our Neobank Space, which is a unique solution, challenging traditional approaches to banking by creating a truly end-to-end digital experience through intuitive interfaces and simple real-time processes and features.

In parallel, we are actively developing our core financial products and services for our corporate, MSME and retail customers as well as striving to further strengthen our superior customer experience. We also continue to roll out an agile transformation project across the organization and invest in our employees by focusing on their learning and development.

OUR STRATEGIC PRIORITIES | PROGRESS IN 2019

1. LEVERAGING OUR CORE FINANCIAL PRODUCTS AND SERVICES

Being the largest bank in the country, we aim to retain our market leadership position and grow together with the market in all our core segments and products by constantly fine-tuning our financial offerings (for more information please refer to the divisional overview on pages 16-33). Interest income remains our key revenue generation stream and we will be focusing on maintaining sound levels of net interest margin (NIM) through proper customer segmentation and pricing. In parallel, we will be increasing our commission-based services such as cards business, trade finance and brokerage and investment banking.

Strong growth

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

Robust profitability

- ROE stood at 23.8% increased by 1.1 pp YoY
- ROA stood at 3.3% increased by 0.1 pp YoY

2. FURTHER STRENGTHENING OUR DIGITAL CAPABILITIES

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

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

Offloading ratio

- 92.7% up by 2.1 pp YoY

Mobile banking penetration ratio

- 40.0% up by 3.0 pp YoY

Space

- 508,000 downloads
- 181,000 registered customers

1 Based on survey conducted by independent research company IPM among the retail segment in December 2019

OUR STRATEGIC PRIORITIES | PROGRESS IN 2019

3. FURTHER IMPROVE SUPERIOR CUSTOMER EXPERIENCE

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

Named the best service provider in Georgia[1]

4. TRANSFORMING INTO AGILE COMPANY

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

Time to market for majority of systems[1]
- Up by 2.3 times

Employee happiness[1]
- Up by 16%

FTE productivity
- Up by 10%

Organizational agility score[1]
- Up by 4.3%

5. INVESTING IN HUMAN CAPITAL

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

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

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

Business School
- 80 people trained

Agile Academy
- 545 people trained

Data Analytics
- 500 people trained

IT Academy
- 117 new people trained and 25 recruited

KEY PERFORMANCE INDICATORS

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

In 2019, our net profit amounted to GEL 545.7 million, up by 25.9% YoY, while our return on equity stood at 23.8% and our return on assets stood at 3.3%.

In 2019, our operating income amounted GEL 1,093.2, up by 2.5% year-on-year, which was supported by the increase in net fee and commission income and net interest income. The growth in net interest income was related to re-classification of net gains on currency swaps in the amount of GEL 28.6 million from other operating income, which offset by the decline in net interest income related to the introduction of the responsible lending regulation from 1 January 2019, limiting the Bank's ability to lend money to higher-yield retail customers and change in product mix. Consequently, the net interest margin decreased by 1.3 pp year-on-year and stood at 5.5%. The growth in net profit was also strongly supported by a decrease in credit loss allowance, which was driven by improved performance across all segments. As a result, our cost of risk stood at 0.7% in 2019 compared to 1.6% in 2018. In 2019, our operating expenses increased by 4.1% year-on-year, the cost-to-income ratio stood at 37.7%, up by 0.6 pp year-on-year. Over the same period, the bank's standalone cost-to-income ratio remained strong and stood at 35.9%[1].

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

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

FINANCIAL KPIS

NET PROFIT (IN MLN GEL)

growth **25.9%**

Year	Value
2019	545,7
2018	433,3

RETURN ON AVERAGE EQUITY

growth **1.1pp**

Year	Value
2019	23.8%
2018	22.7%

NET INTEREST MARGIN

reduction **1.3pp**

Year	Value
2019	5.5%
2018	6.8%

COST TO INCOME

growth **0.6pp**

2019	37.7%
2018	37.1%

STANDALONE COST TO INCOME[1]

growth **0.3pp**

2019	35.9%
2018	35.6%

COST OF RISK

reduction **0.9pp**

2019	0.7%
2018	1.6%

LOAN BOOK MARKET SHARE[2]

growth **0.7pp**

2019	39.5%
2018	38.8%

TIER 1 CAR (BASEL III)

growth **1.8pp**

2019	14.6%
2018	12.8%

TOTAL CAR (BASEL III)

growth **1.2pp**

2019	19.1%
2018	17.9%

NON-FINANCIAL KPIS

EMPLOYEE SATISFACTION[3]

growth **15.8%**

2019	1.76
2018	1.52

CUSTOMER EXPERIENCE

The best service provider in Georgia (gap with peer bank)[4]

growth **0.4pp**

2019	2.7
2018	2.3

MOBILE BANKING PENETRATION RATIO

growth **3.0pp**

2019	40.0%
2018	37.0%

RETAIL TRANSACTIONS OFFLOADING RATIO

growth **2.1pp**

2019	92.7%
2018	90.6%

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

RETAIL BANKING

2019 HIGHLIGHTS

40.0%
Retail loan market share[1]

37.9%
Retail deposits market share[1]

39.9%
Retail loan share in total portfolio

56.1%
Retail deposit share in total portfolio

c.2.5 mln
Number of customers

93%
Offloading ratio

OVERVIEW

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

In 2019, our retail loan book increased by 7.5% YoY to GEL 5,053 million, mainly driven by an increase in mortgages, which grew by 17.0%. Over the same period, retail deposits increased by 11.2% to GEL 5,674 million. More information about the financial performance of the retail segment is provided in the financial review section on pages 82 to 93.

158
Branches

3,671
Self service terminals

22,414
POS terminals

c.1,350
ATMs[3]

c.560,000
Internet or mobile banking users

40%
Mobile banking penetration ratio

The first voice biometrics recognition system in call center

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

RETAIL SUB-SEGMENTS

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

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

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

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

TBC Status

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

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

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

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

High-Net-Worth Individuals

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

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

OUR STRATEGIC DIRECTIONS IN 2019

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

Becoming a customer centric company

This year, we have completely reshuffled our structure in the retail business by building teams around customers versus products. As a result, our focus shifted from selling products and services towards understanding customer needs and striving to fulfil their needs by developing various projects. This will significantly enhance our value proposition beyond banking and enable our customers to receive additional products and services.

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

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

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

As a result, the number of youth customers[1] increased by 10% YoY and reached 144,260 by the end of 2019.

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

Transformation into a data driven organization

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

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

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

1 Customers between 6-23 years

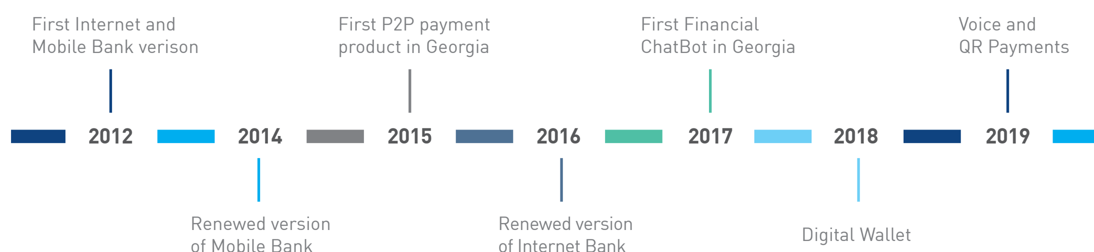
- **Consumer loan pricing optimisation** – This project was initiated in 2018 and the target clients were payroll customers. Based on the detailed analysis of their spending behavior and other characteristics, we determined price sensitivity for each customer and developed tailored offerings for each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

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

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

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

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



DGESVE.GE

PLATFORM DGESVE

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

CORPORATE INVESTMENT BANKING

2019 HIGHLIGHTS

38.9%
Corporate loan market share[1]

36.8%
Corporate loan share in total portfolio

40.6%
Corporate deposits market share[1]

32.1%
Corporate deposit share in total portfolio

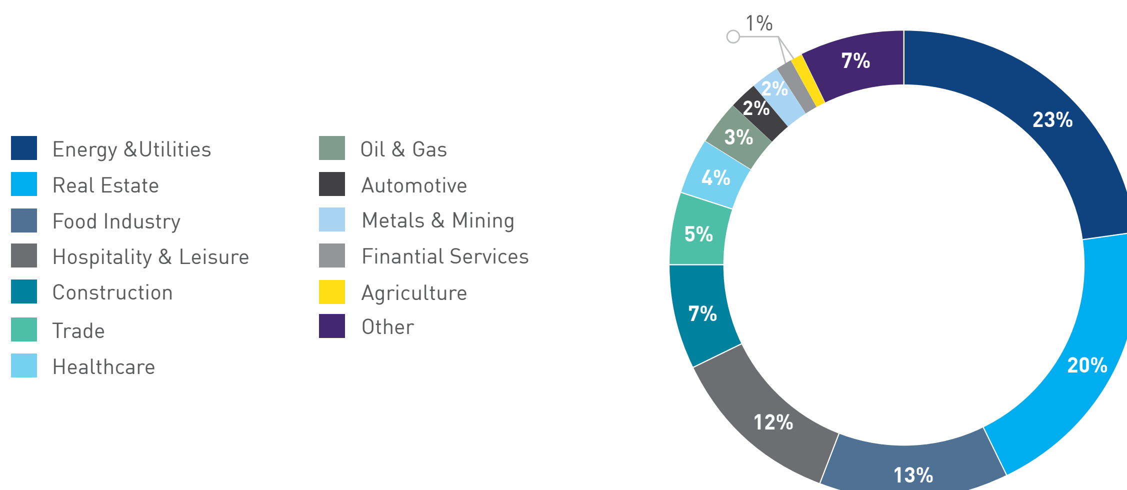
50.2%
Corporate guarantee and letter of credits market share[1]

3,232
Number of customers

OVERVIEW

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

DIVERSIFIED PORTFOLIO WITH STRONG PRESENCE IN EVERY SECTOR OF GEORGIAN ECONOMY



CORPORATE BANKING

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

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

2019 compared to 27.0% a year ago. More information about the financial performance of the corporate segment is provided in the financial review section on pages 82-93.

We maintain the leading position in Georgia in terms of trade finance operations by providing diversified product offerings as well as advisory services. We also have well-established partnerships with major counterparty banks and international financial institutions. Our guarantees and letter of credit portfolio amounted to GEL 1,713 million, up by 39.2% YoY. In recognition of our outstanding efforts, we have won several prestigious international awards: "Trade Finance Award for Excellent Partnership 2019" from Commerzbank, "Best Trade Finance Provider in Georgia 2020" from Global Finance as well as "The Market Leader in Georgia 2020" and "The Best Service Provider in Georgia 2020" from Euromoney.

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

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

INVESTMENT BANKING

This year, TBC Capital acted as the sole lead arranger for bonds of Tegeta Motors[2] and Nikora Trade[3] in the amount of GEL 30 million and GEL 28 million, respectively as well as for one private placement in the amount of US$ 2.2 million. In addition, TBC Capital, together with a number of leading international investment banks, acted as joint lead arranger for the Eurobonds of Silknet[4] and TBC Bank in the amount of US$ 200 million and US$ 425 million respectively, which were dual-listed on the Georgian Stock Exchange and the Irish Stock Exchange. Silknet's Eurobond was the first issuance from the private sector non-financial institution in Georgia, while TBC Bank achieved the lowest ever interest yield on its senior bonds and the lowest coupon on the additional Tier 1 bonds in Georgia. As a result, the bonds issued publicly and listed[5] by TBC Capital during this year amounted to GEL 1,805 million, holding 76%[6] of total bonds issued and listed on Georgian Stock Exchange in 2019.

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

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

GEL 30 mln 3-year Bond
Public Placement
NBG + 4.25%
Placement Agent

GEL 28 mln 3-year Bond
Public Placement
TIBR3M + 4.00%
Placement Agent

US$ 200 mln 5-year Eurobond
Public Placement
11%
Co-Lead Manager

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

SECTORAL RESEARCH

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

MSME

2019 HIGHLIGHTS

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

11.7%
MSME share in total deposit portfolio

c.147,418
customers

93%[2]
offloading ratio of MSME

23.3%
MSME share in total loan book

75%[3]
NPS

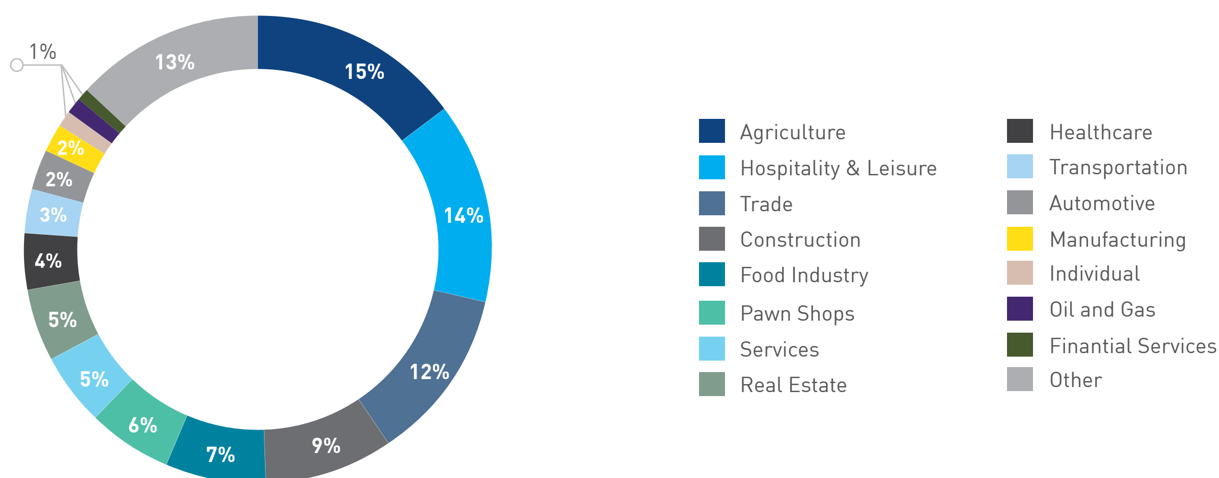
OVERVIEW

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

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

In 2019, our MSME loan book increased by 18.1% YoY to GEL 2,948million, mainly driven by an increase in the hospitality and leisure, agriculture, construction and trade sectors. Over the same period, MSME deposits increased by 16.8% to GEL 1,188 million. More information about the financial performance of the MSME segment is provided in the financial review section on pages 82 to 93.

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



OUR STRATEGIC DIRECTIONS IN 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BUSINESS
AWARD
2019

SPACE

VISA

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

SPACE

2019 HIGHLIGHTS

508k downloads

181k total registered customers

2.6 mln transactions during 2019

GEL 154 mln transactions volume during 2019

GEL 27 mln loan portfolio

10k borrowers

121k total cards attached

65k Space cards issued

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

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

Partnership agreement with Visa

OVERVIEW

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

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

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

PRODUCT DESCRIPTION AND ITS MAJOR BENEFITS

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

Currently Space is offering the following products and capabilities:

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

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

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

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

One achievement that particularly stands out in 2019 was the signature of a partnership agreement with Visa to jointly develop an innovative banking service and to introduce cutting-edge, user-centric and secure banking solutions.

MAJOR SUBSIDIARIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Furthermore, TBC Capital actively assisted Silknet[3] and JSC TBC Bank to dual-list their Eurobonds on the Georgian Stock Exchange together with the Irish Stock Exchange. This supports the development of the local exchange market, as local investors with no direct reach to international markets can invest in Eurobonds issued by local companies (more information about Eurobonds is given in the corporate and investment banking section on pages 22 to 25).

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

More information about TBC Capital can be found in the corporate and investment banking section on pages 22 to 25.

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

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

OUR CUSTOMERS

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

RESPONSIBLE BANKING, DIGITAL ENGAGEMENT AND FINANCIAL INCLUSION

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

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

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

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

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

CUSTOMER SATISFACTION

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

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

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

1 or 48.8% at 31.12.2018 exchange rates

SERVICE
CHAMPION
SERVICE
CHAMPION

CUSTOMER PRIVACY AND DATA SECURITY

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

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

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

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

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

SUPPORTING BUSINESSES DEVELOPMENT

TBC continues to be an important provider of financial services to MSMEs, which is a key driver of the country's economic development. In 2019, we provided around GEL 2,549 million lending to our MSME clients, up 26% compared to 2018. The main sectors financed were agriculture and trade.

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

In addition, we attract special purpose facilities from different international financial institutions to support young entrepreneurs, women-led MSMEs, businesses operating in rural areas, innovative projects, energy efficient and renewable energy products as well as foreign trade. The total amount disbursed under these projects amounted to around GEL 569 million as of 31 December 2019 .

Furthermore, we provide extensive non-financial support to MSMEs through our business support programme and assist business representatives with acquiring necessary competence, finding investors and partners, developing their activities and implementing modern technologies. More information about this programme can be found on pages 26-29 in the MSME section.

#1 BUSINESS SUPPORTER IN GEORGIA

TBC FOR BUSINESS

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

OUR COLLEAGUES

AGILE TRANSFORMATION

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

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

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

The first results of the agile transformation project are rather impressive. FTE productivity has increased by 10% in December 2019 compared to previous year, our organizational agility score[1] has improved by 4.3% and employee happiness[2] increased by 16% over the same period.

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

ATTRACTING NEW TALENT

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

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

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

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

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

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

LEARNING AND DEVELOPMENT

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

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

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

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

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

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

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

EMPLOYEE MOTIVATION AND ENGAGEMENT

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

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

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

STARTUP-LEAVE

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

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

SOKO

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

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

PERFORMANCE ASSESSMENT AND REWARD

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

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

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

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

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

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

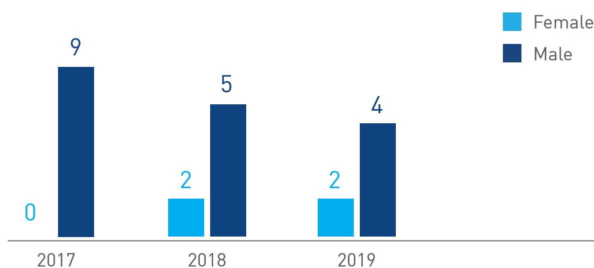
EQUALITY AND DIVERSITY

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

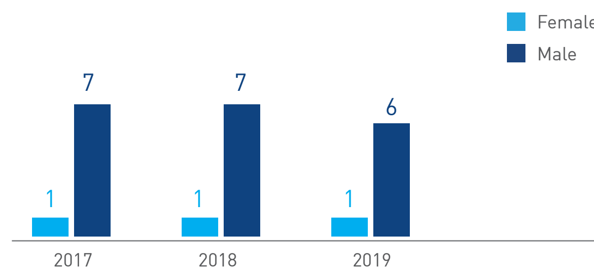
We remain committed to having a gender-balanced workforce through a workplace environment and culture that supports and empowers women. As a result, 67% of employees at TBC Bank are women while the share of women in senior roles is 36%. We plan to further improve the gender balance across managerial positions.

Gender diversity statistics

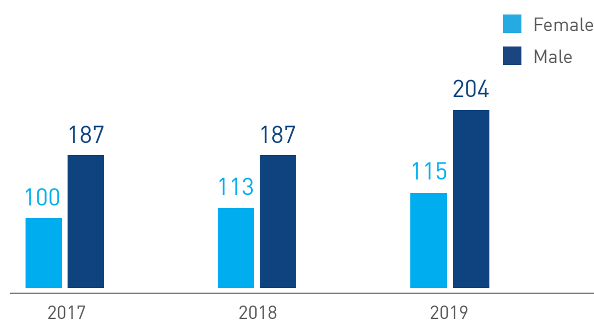
BOARD OF DIRECTORS



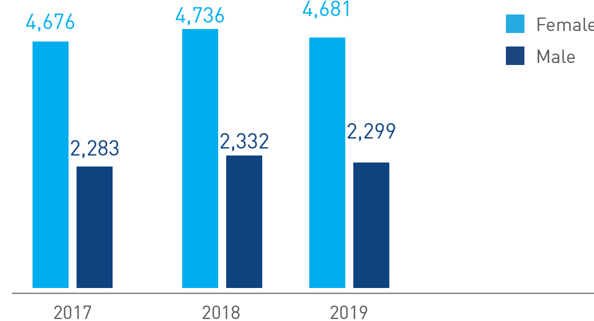
SENIOR MANAGEMENT



MIDDLE MANAGEMENT*

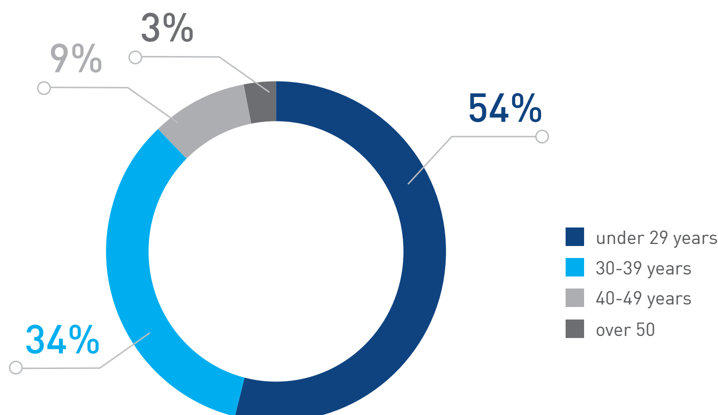


ALL EMPLOYEES



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

AGE DIVERSITY STATISTICS OF 2019



* Direct reports to senior management

ETHICAL STANDARDS, RESPONSIBLE CONDUCT AND SAFETY AT WORK

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

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

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

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

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

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

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

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

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

OUR COMMUNITY

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

YOUNG GENERATION

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

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

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

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

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

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

ARTS & CULTURE

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

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

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

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

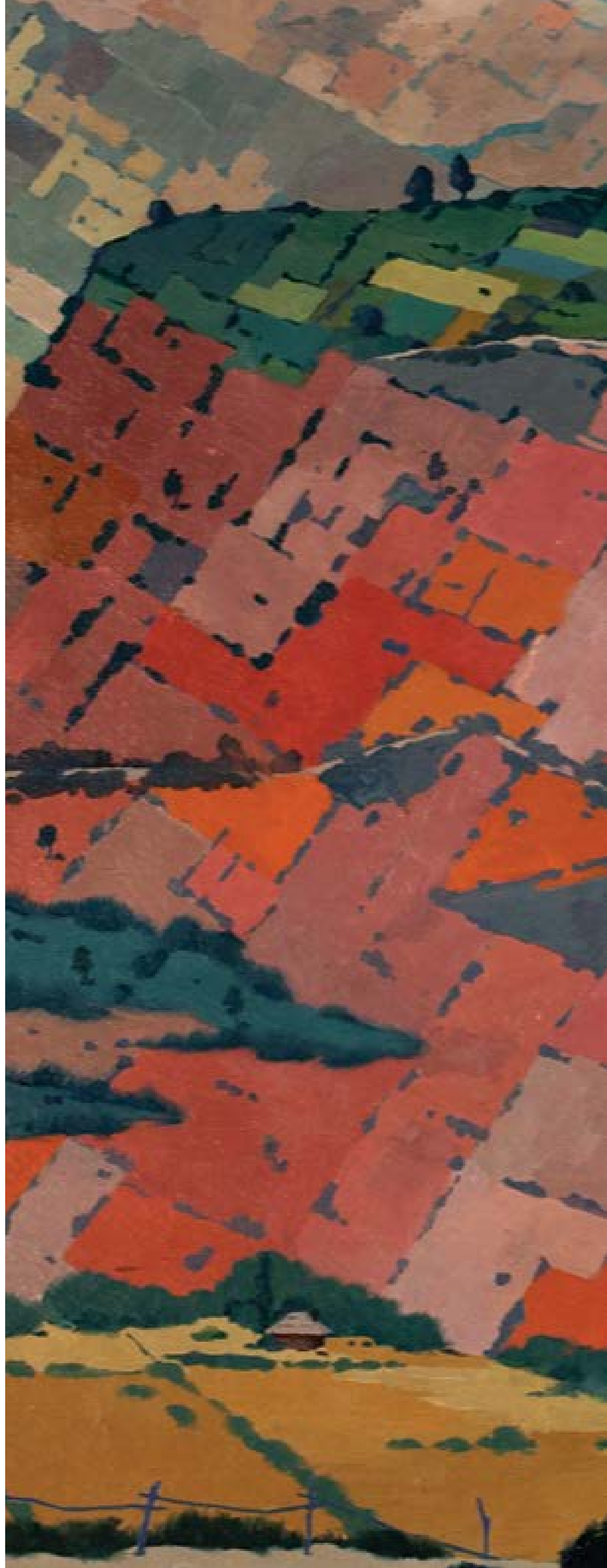
Another important event was organizing a photo exhibition of Guram Tsibakhashvili, the famous Georgian photographer. The exhibition depicted Georgian history of the 1990s and aimed to raise public awareness of this post-soviet period.

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

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

SPORT

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



DAVID KAKABADZE

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

KAKABADZE

OUR ENVIRONMENTAL AND SOCIAL MANAGEMENT

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

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

The Environmental Policy:

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

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

Our EMS is based on four directions/pillars:

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

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

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

	Total CO2 Emissions (tonnes)			KPIs
Data for the FY	**2017**	**2018**	**2019**	**2020**
Scope 1* Fuel Combustion (heating, vehicles,generators)	2,054	2,144	1,897	-7%
Scope 2 (Electricity consumption)	1,206	1,214	1,088	-4%
Scope 3 (International flights)	321	575	564	-
Total emissions (tCO2)	**3,581**	**3,933**	**3,549**	**-5%**
Total emission per full time employee (CO2t/pp)	**0.55**	**0.62**	**0.57**	**-5%**
Water consumption per employee (m3/pp)	12.37	16.68	14.40	-6%
Printing paper per person in reams	23.52	17.52	19.62	-3%

The data is given for the Bank only

*Scope 1:
a) 1,318 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2019 compared to 1,441 CO2e in 2018 and 1,474 CO2e in 2017.
b) 491 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2019 compared to 617 CO2e in 2018 and 478 CO2e in 2017
c) 88 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2019 compared to 86 CO2e in 2018 and 102 CO2e in 2017

In 2019, total GHG emissions decreased by 10% YoY mainly due to the heating, vehicles (driven by replacing the bank's car fleet with hybrid and electric vehicles) and electricity efficiency. Total water consumption of TBC Bank was decreased by 14%, mainly due to prevention of leakages which occurred on different premises.

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

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

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

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

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

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

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

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

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

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

Pillar II - Environmental and Social Risk Management in lending

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

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

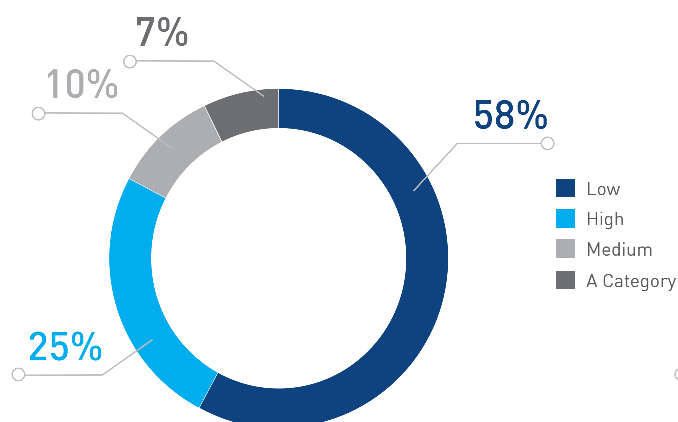
These procedures include:

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

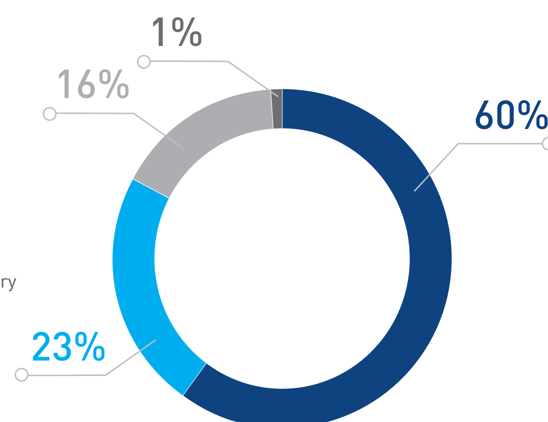
By assessing and monitoring the environmental and social impacts as part of the credit risk analysis of business clients, incentivizing the use of environmental best practices in their businesses and engaging in sustainability financing, TBC Bank strives to mitigate the negative environmental impact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

Business loans

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



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



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

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

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

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

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

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

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

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

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

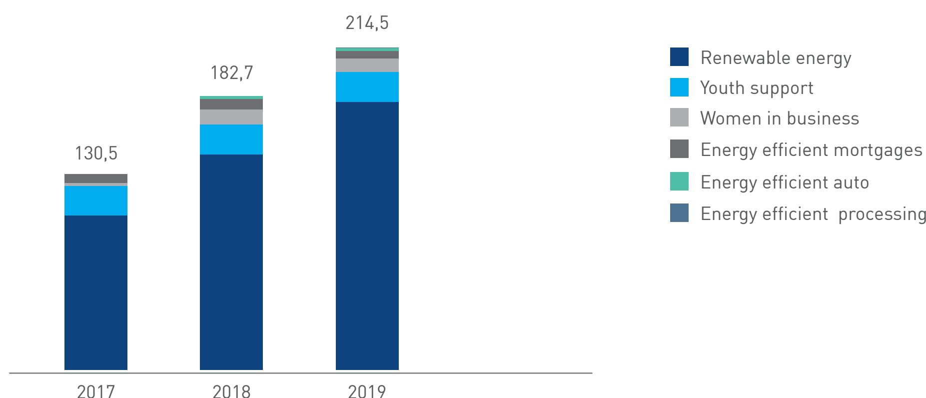
As part of the supply chain development project, TBC Bank conducted several activities in partnership with its lenders and IFIs, in order to raise public awareness of ESG issues:

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

Pillar III - Sustainable finance

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

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



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

Pillar IV - External Communications

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

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

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

Outlook

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

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

ENERGY EFFICIENCY AWARD, INVESTMENT IN FOOD PRODUCTION

Liderfood LLC

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

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

ENERGY EFFICIENCY AWARD, INVESTMENT IN ENERGY SECTOR

Shilda HPP

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

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

EBRD AWARDS

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

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

MELIORA AWARD

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

Risk management is a critical pillar of the Group's strategy. It is essential to identify emerging risks and uncertainties that could adversely impact the Group's performance, financial condition and prospects. This section analyses the material principal and emerging risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by risks and uncertainties other than those listed below. More details regarding risk management practices can be found on pages 66-81.

The Supervisory Board has undertaken a robust assessment of both the principal and emerging risks facing the Group and the long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting. Based on the review and analysis the Supervisory Board confirmed that they have a reasonable expectation of the Group's viability over the next three years up to 1 January 2023 and that the Group will be able to continue its operations and meet its liabilities as they fall due over the three-year period from 1 January 2020 to 1 January 2023.

PRINCIPAL RISK AND UNCERTAINTIES

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

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

Risk description

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

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

Risk mitigation

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

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

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

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

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

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

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

Risk description

A significant share of the Group's loans (and a large share A significant share of the Group's loans (and a large share of

the total banking sector loans in Georgia) is denominated in currencies other than GEL, particularly in US$ and EUR. As of 31 December 2019, the local regulator, the National Bank of Georgia ("NBG") reported that 55.4% of the total banking sector loans were denominated in foreign currencies. As of the same date, 58.7% of the Group's total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies.

The income of many customers is directly linked to the foreign currencies via remittances, tourism or exports. Nevertheless, customers may not be protected against significant fluctuations in the GEL exchange rate against the currency of the loan. The US$/GEL rate remained volatile throughout 2019 and GEL weakened 7.1% YoY. The GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in its depreciation.

Risk mitigation

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

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

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

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

A slowdown of economic growth in Georgia and political instability related to the upcoming parliamentary elections could have an adverse impact on the repayment capacity of the borrowers, restraining their future investment and expansion plans. These occurrences would be reflected in the Group's portfolio quality and profitability, and would also impede portfolio growth rates. Negative macroeconomic developments could compromise the Group's performance through various parameters, such as exchange rate depreciation, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralisation, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in the neighbouring countries and main trading partners could negatively impact Georgia's economic outlook through a worsening current account (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

Risk description

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

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

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

Risk mitigation

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

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

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

Risk description

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

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

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

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

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

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

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

Risk mitigation

The Group undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Such analyses indicate that the Group holds sufficient capital to meet the current minimum regulatory requirements. Capital forecasts, as well as the results of the stress-testing and what-if scenarios, are actively monitored with the involvement of the Bank's Management Board and Risk Committee to ensure prudent management and timely actions when needed.

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

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

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

Risk description

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

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

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

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

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

The Group takes operational steps with the intention of ensuring compliance with relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see page 196 in the Group's Audited Financial Statements.

Risk mitigation

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

Regarding the investigations by the NBG in February 2019, the parent company of the Bank, the Bank and the NBG issued a joint announcement confirming the settlement of this investigation. In response to the regulatory review and investigations, the founding shareholders have stood down from their roles within the Group and the Bank. The Bank, with the assistance of external advisers, undertook a review of the Bank's relevant internal controls systems. Although these reviews did not identify any material deficiencies in the Bank's existing internal controls and compliance systems, they did make certain technical recommendations for further improvements of the Bank's processes and procedures, which are being implemented..

6. The Group is exposed to concentration risk.

Banks operating in developing markets are typically exposed to both single-name and sector concentration risks. The Group has large individual exposures to single-name borrowers whose potential default would entail increased credit losses and higher impairment charges. The Group's portfolio is well diversified across sectors, resulting in only a moderate vulnerability to sector concentration risks. However, should exposure to common risk drivers increase, the risks are expected to amplify correspondingly.

Risk description

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

Risk mitigation

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

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

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

such as the global financial crisis that commenced in 2007. Access to credit for companies in emerging markets is significantly influenced by the level of investor confidence and, as such, any factors affecting investor confidence (e.g. a downgrade in credit ratings, central bank or state interventions, or debt restructurings in a relevant industry) could influence the price or the availability of funding for companies operating in any of these markets.

Risk description

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

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

In September 2019, the NBG also introduced a Net Stable Funding Ratio. As of 31 December 2019, the net loan to deposits plus international financial institution funding ratio stood at 104.3%, the liquidity coverage ratio at 110.1%, and the net stable funding ratio at 126.7%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

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

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

Risk mitigation

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

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

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

Risk description

The majority of the Group's total income derives from net interest income. Consequently, the NIM's fluctuations affect the Group's results. In 2019, the NIM decreased by 1.3 pp YoY to 5.5%. The decrease was driven by the introduction of the responsible lending regulation from 1 January 2019, limiting the Bank's ability to lend money to higher-yield retail customers.

The Group manages its direct exposure to the LIBOR and local refinancing rates through respective limits and appropriate pricing. As of 31 December 2019, GEL 5,788 million in assets (32%) and GEL 3,813 million in liabilities (24%) were floating, related to the LIBOR/FED/ECB (deposit facility) rates and as per internal judgment, whereas GEL 5,320 million of assets (29%) and GEL 3,360 million of liabilities (21%) were floating, related to the NBG's refinancing rate. The reprising maturity of floating liabilities within a one-year horizon exceeds the one of floating assets.

Risk mitigation

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

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

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

Risk description

No major cyber-attack attempts have targeted Georgian commercial banks in recent years. Nonetheless, the

Group's rising dependency on IT systems increases its exposure to potential cyber-attacks.

Risk mitigation

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

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

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

Risk description

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

Risk mitigation

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

11. The Group is currently exposed to reputational risk

The media coverage in Georgia surrounding the founders' of the Bank represents a risk to the reputation of the Group (more information is given in page 79).

Risk Description

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

Risk Mitigation

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

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

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

Risk Description

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

Risk Mitigation

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

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

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

Risk Description

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

Risk Mitigation

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

EMERGING RISKS

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

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

Risk description

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

Risk mitigation

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

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

2. The Group's performance may be affected by LIBOR discontinuation and transition

Risk description

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

Risk mitigation

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

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

Risk description

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

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

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

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

Risk mitigation

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

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

In addition, as part of the stress testing exercise, we have analysed multiple scenarios to ensure that the Group has sufficient liquidity and capital to meet updated regulatory capital and liquidity requirements. The NBG implemented countercyclical measures to support financial stability of the banking system by relaxing capital and liquidity requirements if necessary. For more information, please see the capital risk management section on pages 73-77.

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

1 IMF, World Economic Outlook, April 2020

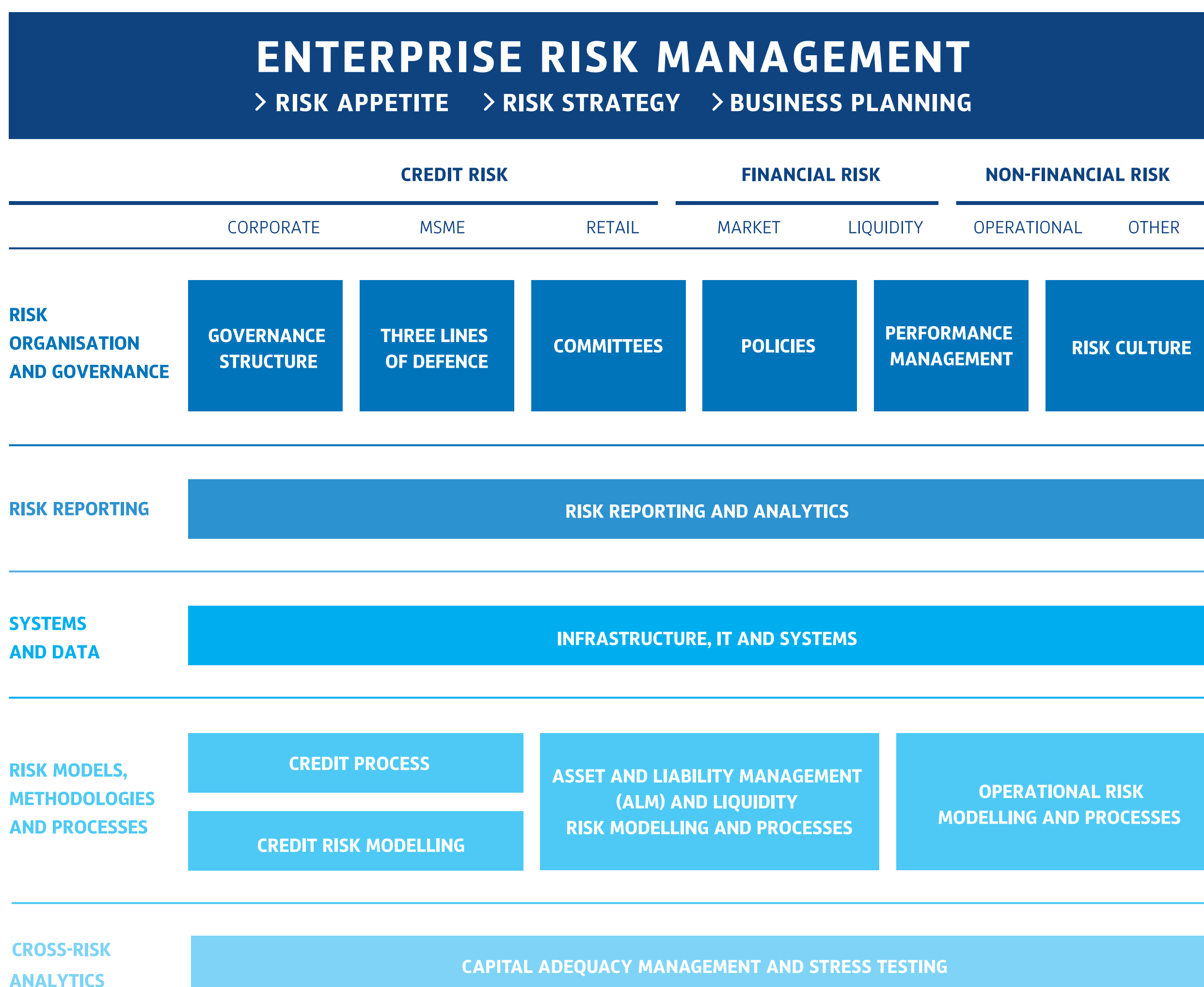
OVERVIEW

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

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

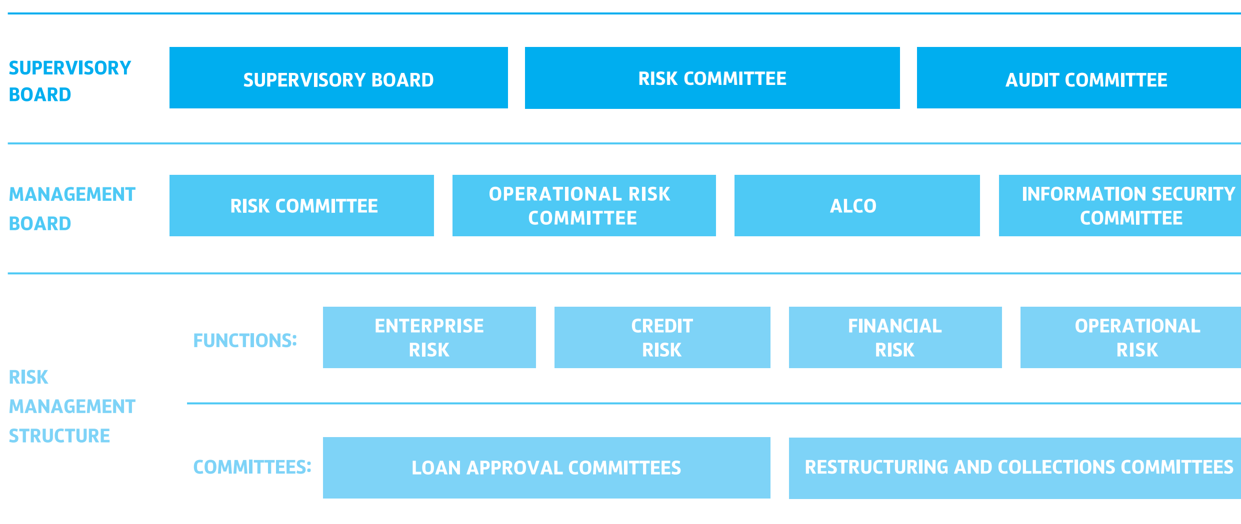
Risk management framework

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



GOVERNANCE

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



The risk governance structure consists of two board levels, including the Supervisory Board and the Management Board. Both boards have dedicated risk committees. The Supervisory Board has a Risk Committee that supervises the risk profile and risk governance practices within the Group, as well as an Audit Committee that is responsible for implementing key accounting policies and facilitating internal and external auditor activities. The Management Board's Risk Committee was established to guide the Group-wide risk management activities and monitor major risk trends to ensure that the risk profile complies with the established risk appetite. The Management Board's Operational Risk Committee makes decisions related to operational risk governance, while the Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of asset-liability management policies. The Supervisory Board and the Bank's senior management govern risk objectives through the Risk Appetite Statement, which establishes the desired risk profile and risk limits. The statement also sets monitoring and reporting responsibilities, as well as escalation paths for different trigger events, and limits breaches, which prompt risk teams to frame and implement established mitigation actions. To effectively incorporate the Group's risk appetite into day-to-day operations, Risk Appetite Statement metrics are cascaded into more granular limits at the business unit level, establishing risk allocation across different segments and activities.

The process of setting and cascading the risk appetite is undertaken in parallel with the business planning process. The interactive development of business and risk plans aligns the plans by solving risk-return trade-offs in the process and increases the feasibility of achieving targets. The Supervisory Board level oversight, coupled with the permanent involvement of senior management in the Group's risk management and the exercise of top-down risk allocation by the enterprise risk management function, ensures clarity regarding risk objectives, intense monitoring of the risk profile against the risk appetite, the prompt escalation of risk-related concerns and the establishment of remediation actions. The daily management of individual risks is based on the three lines of defence principle. While business lines are the primary owners of risks, risk teams act as the second line of defence by sanctioning transactions, tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees established at operational levels are charged with making transaction-level decisions as part of a framework comprised of clear and sophisticated delegations of authority, based on the "four-eyes" principle. All new products and projects pass through risk teams to ensure that the risks are comprehensively analysed. These control arrangements guarantee that the Group makes informed decisions that are adequately priced and that any risks exceeding the Group's established targets are not taken. Credit, liquidity, market, operational and other non-financial risks are each managed by dedicated teams. The Group's strong and independent risk-management structure enables the fulfilment of all required risk management functions within the second line of defence by highly skilled professionals, with a balanced mix of credentials in banking and real sectors in local and international markets. In addition to the risk teams subordinated to the Chief Risk Officer, the compliance department reports directly to the CEO and is specifically in charge of anti-money laundering and compliance risk management. As a third line of defence, the internal audit department is responsible for providing independent and objective assurance and recommendations to the Group to promote the further improvement of operations and risk management.

ENTERPRISE RISK MANAGEMENT

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

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

CREDIT RISK MANAGEMENT

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

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

Credit approval

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

A multi-tiered system of loan approval committees is in place with different approval levels to consider the borrower's overall indebtedness and risk profile. These committees are responsible for reviewing credit applications and approving exposures, with different committees based on the size and risk of the loan. At the highest level, the Chief Executive Officer, Corporate Business Director and Chief Risk Officer are involved. In addition, exposures to the 20 largest borrowers or for amounts exceeding 5% of the Bank's regulatory capital would require review and approval by the Supervisory Board Risk Committee. Loan officers submit the credit applications for retail and micro exposures to the respective underwriting risk management units. Depending on the amount of the loan, a loan approval committee will review the loan request based on specified limits regarding the risk level of the customer. For the underwriting of unsecured loans, point-of-sale loans and credit cards, the income verification process is performed according to the regulations on responsible lending. For decision-making, internal scorecard models and ratings provided by the

credit bureau are utilized. Different scorecard models are developed based on the type of product and the borrowers' segment, taking into consideration various internal and external data. The performance of scorecard models is closely monitored to ensure that decisions are in line with predefined risk limits.

Currency-induced credit risk

The Group faces currency-induced credit risk, given that a large part of its exposure is denominated in foreign currency. However, limits have been established within the risk appetite framework to ensure that the Group continues its efforts toward minimising the share of foreign currencies in the portfolio. Various management tools and techniques are applied to mitigate the inherent currency-induced credit risk in the loan book, encompassing all phases of credit risk management. In January 2019, the government continued its efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000, under which loans must be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers, further limiting the exposure to currency induced credit risk.

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

Credit concentration risk

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

Collateral management policy

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

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

Credit monitoring

The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposure, overall portfolio performance and external trends that may impact on the portfolio's risk profile. The Risk Committee reviews reports

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

Restructuring and collections

The Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions when necessary. The collection and recovery processes are initiated when the borrower does not meet the agreed payments or the borrower's financial standing is weakened, potentially jeopardizing the repayment of the credit. Dedicated restructuring and recovery units manage weakened borrowers across all business segments, with collection and recovery strategies tailored for business segments and individual exposure categories. The restructuring unit's primary goal is to rehabilitate the borrower and transfer the exposure back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of the exposure. Corporate and SME borrowers are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid, and the main stream of recovery is no longer the borrower's cash flow. Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees.

The Group's goal in the recovery process is to negotiate a loan recovery strategy with the borrower and secure cash recoveries to the extent possible, or to negotiate repayment through the sale or repossession of collateral. Collection functions for retail and micro loans support customers who are experiencing difficulties in fulfilling their obligations. Such customers may miss payments or notify the Group about their difficulty with loan repayments. A centralised team monitors retail borrowers in delinquency which, coupled with branches' efforts, aims to maximise collection. Special software from FICO is used for early collection management purposes.

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

Measurement of Expected Credit Losses

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

Liquidity risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

Funding and maturity analysis

The Group's principal sources of liquidity include customer deposits and accounts, borrowings from local and international banks and financial institutions, subordinated loans from international financial institution investors, local interbank short-duration term deposits and loans, proceeds from sales of investment securities, principal repayments on loans, interest income and fee and commission income. The Supervisory Board believes that a strong and diversified funding structure is one of the Group's differentiators. The Group relies on relatively stable deposits from Georgia as the main source of funding. The Group also monitors deposit concentration for large deposits and sets limits for deposits of non-Georgian residents in its deposit portfolio.

To maintain and further enhance its liability structure, the Group sets targets for deposits and funds received from international financial institution investors in its risk appetite via the respective ratios. The loan to deposit and IFI funding ratio (defined as total value of net loans divided by sum of total value of deposits and funds received from International financial institutions) stood at 104.3%, 89.1% and 92.3%, at the 31 December 2019, 2018 and 2017 respectively.

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. VAR as of December 2019 equaled 8.4% (2018: 10.9%; 2017: 12.3%). The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-1 months), (0-3 months), (0-6 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimate is based on statistical methods applied to historic information on the fluctuations of customer account balances.

Market risk

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

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

Foreign exchange risk

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

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

Compliance with these limits is also reported daily to the Management Board and periodically to the Supervisory Board and its Risk Committee. On a Group-wide level, foreign-exchange risk is monitored and reported monthly.To assess the currency risk the Bank performs a value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Group's income determined by possible worst movement of currency rates against the Georgian Lari, with all other variables held constant. During the years ended 31 December 2019, 2018 and 2017, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	As of 31 December 2019	As of 31 December 2018	As of 31 December 2017
Maximum loss (VAR, 99% confidence level)	(1,470)	(6,758)	(1,807)
Maximum loss (VAR, 95% confidence level)	(1,016)	(4,683)	(1,197)

Interest rate risk management

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

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

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

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

Counterparty risk

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

To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty, while on a portfolio basis it limits the expected loss from both treasury and trade finance exposures. As of 31 December 2019, TBC Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Group may not have sufficient level of capital to maintain its normal business activities , and to meet its regulatory capital requirements under normal or stressed operating conditions. The management's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. The Group undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Capital forecasts, as well as the results of the stress-testing and what-if scenarios, are actively monitored with the involvement of the Bank's Management Board and Risk Committee to ensure prudent capital management and timely actions when needed. In 2019, the Group and the Bank complied with all regulatory capital requirements.

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

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

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

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated certain commercial banks in Georgia as DSIBs for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

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

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

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

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

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

	2018	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	4,181,199	1,625,289
Gross loans and accrued interests,	9,206,646	7,203,609
Repossessed Assets	46,755	46,755
Fixed Assets and intangible assets	508,582	287,403
Other assets	1,428,945	1,639,128
minus general provision, penalty and interest provision	(37,705)	(37,705)
Total	15,334,422	10,764,479
Total Off-balance	2,694,174	694,019
Market Risk	179,381	179,381
Operational Risk	809,063	1,516,993
Total Amount	19,017,040	13,154,871

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

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

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

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

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

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

Capital adequacy ratio under Basel Capital Accord 1988

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements. These requirements include capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

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

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

Following the Basel I guidelines the General Reserve is defined by the management as the minimum among the following:

a. IFRS provisions created on loans without impairment trigger event;
b. 2% of loans without impairment trigger event;
c. 1.25% of total RWA (Risk Weighted Assets).

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

In thousands of GEL	**2019**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	**4,611,420**	**203,036**
Gross loans and accrued interests	**12,661,955**	**10,069,296**
Repossessed assets	**157,150**	**157,150**
Fixed assets and intangible assets	**626,191**	**596,732**
Other assets	**562,456**	**562,456**
Total	**18,619,172**	**11,588,670**
Total Off-balance	**5,171,419**	**1,206,395**
Less: Loan loss provision minus General Reserve	(152,618)	(152,618)
Market Risk	**34,216**	**34,216**
Total Amount	**23,672,189**	**12,676,663**

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

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

NON-FINANCIAL RISK MANAGEMENT

Operational risk management

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

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

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

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

To oversee and mitigate operational risk, the Group has established an operational risk management framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling effective management of operational risks are an integral part of the framework. The Management Board ensures a strong internal control culture within the Group, where control activities are an integral part of operations. The Supervisory Board sets the operational risk appetite and the Operational Risk Committee oversees compliance with the limits. The Operational Risk Committee discusses the Group's operational risk profile and risk minimisation recommendations on a regular basis.

The operational risk management department acts as second line of defence. It is responsible for implementing the framework and appropriate policies and procedures to enable the Group to manage operational risks, as well as monitoring operational risk events, risk exposures against risk appetite and material control issues. The department is also responsible for the day-to-day management of operational risks using various techniques. These include, but are not limited to: running risk and control self-assessments, which are aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions; forming an internal risk event database for further quantitative and qualitative analysis; performing internal control to detect systematic errors in banking operations, internal fraud events and monitoring key risk indicators; conducting scenario and root-cause analyses; providing business advisory services regarding nonstandard cases as well as assessments of new products and procedures; monitoring IT incident occurrence and overseeing activities targeted at solving identified problems; and obtaining insurance policies to transfer the risk of losses from operational risk events.

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

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

Compliance

The compliance department is the key body executing the Bank's compliance function, has a formal status and is independent from operating structural units and business lines. The compliance function's role is executed by compliance officers, who act as compliance advisers and coordinators, addressing compliance issues in structural units or business lines. The Chief Compliance Officer reports quarterly to the Risk Committee, with a disciplinary reporting line to the CEO. The department is responsible for the Group's compliance and reputational

risk management. It implements and monitors the fulfilment of requirements of the following policies: the Anti-Money Laundering and Counter Terrorist Financing Policy; the Sanctions Policy, the Anti-Bribery, Anti-Corruption and Anti-Facilitation of Tax Evasion Policy; the Related-Party Transaction Policy; the Share Dealing Policy; the Code of Ethics; the Change Management Policy and the Whistleblowing Policy.

The compliance department manages regulatory risk by ensuring that applicable changes in laws and regulations are implemented by the process owners in a timely manner. The compliance department participates in new product/process risk approval process. Additionally the department conducts analysis of customer complaints, the operational risk event database, internal audit findings and litigation cases to proactively reveal process weaknesses. Based on the outcomes of this analysis, it then initiates changes to internal instructions or gives recommendations to the Bank's structural units on relevant process amendments. The compliance officers have the role of educators and advisers on compliance issues. The compliance department delivers training courses via distance-learning and face-to face sessions to existing staff members and newcomers, and promotes a compliance culture within the Group.

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

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

Anti-money laundering (AML)

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

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

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

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

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

Information Security Steering Committee

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

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

Legal

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

Conduct risk

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

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

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

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

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

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

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

PERFORMANCE HIGHLIGHTS

FY 2019 P&L Highlights

- Profit for the period amounted to GEL 545.7 million (FY 2018: GEL 433.3 million)
- Return on average equity (ROE) amounted to 23.8% (FY 2018: 22.7%)
- Return on average assets (ROA) amounted to 3.3% (FY 2018: 3.2%)
- Cost to income of TBC Bank standalone[1] was 35.9% (FY 2018: 35.6%)
- Cost to income of JSC TBC Bank stood at 37.7% (FY 2018: 37.1%)
- Cost of risk on loans stood at 0.7% (FY 2018: 1.6%)
- Net interest margin (NIM) stood at 5.5% (FY 2018: 6.8%)
- Risk adjusted net interest margin (NIM) stood at 5.2% (FY 2018: 5.3%)

Balance Sheet Highlights as of 31 December 2019

- Total assets amounted to GEL 18,306.6 million as of 31 December 2019, up by 18.5% YoY
- Gross loans and advances to customers stood at GEL 12,662.0 million as of 31 December 2019, up by 22.1% YoY
- Net loans to deposits + IFI[2] funding stood at 104.3%, up by 15.2 pp YoY, and Regulatory Net Stable Funding Ratio (NSFR), effective from 30 September 2019, stood at 126.7%
- NPLs were 2.7%, down by 0.4 pp YoY
- NPLs coverage ratios stood at 91.1%, or 194.2% with collateral, on 31 December 2019 compared to 102.7% or 216.4% with collateral, as of 31 December 2018
- Total customer deposits amounted to GEL 10,112.0 million as of 31 December 2019, up by 7.1% YoY
- As of 31 December 2019, the Bank's Basel III CET 1, Tier 1 and Total Capital Adequacy Ratios per NBG methodology stood at 12.0%, 14.6% and 19.1% respectively, while minimum requirements amounted to 10.4%, 12.5% and 17.5% respectively

Market Share[3]

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

Income Statement Highlights

in thousands of GEL	FY'19	FY'18	Change YoY
Net interest income	793,240	770,558	2.9%
Net fee and commission income	179,126	156,492	14.5%
Other operating non-interest income	120,812	139,039	-13.1%
Credit loss allowance	(91,612)	(165,506)	-44.6%
Operating income after credit loss allowance	**1,001,566**	**900,583**	**11.2%**
Operating expenses	(412,359)	(395,932)	4.1%
Profit before tax	**589,207**	**504,651**	**16.8%**
Income tax expense	(43,522)	(71,351)	-39.0%
Profit for the period	**545,685**	**433,300**	**25.9%**

Balance Sheet and Capital Highlights

in thousands of GEL	Dec-19	Dec-18	Change YoY
Total Assets	**18,306,618**	15,452,888	18.5%
Gross Loans	**12,661,955**	10,372,582	22.1%
Customer Deposits	**10,112,002**	9,444,746	7.1%
Total Equity	**2,531,710**	2,111,757	19.9%
Regulatory Common Equity Tier I Capital (Basel III)	**1,871,892**	1,629,594	14.9%
Regulatory Tier I Capital (Basel III)	**2,281,706**	1,678,716	35.9%
Regulatory Total Capital (Basel III)	**2,974,029**	2,351,269	26.5%
Regulatory Risk Weighted Assets (Basel III)	**15,590,927**	13,154,871	18.5%

Key Ratios

	FY'19	FY'18	Change YoY
ROE	**23.8%**	22.7%	1.1 pp
ROA	**3.3%**	3.2%	0.1 pp
NIM	**5.5%**	6.8%	-1.3 pp
Risk adjusted NIM	***5.2%***	*5.3%*	*-0.1 pp*
Cost to income of standalone Bank[1]	**35.9%**	35.6%	0.3 pp
Cost to income	**37.7%**	37.1%	0.6 pp
Cost of risk	**0.7%**	1.6%	-0.9 pp
FX adjusted cost of risk	***0.3%***	*1.5%*	*-1.2 pp*
NPL to gross loans	**2.7%**	3.1%	-0.4 pp
NPLs coverage ratio exc. collateral	**91.1%**	102.7%	-11.6 pp
CET 1 CAR (Basel III)	**12.0%**	12.4%	-0.4 pp
Regulatory Tier 1 CAR (Basel III)	**14.6%**	12.8%	1.8 pp
Regulatory Total CAR (Basel III)	**19.1%**	17.9%	1.2 pp
Leverage (Times)	**7.2x**	7.3x	-0.1x

CONSOLIDATED FINANCIAL RESULTS OVERVIEW FY 2019

Net Interest Income

In FY 2019, net interest income amounted to GEL 793.2 million up by 2.9% YoY.

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

Over the same period, interest expense increased by GEL 157.8 million, or 30.8%, which was mainly related to interest expense from bonds issued in summer 2019, as well as the increase in interest expense from deposits. The latter was related both to growth in the respective portfolio by 7.1% YoY and to an increase in deposit cost by 0.1 pp over the same period.

In 2019, we re-classified net gains on currency swaps from other operating income to net interest income. More information is given in annex 1 on page 93.

Consequently, NIM stood at 5.5% in FY 2019, compared to 6.8% in FY 2018, while risk adjusted NIM for the same period amounted to 5.2%, down by 0.1 pp YoY.

In thousands of GEL	FY'19	FY'18	Change YoY
Interest income	1,435,106	1,283,213	11.8%
Interest expense	(670,422)	(512,655)	30.8%
Net gains from currency swaps	28,556	N/A	100%
Net interest income	**793,240**	**770,558**	**2.9%**
NIM	**5.5%**	**6.8%**	**-1.3%**
Risk adjusted NIM	**5.2%**	**5.3%**	**-0.1%**

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

Net fee and commission income

In FY 2019, net fee and commission income totalled GEL 179.1 million, up by 14.5% on a YoY basis.

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

In thousands of GEL	FY'19	FY'18	Change YoY
Net fee and commission income			
Card operations	56,263	50,174	12.1%
Settlement transactions	68,203	62,064	9.9%
Guarantees issued and letters of credit	30,327	23,414	29.5%
Other	24,333	20,840	16.8%
Total net fee and commission income	**179,126**	**156,492**	**14.5%**

Other Non-Interest Income

Total other non-interest income decreased by 13.1% on a YoY basis and amounted to GEL 120.8 million in FY 2019. This was mainly driven by the high base of other operating income last year due to the gain from sale of investment properties and the recognition of an option to buy shares in one of our large corporate clients in 2018. Another driver was the decrease in net income from foreign currency operations related to the re-classification of net gains on currency swaps. More information is given in annex 1 on page 93.

In thousands of GEL	FY'19	FY'18	Change YoY
Other non-interest income			
Net income from foreign currency operations	102,715	107,181	-4.2%
Other operating income	18,097	31,858	-43.2%
Total other non-interest income	**120,812**	**139,039**	**-13.1%**

Credit Loss Allowance

In FY 2019, total credit loss allowance amounted to GEL 91.6 million, down by 44.6% on a YoY basis.

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

In thousands of GEL	FY'19	FY'18	Change YoY
Credit loss allowance			
Credit loss allowance for loan to customers	(82,030)	(143,723)	-42.9%
Credit loss allowance for other transactions	(9,582)	(21,783)	-56.0%
Total credit loss allowance	**(91,612)**	**(165,506)**	**-44.6%**
Operating income after credit loss allowance	**1,001,566**	**900,583**	**11.2%**
Cost of risk	**0.7%**	**1.6%**	**-0.9 pp**

Operating Expenses

In FY 2019, total operating expenses expanded 4.1% on a YoY basis and amounted to GEL 412.4 million.

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

As a result, our cost to income ratio increased by 0.6 pp and stood 37.7% in FY 2019.

In thousands of GEL	FY'19	FY'18	Change YoY
Operating expenses			
Staff costs	(226,008)	(212,469)	6.4%
Provisions for liabilities and charges	(2,105)	(4,000)	-47.4%
Depreciation and amortization	(57,319)	(45,278)	26.6%
Administrative & other operating expenses	(126,927)	(134,185)	-5.4%
Total operating expenses	**(412,359)**	**(395,932)**	**4.1%**
Cost to income	**37.7%**	**37.1%**	**0.6 pp**

Net Income

Net income for the full year 2019 increased by GEL 112.4 million, or 25.9% and stood at GEL 545.7 million.

As a result, ROE stood at 23.8%, up by 1.1 pp YoY, while ROA increased by 0.1 pp and stood at 3.3%.

In thousands of GEL	FY'19	FY'18	Change YoY
Profit before tax	**589,207**	**504,651**	**16.8%**
Income tax expense	(43,522)	(71,351)	-39.0%
Profit for the period	**545,685**	**433,300**	**25.9%**
ROE	23.8%	22.7%	1.1 pp
ROA	3.3%	3.2%	0.1 pp

Funding and Liquidity

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

	31-Dec-19	31-Dec-18	Change
Minimum net stable funding ratio, as defined by NBG	*100.0%*	*N/A*	*N/A*
Net stable funding ratio	126.7%	129.3%[1]	-2.6%
Net loans to deposits + IFI funding	104.3%	89.1%	15.2%
Leverage (Times)	7.2x	7.3x	-0.1x
Minimum liquidity ratio, as defined by the NBG	*30.0%*	*30.0%*	*0.0%*
Liquidity ratio, as defined by the NBG	32.2%	33.3%	-1.1%
Minimum total liquidity coverage ratio, as defined by the NBG	*100.0%*	*100.0%*	*0.0%*
Minimum LCR in GEL, as defined by the NBG	*75.0%*	*75.0%*	*0.0%*
Minimum LCR in FC, as defined by the NBG	*100.0%*	*100.0%*	*0.0%*
Total liquidity coverage ratio, as defined by the NBG	110.1%	113.9%	-3.8%
LCR in GEL, as defined by the NBG	83.7%	102.5%	-18.8%
LCR in FC, as defined by the NBG	128.4%	121.1%	7.3%

Regulatory Capital

As of 31 December 2019, the Bank's Basel III CET 1 capital stood at 12.0%, down by 0.4 pp on a YoY basis. The drop was mainly driven by the increased portfolio and GEL depreciation during 2019. This effect was partially offset by net income generation over the same period. Our Tier 1 and Total capital ratios increased by 1.8 pp and 1.2 pp respectively. The increase was mainly driven by income generation and issuance of AT1 instrument (in the amount of USD 125 million) in summer 2019.

In thousands of GEL	31-Dec-19	31-Dec-18	Change
CET 1 Capital	1,871,892	1,629,594	14.9%
Tier 1 Capital	2,281,706	1,678,716	35.9%
Total Capital	2,974,029	2,351,269	26.5%
Total Risk-weighted Exposures	15,590,927	13,154,871	18.5%
Minimum CET 1 ratio	*10.4%*	*8.3%*	*2.1 pp*
CET 1 Capital adequacy ratio	12.0%	12.4%	-0.4 pp
Minimum Tier 1 ratio	*12.5%*	*10.3%*	*2.2 pp*
Tier 1 Capital adequacy ratio	14.6%	12.8%	1.8 pp
Minimum total capital adequacy ratio	*17.5%*	*15.8%*	*1.7 pp*
Total Capital adequacy ratio	19.1%	17.9%	1.2 pp

1 Based on internal estimates

Loan Portfolio

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

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

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

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

Loan Portfolio Quality

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

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

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

NPLs Coverage

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

Cost of risk

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

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

Deposit Portfolio

The total deposit portfolio increased by 7.1% YoY and amounted to GEL 10,112.0 million, while on a constant currency basis the total deposit portfolio was up by 2.6%. The proportion of deposits denominated in foreign currency increased by 0.4 pp on a YoY basis and accounted for 655% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency increased by 1.3 pp and stood at 64.0%.

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

In thousands of GEL	31-Dec-19	31-Dec-18	Change
Customer Accounts			
Retail	**5,673,917**	**5,103,970**	**11.2%**
Retail deposits GEL	*1,098,681*	*935,339*	*17.5%*
Retail deposits FC	*4,575,236*	*4,168,631*	*9.8%*
Corporate	**3,249,996**	**3,323,258**	**-2.2%**
Corporate deposits GEL	*1,798,034*	*1,844,825*	*-2.5%*
Corporate deposits FC	*1,451,962*	*1,478,433*	*-1.8%*
MSME	***1,188,089***	***1,017,518***	***16.8%***
MSME deposits GEL	*594,389*	*515,827*	*15.2%*
MSME deposits FC	*593,700*	*501,691*	*18.3%*
Total Customer Accounts	**10,112,002**	**9,444,746**	**7.1%**

	FY'19	FY'18	Change YoY
Deposit rates	**3.4%**	**3.3%**	**0.1 pp**
Deposit rates GEL	*5.8%*	*5.7%*	*0.1 pp*
Deposit rates FC	*2.0%*	*2.1%*	*-0.1 pp*
Retail deposit yields	**2.8%**	**2.7%**	**0.1 pp**
Retail deposit rates GEL	*5.0%*	*4.4%*	*0.6 pp*
Retail deposit rates FC	*2.3%*	*2.4%*	*-0.1 pp*
Corporate deposit yields	**5.0%**	**5.0%**	**0.0 pp**
Corporate deposit rates GEL	*7.5%*	*7.6%*	*-0.1 pp*
Corporate deposit rates FC	*1.7%*	*1.9%*	*-0.2 pp*
MSME deposit yields	**0.9%**	**1.0%**	**-0.1 pp**
MSME deposit rates GEL	*1.5%*	*1.7%*	*-0.2 pp*
MSME deposit rates FC	*0.3%*	*0.4%*	*-0.1 pp*

SEGMENTS PROFITABILITY

Business Segments

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

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

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

Income Statement by Segments

FY'19	Retail	MSME	Corporate	Corp.Centre	Total
Interest income	582,788	299,451	356,654	196,213	1,435,106
Interest expense	(152,566)	(10,153)	(166,857)	(340,846)	(670,422)
Net gains on currency swaps	-	-	-	28,556	28,556
Net transfer pricing	(66,951)	(101,423)	31,352	137,022	-
Net interest income	**363,271**	**187,875**	**221,149**	**20,945**	**793,240**
Fee and commission income	207,258	26,271	49,387	1,512	284,428
Fee and commission expense	(88,680)	(9,081)	(7,059)	(482)	(105,302)
Net fee and commission income	**118,578**	**17,190**	**42,328**	**1,030**	**179,126**
Net income from foreign currency operations	30,990	24,220	49,852	(25,775)	79,287
Foreign exchange translation gains less losses/(losses less gains)	-	-	-	23,428	23,428
Net gains/(losses) from derivative financial instruments	(264)	-	-	(16)	(280)
Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income	-	-	-	169	169
Other operating income	9,563	1,093	2,952	3,968	17,576
Share of profit of associates	-	-	-	632	632
Other operating non-interest income and insurance profit	**40,289**	**25,313**	**52,804**	**2,406**	**120,812**
Credit loss allowance for loans to customers	(77,324)	(7,968)	3,262	-	(82,030)
Credit loss allowance for performance guarantees and credit related commitments	411	124	(2,691)	-	(2,156)
Credit loss allowance for investments in finance lease	-	-	-	582	582
Credit loss allowance for other financial assets	(3,545)	(11)	2,211	(6,372)	(7,717)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	-	-	(142)	(149)	(291)
Profit before G&A expenses and income taxes	**441,680**	**222,523**	**318,921**	**18,442**	**1,001,566**
Staff costs	(131,583)	(46,912)	(36,630)	(10,883)	(226,008)
Depreciation and amortization	(45,429)	(7,170)	(2,509)	(2,211)	(57,319)
Provision for liabilities and charges	-	-	-	(2,105)	(2,105)
Administrative and other operating expenses	(72,998)	(19,122)	(14,043)	(20,764)	(126,927)
Operating expenses	**(250,010)**	**(73,204)**	**(53,182)**	**(35,963)**	**(412,359)**
Profit before tax	**191,670**	**149,319**	**265,739**	**(17,521)**	**589,207**
Income tax expense	(18,101)	(14,825)	(29,048)	18,452	(43,522)
Profit for the year	**173,569**	**134,494**	**236,691**	**931**	**545,685**

CONSOLIDATED FINANCIAL STATEMENTS OF TBC BANK JSC

Consolidated Balance Sheet

in thousands of GEL	**Dec-19**	**Dec-18**
Cash and cash equivalents	994,479	1,164,403
Due from other banks	15,597	37,384
Mandatory cash balances with National Bank of Georgia	1,591,829	1,422,809
Loans and advances to customers	12,349,399	10,038,452
Investment securities measured at fair value through other comprehensive income	985,293	1,005,239
Bonds carried at amortized cost	1,021,568	653,703
Investments in finance leases	256,660	203,802
Investment properties	72,667	84,296
Current income tax prepayment	25,695	2,159
Deferred income tax asset	2,173	1,992
Other financial assets	115,211	154,259
Other assets	247,201	177,923
Premises and equipment	380,537	366,071
Right of use assets	57,086	-
Intangible assets	159,109	108,505
Goodwill	29,459	29,459
Investments in associates	2,655	2,432
TOTAL ASSETS	**18,306,618**	**15,452,888**
LIABILITIES		
Due to credit institutions	3,593,901	3,031,505
Customer accounts	10,112,002	9,444,746
Lease liabilities	154,957	76,821
Other financial liabilities	765	1,384
Current income tax liability	55	63
Debt Securities in issue	1,213,598	13,343
Deferred income tax liability	21,250	22,237
Provisions for liabilities and charges	16,979	13,817
Other liabilities	70,367	86,296
Subordinated debt	591,034	650,919
TOTAL LIABILITIES	**15,774,908**	**13,341,131**
EQUITY		
Share capital	21,014	21,014
Shares held by trust	-	
Share premium	521,190	521,190
Retained earnings	2,008,397	1,543,581
Group re-organisation reserve	-	-
Share based payment reserve	(62,669)	(33,591)
Revaluation reserve for premises	56,286	57,153
Fair value reserve	(6,399)	8,775
Cumulative currency translation reserve	(6,691)	(6,933)
Net assets attributable to owners	**2,531,128**	**2,111,189**
Non-controlling interest	582	568
TOTAL EQUITY	**2,531,710**	**2,111,757**
TOTAL LIABILITIES AND EQUITY	**18,306,618**	**15,452,888**

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of GEL	FY-19	FY-18
Interest income	1,435,106	1,283,213
Interest expense	(670,422)	(512,655)
Net gains from currency swaps	28,556	N/A
Net interest income	**793,240**	**770,558**
Fee and commission income	284,428	234,626
Fee and commission expense	(105,302)	(78,134)
Net fee and commission income	**179,126**	**156,492**
Net income from foreign currency operations	79,287	91,678
Net gain/(losses) from foreign exchange translation	23,428	15,503
Net gains/(losses) from derivative financial instruments	(280)	(204)
Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	169	2
Other operating income	17,576	30,906
Share of profit of associates	632	1,154
Other operating non-interest income	**120,812**	**139,039**
Credit loss allowance for loans to customers	(82,030)	(143,723)
Credit loss allowance for investments in finance lease	582	(1,765)
Credit loss allowance for performance guarantees and credit related commitments	(2,156)	(3,486)
Credit loss allowance for other financial assets	(7,717)	(16,446)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(291)	(86)
Operating income after credit loss allowance for impairment	**1,001,566**	**900,583**
Staff costs	(226,008)	(212,469)
Depreciation and amortization	(57,319)	(45,278)
(Provision for)/ recovery of liabilities and charges	(2,105)	(4,000)
Administrative and other operating expenses	(126,927)	(134,185)
Operating expenses	**(412,359)**	**(395,932)**
Profit before tax	**589,207**	**504,651**
Income tax expense	(43,522)	(71,351)
Profit for the period	**545,685**	**433,300**
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Movement in fair value reserve	-	6,966
Exchange differences on translation to presentation currency	241	425
Items that will not be reclassified to profit or loss:		
Revaluation of premises and equipment	(15,175)	10,749
Income tax recorded directly in other comprehensive income	-	(2,442)
Other comprehensive income for the period	**(14,934)**	**15,698**
Total comprehensive income for the period	**530,751**	**448,998**
Profit attributable to:		
- Shareholders of TBCG	545,612	433,051
- Non-controlling interest	73	249
Profit for the period	**545,685**	**433,300**
Total comprehensive income is attributable to:		
- Shareholders of TBCG	530,678	448,749
- Non-controlling interest	73	249
Total comprehensive income for the period	**530,751**	**448,998**

Consolidated Statements of Cash Flows

In thousands of GEL	31-Dec-19	31-Dec-18
Cash flows from(used in) operating activities		
Interest received	1,359,528	1,224,200
Interest received on currency swaps	28,556	-
Interest paid	(657,671)	(504,138)
Fees and commissions received	282,715	235,508
Fees and commissions paid	(105,207)	(78,123)
Income received from trading in foreign currencies	79,287	91,678
Other operating income received	18,356	15,655
Staff costs paid	(198,345)	(195,160)
Administrative and other operating expenses paid	(132,181)	(122,467)
Income tax paid	(68,166)	(34,918)
Cash flows from operating activities before changes in operating assets and liabilities	***606,872***	***632,235***
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	(14,811)	(336,232)
Loans and advances to customers	(2,013,577)	(1,718,446)
Investment in finance lease	(44,268)	(54,784)
Other financial assets	26,582	(32,481)
Other assets	2,702	(3,866)
Net change in operating liabilities		
Due to other banks	(1,938)	69,755
Customer accounts	274,769	1,442,126
Other financial liabilities	10,205	(7,153)
Other liabilities and provision for liabilities and charges	8,432	3,602
Net cash flows (used in)/from operating activities	***(1,145,032)***	***(5,244)***
Cash flows from(used in) investing activities		
Acquisition of investment securities measured at fair value through other comprehensive income	(1,781,816)	(717,630)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	240,603	14,781
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	1,598,536	370,571
Acquisition of subsidiaries, net of cash acquired	410	-
Cash acquired	-	809
Acquisition of bonds carried at amortised cost	(613,383)	(395,717)
Proceeds from redemption of bonds carried at amortised cost	216,871	200,658
Acquisition of premises, equipment and intangible assets	(120,677)	(104,960)
Proceeds from disposal of premises, equipment and intangible assets	13,225	17,933
Proceeds from disposal of investment property	13,681	42,515
Net cash used in investing activities	***(432,550)***	***(571,040)***
Cash flows from/(used in) financing activities		
Proceeds from other borrowed funds	1,819,899	1,776,489
Redemption of other borrowed funds	(1,392,897)	(1,539,562)
Repayment of principal of lease liabilities	(6,453)	-
Proceeds from subordinated debt	-	255,899
Redemption of subordinated debt	(104,079)	(60,910)
Proceeds from debt securities in issue	1,176,049	(7,596)
Redemption of debt securities in issue	(14,296)	-
Dividends paid	(80,911)	(95,626)
Dividends received	-	-
Recharge paid	(62,840)	(38,010)
Acquisition of non-controlling interest in subsidiary	-	-
Net cash flows from financing activities	***1,334,472***	***290,684***
Effect of exchange rate changes on cash and cash equivalents	***73,186***	***21,232***
Net (decrease)/ increase in cash and cash equivalents	***(169,924)***	***(264,368)***
Cash and cash equivalents at the beginning of the year	***1,164,403***	***1,428,771***
Cash and cash equivalents at the end of the year	***994,563***	***1,164,403***

KEY RATIOS

Average Balances

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

Key Ratios

Ratios (based on monthly averages, where applicable)	FY'19	FY'18
Profitability ratios:		
ROE[1]	23.8%	22.7%
ROA[2]	3.3%	3.2%
ROE before credit loss allowance[3]	27.8%	31.3%
Cost to Income[4]	37.7%	37.1%
NIM[5]	5.5%	6.8%
Risk Adjusted NIM[6]	5.2%	5.3%
Loan Yields[7]	11.0%	12.3%
Risk Adjusted Loan Yields[8]	10.7%	10.8%
Deposit rates[9]	3.4%	3.3%
Yields on interest Earning Assets[10]	10.0%	11.4%
Cost of Funding[11]	4.7%	4.5%
Spread[12]	5.5%	6.9%
Asset quality and portfolio concentration:		
Cost of Risk[13]	0.7%	1.6%
PAR 90 to Gross Loans[14]	1.1%	1.2%
NPLs to Gross Loans[15]	2.7%	3.1%
NPLs coverage[16]	91.1%	102.7%
NPLs coverage with collateral[17]	194.2%	216.4%
Credit loss level to Gross Loans[18]	2.5%	3.2%
Related Party Loans to Gross Loans[19]	0.1%	0.1%
Top 10 Borrowers to Total Portfolio[20]	8.3%	10.1%
Top 20 Borrowers to Total Portfolio[21]	12.3%	14.2%
Capital optimisation:		
Net Loans to Deposits plus IFI Funding[22]	104.3%	89.1%
Net Stable Funding Ratio[23]	126.7%	129.3%*
Liquidity Coverage Ratio[24]	110.1%	113.9%
Leverage[25]	7.2x	7.3x
CET 1 CAR (Basel III)[26]	12.0%	12.4%
Regulatory Tier 1 CAR (Basel III)[27]	14.6%	12.8%
Regulatory Total 1 CAR (Basel III)[28]	19.1%	17.9%

** Based on internal estimates*

Ratio definitions

1. Return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the JSC's equity holders for the same period; annualised where applicable.
2. Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period; annualised where applicable.
3. Return on average total equity (ROE) before credit loss allowance equals net income attributable to owners excluding all credit loss allowance divided by the monthly average of total shareholders 'equity attributable to the JSC's equity holders for the same period.
4. 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).
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities excluding corporate shares, net investment in finance lease, net loans, and amounts due from credit institutions. The latter excludes all items from cash and cash equivalents, excludes EUR mandatory reserves with NBG that currently have negative interest, and includes other earning items from due from banks.
6. Risk Adjusted Net Interest Margin is NIM minus the cost of risk without one-offs and the currency effect.

7. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
8. Risk Adjusted Loan yield is loan yield minus the cost of risk without one-offs and currency effect.
9. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
10. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets; annualised where applicable.
11. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities; annualised where applicable.
12. 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).
13. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
14. 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.
15. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
16. NPLs coverage ratio equals total credit loss allowance for loans to customers calculated per IFRS 9 divided by the NPL loans.
17. NPLs coverage with collateral ratio equals credit loss allowance for loans to customers per IFRS 9 plus the total collateral amount of NPL loans (excluding third party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
18. Credit loss level to gross loans equals credit loss allowance for loans to customers divided by the gross loan portfolio for the same period.
19. Related party loans to total loans equals related party loans divided by the gross loan portfolio.
20. Top 10 borrowers to total portfolio equals the total loan amount of the top 10 borrowers divided by the gross loan portfolio.
21. Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.
22. Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
23. Net stable funding ratio equals the available amount of stable funding divided by the required amount of stable funding as defined by NBG in line with Basel III guidelines.
24. Liquidity coverage ratio equals high-quality liquid assets divided by the total net cash outflow amount as defined by the NBG.
25. Leverage equals total assets to total equity.
26. Regulatory CET 1 CAR equals CET 1 capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
27. Regulatory tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
28. Regulatory total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.

Exchange Rates

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

ADDITIONAL DISCLOSURES

ANNEX 1

Net gains from currency swaps

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

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

CORPORATE GOVERNANCE

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

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

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

The main shareholder of the Bank is TBC Bank Group PLC, a company incorporated in England and Wales, which holds 99.88% of the Bank. TBC Bank Group PLC is London Stock Exchange premium segment listed company. The rights of the shareholders are set out in the Charter of the Bank and governed by Law of Georgia on Entrepreneurs and the Law on the Activities of Commercial Banks.

The affairs of the Bank are supervised by the Supervisory Board. The Supervisory Board consist of 6 members (Nikoloz Enukidze (Chairman), Nicholas Haag (Senior Independent Member), Maria Louisa Cicognani, Tsira Kemularia, Arne Berggren and Eric Rajendra) all of whom are considered independent in line with the requirements of the National Bank of Georgia's Corporate Governance Code.

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

The Group has "Mirror Board" governance structure whereby members of Supervisory Board and Board of Directors of TBC Bank Group PLC are the same including the Chairman and committee members, hence in practice, the Bank has two equivalent supervisory bodies in the Group, represented by the Supervisory Board and its committees and the governing board of TBC Bank Group PLC i.e. the Board of Directors and its committees, which are separate but interconnected governing bodies.

The work of the Supervisory Board, the Board of Directors and their respective committees is carefully balanced, dividing functions according to whether they are supervising the topics that impact the Group or solely the Bank. The Supervisory Board, among other responsibilities, approves purchase, alienation, and disposal of property (value of which exceeds 0.5% of the Bank's total assets), creates Supervisory Board's committees, approves establishment and liquidation of the branches of the Bank, approves a transaction or a series of transactions with respect to the Bank's borrowing (if it exceeds 3.0% of the Bank's total assets), approves listing of the shares of the Bank on a stock exchange, and exercises any and all functions as prescribed by the Charter of the Bank and respective applicable laws.

The Board of Directors of TBC Bank Group PLC 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 of Director's approval in place to ensure that the Board of Directors retains control over key decisions. These include, among other things, approval of the Group's strategy, long-term objectives, risk appetite, the annual operating and capital expenditure budgets, changes to the Group's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts.

The Supervisory Board recognises the importance of ensuring diversity and sees significant benefit to its business in having a Supervisory Board and management team that is drawn from a diverse range of backgrounds including gender, ethnicity and business experience, while continuing to make all appointments based on merit against objective criteria in the context of the skills and experience required.

There are two female directors on the Supervisory Board. In addition, there are a number of talented women in key positions, who report directly to the General Director of the Bank and other members of the Management Board within the Bank. As at 31 December 2019, 14% of Group's top management and 36% of Group's middle management roles were performed by females. Moreover, 67% of employees across the Group's entire workforce were female.

NIKOLOZ ENUKIDZE

Chairman

Nikoloz Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996.

In 2006 – 2010 Nikoloz Enukidze served as the Chairman (and prior to that as Vice-Chairman) of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank in its successful IPO on the London Stock Exchange, the first ever IPO in London from the Caucasus region. He also serves as member of the board of Yelo Bank in Azerbaijan. Prior to his roles at Bank of Georgia, Nikoloz worked at ABN AMRO Corporate Finance in Moscow and London, Concorde Capital in Kyiv and Global One Communications in Reston, Virginia.

Nikoloz Enukidze serves as the Chairman of TBC Bank Group PLC and JSC TBC Bank since 25 July 2019 and 13 August 2019 respectively. Previous to that, Nikoloz was appointed as the independent member of the Supervisory Board of JSC TBC Bank in 2013 and was Senior Independent Director of the Board from 2016.to August, 2019.

NICHOLAS DOMINIC HAAG

Senior Independent Non-Executive Director

Nicholas Haag earned an M.A. from the University of Oxford with a degree in modern studies in geography in 1980.

Mr Haag has 32 years of experience working in the financial services industry, with a significant emphasis on equity capital markets and technology. His experience includes seven years at Barclays Bank between 1980 and 1987 in various capital markets and project finance roles, including as the head of equity syndicate, Barclays de Zoete Wedd (BZW); ten years at Banque Paribas, Paribas Capital Markets between 1989 and 1999, initially as deputy head of global equity capital markets and later senior banker and head of European client coverage (exFrance); two years at ING Barings between 1999 and 2001 as managing director and global head of technology banking group; six years at ABN AMRO between 2001 and 2007 based in London as the global head of technology banking, member of Global TMT Management Committee, senior managing director and member of the Senior Credit Committee; four years with the Royal Bank of Scotland between 2008 and 2012 and RBS Hoare Govett as managing director, head of London equity capital markets and member of the Global Equities Origination Management Committee.

Since 2012, he served as a senior independent adviser to the Chairman of the management board and, from 2013 until November 2016, as a member of the supervisory board of Credit Bank of Moscow and a financial consultant specialising in capital raisings and stock exchange flotations. He also serves as an independent non-executive Director of Bayport Management Limited (pan-African and Latin American consumer lender) and since 2016 as a director of AS Citadele Banka in Riga. Since 2012, he has acted as sole director of his own consulting company, Nicdom Limited.

Mr Haag was appointed to the Bank's Supervisory Board in 2013 and to the Board as an independent non-executive Director in May 2016. Nicholas Haag has the recent and relevant financial experience required by the UK Corporate Governance Code to fulfil his responsibilities as a designated financial expert on the Audit Committee of TBC Bank Group PLC. In August 2019 Mr Haag was appointed as the Senior Independent Director of the Board.

ERIC RAJENDRA

Independent Non-Executive Director

Eric Rajendra graduated from Brandeis University, earned his M.A.L.D. at The Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions. Mr Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an adjunct professor of strategy at INSEAD.

During 2005-2014, he held the position of senior advisor to the International Financial Corporation and has served as a board director or consulting advisor on selected emerging markets financial institutions where the World Bank Group has an equity interest, as well as leading strategic initiatives for the firm. His IFC portfolio included roles as Supervisory Board Director on Locko Bank (from 2006 to 2014), where he was also the founder and Chairman of the Audit and Risk Committee, Orient Express Bank (from 2010 to 2012) where he was the Chairman of the Strategy Committee, and earlier at ACLEDA Bank (a leading bank in southeast Asia with a micro-finance original focus).

Prior to joining the IFC, he was a vice president at Capgemini and a vice president at Electronic Data Systems; in both institutions, he was a key leader of the financial services practice. He started his career as a banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company. Mr Rajendra was first appointed to the Bank's Supervisory Board in 2010 and to the Board as an independent non-executive Director in May 2016 where he served until his resignation on 15 March 2019 due to health reasons. He was later re-appointed on 17 September 2019, following the recovery in his health.

MARIA LUISA CICOGNANI

Independent Non-Executive Director

Maria Luisa Cicognani graduated from Bocconi University in 1987 with a degree in Business and Administration. She holds a master degree from the Int'l University of Japan in International Relations with a focus on Japanese Economy and Business.

Ms Cicognani has extensive experience in the field of banking and corporate governance. She worked at the European Bank for Reconstruction and Development (London, UK) between 1993 and 2005. Between 2005 and 2006, she was a director of Financial Institutions at Merrill Lynch and a managing director at Renaissance Capital in London and Moscow during 2006-2008. At Renaissance Capital she was responsible for managing a team that developed the FIG practice of the firm both in Africa and CIS. Ms Cicognani was supporting Renaissance Partners in origination, analysis and processing of new FIG investment opportunities and monitoring a portfolio of FIG investments in Africa.

During 2008-2014, Maria Luisa was a Managing Director at Mediobanca (London Branch). She was responsible for origination of M&A advisory and client coverage for emerging markets. She supported the M&A and Corporate Finance Teams in advising Italian clients that were interested in expanding outside of Italy or identifying foreign investors. During 2014-2016, she served as a non-executive member of the board at Azimut Global Counseling Srl (Italy) and Azimut International Holding SA (Luxemburg).

Ms Cicognani served as an NED at Arafa Holding (Egypt) and became a board observer at Baird Group (UK), a subsidiary of Arafa Holding (listed on Cairo Stock Exchange). She is currently Chairperson of Möbius Investment Trust listed on the London Stock Exchange since October 2018.

Ms Cicognani was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018.

TSIRA KEMULARIA

Independent Non-Executive Director

Tsira Kemularia graduated from the Louisiana State University with a degree in International Trade and Finance & Economics in 1999. Ms Kemularia has 20 years of international experience in financial services and risk management.

From 1999 to 2005, she held various market risk management roles both In Dynegy Inc. in USA and UK and at Shell International Trading & Shipping Ltd (STASCO) in London. From 2005 to 2008, she was Manager, M&A and Commercial Finance, in Group Treasury and Corporate Finance, at Shell International. From 2008 to 2011, she served as a Commercial Finance Manager, M&A in Group Treasury & Corporate finance, at Shell Exploration and Production Services (B.V) in Moscow, RF. Thereafter, she served as Finance Manager and a Country Controller at Shell Western Supply and Trading LTD in Barbados, West Indies from 2011 to 2016. From 2016 to 2019, Ms Kemularia was the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London and currently she manages Internal Audit for Shell International Trading and Supply businesses globally.

From 2006 to 2010, Ms Kemularia was a board member of the British- Georgian Society. In 2011, she joined the board of Shell Western Supply and Trading Ltd. From 2016, she also serves as a company nominated Trustee of the British Gas General Partner Ltd and British Gas Trustee Solutions Ltd. Tsira Kemularia is a member of the Institute of Directors in London, UK, and is currently pursuing chartered directorship.

Ms Kemularia was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC, is a member of the Supervisory Board of JSC TBC Bank in September 2018 and is a Chairwoman of the Governance and the Nominations Committee.

ARNE BERGGREN

Independent Non-Executive Director

Mr Berggren has studied at a number of renowned academic institutions such as the Swedish Institute of Management, New York University Graduate School of Business, University of Geneva, University of Amsterdam and the University of Uppsala.

Arne Berggren has in various ways been involved in ownership issues, reconstructions and sales of companies and banks in Sweden and abroad during more than 25 years. Private and public employers as well as international organizations have engaged him as an advisor, CEO or in other similar positions.

Arne Berggren currently serves as a member of the board of Bank of Cyprus, where he is the Chairman of the risk committee and a member of the audit committee. He also works at Piraeus Bank, where he is chairing the nomination and remuneration committees and is a member of the risk- audit and strategy committees.

Prior to his current roles, Mr Berggren served as a board member of Turkish asset management company, LBT Varlik Yonetim and Slovenian bank asset management company, DUBT Ltd. He also has held a number of senior leadership and advisory roles at prominent financial intuitions including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority.

Mr Berggren was appointed to the Bank's Supervisory Board in July 2019 and to the Board as an independent non-executive Director in August 2019.

VAKHTANG BUTSKHRIKIDZE

CEO

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees.

Mr Butskhrikidze was appointed as Chief Executive Officer of the Company in May 2016. He also served as a member of the Supervisory Board from September 2016 till April 2018. Mr Butskhrikidze is also a member of the supervisory board of the Association of Banks of Georgia and is a Chairman of the financial committee of the Business Association of Georgia. Since 2016, Mr Butskhrikidze has been a member of the Visa Business Council for Central & Eastern Europe, Middle East and Africa (CEMEA).

In his earlier career, Mr Butskhrikidze acted as a junior specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as an assistant to the Minister of Finance of Georgia between 1992 and 1993.

In 2001, Mr Butskhrikidze was honoured with the "Best Businessman of the Year" award by Georgian Times Magazine and in 2011, he was recognised as the "Best Banker 2011" by GUAM – Organization for Democracy and Economic Development award. Mr Butskhrikidze was also named as the CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine. In March 2019 Mr Butskhrikidze won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government.

Mr Butskhrikidze obtained an MBA from the European School of Management in Tbilisi in 2001. He graduated from Tbilisi State University in 1992 with a degree in Economics and holds postgraduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

GIORGI SHAGIDZE

Deputy CEO, CHIEF FINANCIAL OFFICER

Following structural changes to the composition of the Management Board in January 2020, Giorgi Shagidze assumed some functions of COO and when the Uzbek subsidiary starts operations he will serve as the Chairman of that subsidiary's Supervisory Board.

Giorgi Shagidze became deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Bank's Management Board in 2010.

Mr Shagidze was appointed as a Chief Financial Officer of the Company in May 2016. He is a board member of Georgian Stock Exchange and also served as member of the supervisory board of Bank Constanta until its merger with TBC Bank in 2015.

Prior to joining TBC Bank, Mr Shagidze acted as a global operations executive for Barclays Bank Plc between 2008 and 2010. In his earlier career, Mr Shagidze worked as director of the Distribution Channels Division at Bank of Georgia and deputy CEO of Peoples Bank of Georgia, as well as occupying various senior positions at Tbiluniversalbank and Agro Industrial Bank of Georgia.

Mr Shagidze obtained an MBA from the University of Cambridge Judge Business School in 2008 and he graduated from Tbilisi State University in 1997 with a degree in economics. He is also a CFA Charterholder and the member of the CFA Society in the UK.

GEORGE TKHELIDZE

Deputy CEO, CORPORATE AND INVESTMENT BANKING

George joined TBC Bank in 2014 as Deputy CEO in charge of Risk Management. Following acquisition of Bank Republic and creation of Corporate and Investment Banking (CIB) unit at the Bank in November 2016, George overtook the responsibility for the CIB. George has more than 15 years of experience in financial services.

Prior to joining TBC Bank, George worked for Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. From September 2009 he was an Associate Director in Barclays Debt Finance and Corporate Restructuring teams. During his career with Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions.

In his earlier career in Georgia, George held various managerial positions at ALDAGI Insurance Company during 2000 - 2007, where he also served as Chief Executive Officer. George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and Graduate Diploma in Law from Tbilisi State University (2000).

NINO MASURASHVILI

Deputy CEO, RETAIL BANKING

Following David Chkonia's resignation, Nino Masurashvili has been appointed as the new Chief Risk Officer of TBC Bank on January 24, 2020.

Nino joined TBC Bank in 2000 as a manager in the planning and control department and became head of that department in 2002.

Between 2004 and 2005, she acted as head of the sales department and retail bank coordinator. Nino was appointed as deputy CEO, retail and SME banking in 2006. Between 2006 and 2008, Nino was the Chairman of the supervisory board of UFC. During 2011-2015 she also held a position of a member of the supervisory board of Bank Constanta until its full merger with TBC Bank. During 2011- 2016, Nino has been a member of the supervisory board of TBC Kredit.

In her earlier career, she held the positions of credit account manager, credit officer, financial analyst (financial department) and head of the financial analysis and forecasting department at JSC TbilCom Bank between 1995 and 2000. Between 1998 and 2000, she also held the position of accountant at the Barents Group.

Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.

NIKOLOZ KURDIANI

Deputy CEO, MSME BANKING AND MARKETING

Following to structural changes to the composition of the Management Board in January 2020, Nikoloz Kurdiani assumed responsibilities for payments ecosystems.

Nika has more than fifteen years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Nika was managing director at Kaspi Bank, a leading retail bank in Kazakhstan.

Prior to obtaining his MBA degree in 2007, he served as head of the retail banking division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking.

Between 2008 and 2010, Nika held the position of senior sales support expert at the CEE retail division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was head of the retail division of ATF Bank, UniCredit Group in Kazakhstan.

Nika obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr University Bochum in Germany and the Caucasus School of Business.

TORNIKE GOGICHAISHVILI

Deputy CEO, CHIEF OPERATING OFFICER

Tornike Gogichaishvili has been appointed to lead retail banking business of TBC Bank on January 24, 2020.

Tornike joined TBC Bank in 2018 as Chief Operating Officer and deputy CEO following 20 years of financial services and operations management experience.

Prior to joining TBC, he has served as a Deputy CEO, Chief Operation Officer at Bank of Georgia since 2016. Between 2010 and 2016 Tornike served as director of operations' department at Bank of Georgia. He also served as head of international banking at Bank of Georgia Group. Between 2008-2010 Tornike held the position of CFO at BG Bank Ukraine (the subsidiary of Bank of Georgia).

Between 2006 and 2008 he held the position of CEO at Insurance Company Aldagi. He also served as chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004.

Tornike graduated from the Faculty of Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

DAVID CHKONIA

Deputy CEO, Chief Risk Officer

David Chkonia stepped down from the Management Board of TBC Bank on January 24, 2020, at the end of his contractual term in order to pursue other career opportunities.

David joined TBC Bank in 2017 as Chief Risk Officer and deputy CEO following 15 years of international banking and risk management experience.

Prior to joining TBC, David was a director at BlackRock in the BlackRock Solutions group advising financial institutions and regulators on topics related to risk management, balance sheet strategy and regulation.

Prior to that, he served as senior vice president at PIMCO responsible for the risk advisory practice. In 2009-2011, David worked at European Resolution Capital helping Western European banks with NPL management and recovery strategies in CEE subsidiaries.

In 2006, David joined Goldman Sachs in the EMEA Structured and Principal Finance team where he completed a number of innovative financing transactions in the infrastructure and real estate sectors as well as focusing on restructuring assignments.

David started his career at the EBRD executing debt and equity investment transactions in CEE as well as has worked in the bank's credit department. David holds a BSc from San Jose State University and an MBA from the Wharton School at the University of Pennsylvania.

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

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of JSC TBC Bank (the "Bank") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

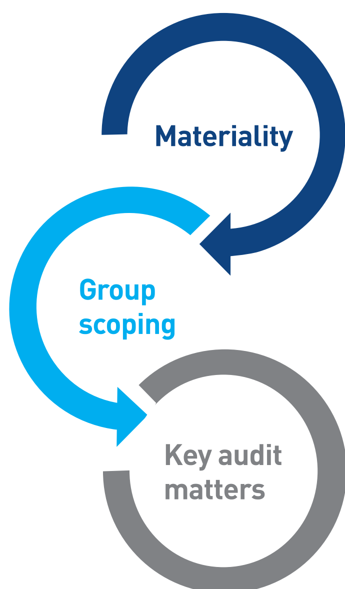
Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

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

Independence

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



Our audit approach

Overview

- Overall Group materiality: GEL 29.5 million, which represents 5% of Group's profit before tax.
- Overall Bank materiality: GEL 28.2 million, which represents 5% of Bank's profit before tax.
- Our scoping was driven by legal entity contribution to profit before tax and other key financial metrics. We also considered overall coverage in assessing the appropriateness of our scoping.
- Audit matters which were of most significance in the audit of the consolidated and separate financial statements are:
  - Expected credit loss allowance of loans and advances to customers;
  - Impact of Coronavirus (COVID-19) on the financial statements.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where management 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 among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Bank materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated and separate financial statements as a whole.

Overall Group and Bank materiality	Group: GEL 29.5 million (2018: GEL 25.2 million) Bank: GEL 28.2 million (2018: GEL 23.8 million)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the Bank is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance of loans and advances to customers Refer to pages 117 to 130 (Summary of Significant Accounting Policies), pages 130 to 131 (Critical Accounting Estimates), and pages 136-150 (note 9: Loans and Advances to Customers). We focused on this area as the management estimates regarding the expected credit loss ('ECL') allowance are complex and require a significant degree of judgement. Under IFRS 9 management is required to determine ECL allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether or not there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement in situations where past experience was not considered to be reflective of future outcomes due to limited or incomplete data. As a result, we consider that this represents a key audit matter. We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant: ▶ Setting of appropriate criteria for what represents an SICR; ▶ Critical judgements and assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD'); and ▶ Assessment of model limitations and use of post model adjustments ('PMAs') if required to address such risks.	We understood and evaluated the design of the key controls over the determination of ECL allowance and tested their operating effectiveness. These controls included among others: ▶ Model performance monitoring controls, including testing model estimates against actual outcomes; ▶ Review and approval of the key judgements and assumptions used for determining an SICR, LGDs and PDs; ▶ Controls over key parameters calculation by the calculation engine; ▶ Controls over regular monitoring of the financial standing of the borrowers; ▶ Controls over assignment of staging criteria to exposures ▶ Controls over ECL calculation and analysis of results; and ▶ Controls over changes and approval of ECL methodology. We noted no exceptions in the design or operating effectiveness of the above controls. We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, making use of our credit risk modelling specialists and our industry knowledge. This included an evaluation of the criteria set by management for determining whether there had been a significant increase in credit risk ('SICR'), and the critical judgements and assumptions applied in determination of LGDs and PDs. We also critically evaluated management's assumptions in response to data limitations, focusing on long-term PDs. We concluded that management's judgements in deriving LGDs and PDs were reasonable. We independently verified the calculation of ECL, and assessed whether the ECL calculations were consistent with the approved model methodologies. We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) performed by management relating to model performance and stability and critically assessed the monitoring results. We found no exceptions in this work. We considered whether PMAs were required to address relevant risks that were not captured in the modelled provisions. We were satisfied that no PMAs are required.

Key audit matter	How our audit addressed the key audit matter
Impact of Coronavirus (COVID-19) on the financial statements Refer to page 6 (Implications of COVID-19), pages 8 to 82 (Strategy & performance) and pages 206 to 207 (Events after reporting period). Since the balance sheet date, there has been a global pandemic of COVID-19 virus. In addition to the human cost, the pandemic has been disruptive to the financial markets and is translating into a global economic crisis, potentially plunging the major economies into deep recessions. The Management believe that, notwithstanding the unprecedented fiscal and monetary response from governments and regulators around the world, the financial impact of COVID-19 on TBC Bank Group plc is expected to be significant, at least over the short-term. The Management have specifically considered the impact of this on the financial statements, including on the going concern assessment and post balance sheet events disclosures. The Management have concluded that the impact of COVID-19 is a non-adjusting post balance sheet event under IAS 10 "Events After the Reporting Period" and therefore no adjustments have been made to the primary financial statements or the notes to the financial statements. However, IAS 10 states that the financial statements should not be prepared on a going concern basis where events after the reporting date indicate that the going concern assumption is no longer appropriate. This guidance applies even if those events would otherwise be non-adjusting. The Management have therefore considered whether developments subsequent to the reporting date have any implications for the going concern assumption through evaluating the impact on the Group's capital and liquidity position. As stated on page 58, the Management have concluded that the going concern basis of accounting is appropriate and in reaching their conclusions, they have taken into consideration all of the latest information, including new assumptions and judgements about forward-looking economic scenarios. Given the sudden onset of the virus, there remains a considerable level of uncertainty about the duration of this pandemic and its medium to long term consequences. Therefore, significant judgement has been exercised by the Management in reaching their conclusions.	We critically assessed the Management's conclusions that the matter be treated as a non-adjusting post balance sheet event and that the impact cannot be reliably estimated at this stage. In particular we considered: ▸ The timing of the development of the outbreak across the world; ▸ The timing and nature of advice from the World Health Organisation (WHO) and from the Georgian government to its citizens; andControls over key parameters calculation by the calculation engine; ▸ How the financial statements might be impacted by the aforementioned disruption and the complexity in measuring such impacts. We noted no exceptions in the design or operating effectiveness of the above controls. In forming our conclusions over going concern, we evaluated whether the Management's assessment considered impacts arising from COVID-19. Our procedures in respect of going concern included: Evaluating management's assessment of the impact of the events on the Group's operations, capital and liquidity positions; and ▸ Evaluating the Group's access to funding ▸ Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the financial statements.

How we tailored our Group and Bank audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and separate financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, and the industry in which the Group and the Bank operates.

The Group's banking activities are primarily carried out in Georgia, with small subsidiary operations in three other countries. The Group's business activities comprise of four segments for which it manages and reports its operating results and financial position, namely: Retail Banking; Corporate and Investment Banking; Micro Small and Medium Enterprises ('MSME'); Corporate Centre.

The Bank is the largest component of the Group. Its main operations are Retail and Commercial banking, with all significant operations based in Georgia. Accounting functions and management of the Bank are primarily based in Georgia and represents 97% of the group assets and 99% of Group profit before tax. We also performed other audit procedures including testing information technology general controls and other relevant controls related to financial reporting, to mitigate the risk of material misstatement.

Our audit approach and team was also designed to reflect the structure of the group. We did not use component auditors for audit of in-scope areas. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 99% of revenue and 99% of total assets of the group.

Other information

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

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 and paragraph 7 (c), (g) of article 7 of the Law of Georgia on Accounting, Reporting and Auditing;
- the information given in the Management Report includes the information required by paragraph 7 (a), (b), (d) – (f) and paragraph 8 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Agnieszka Accordi.

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

PricewaterhouseCoopers Georgia LLC

Lasha Janelidze (Reg.#SARAS-A-562091)

28 April 2020
Tbilisi, Georgia

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	6	**994,479**	1,164,403
Due from other banks	7	**15,597**	37,384
Mandatory cash balances with the National Bank of Georgia	8	**1,591,829**	1,422,809
Loans and advances to customers	9	**12,349,399**	10,038,452
Investment securities measured at fair value through other comprehensive income	10	**985,293**	1,005,239
Bonds carried at amortised cost	11	**1,021,568**	653,703
Net investments in lease	13	**256,660**	203,802
Investment properties	16	**72,667**	84,296
Current income tax prepayment	17	**25,695**	2,159
Deferred income tax asset		**2,173**	1,992
Other financial assets	33	**115,211**	154,259
Other assets	12	**247,201**	177,923
Premises and equipment	14	**380,537**	366,071
Right of use assets	15	**57,086**	-
Intangible assets		**159,109**	108,505
Goodwill	15	**29,459**	29,459
Investments in Associates	17	**2,655**	2,432
TOTAL ASSETS		**18,306,618**	15,452,888
LIABILITIES			
Due to credit institutions	18	**3,593,901**	3,031,505
Customer accounts	19	**10,112,002**	9,444,746
Other financial liabilities	22	**95,643**	78,205
Current income tax liability		**818**	63
Debt securities in issue	20	**1,213,598**	13,343
Deferred income tax liability	23	**21,250**	22,237
Provisions for liabilities and charges	21	**16,979**	13,817
Other liabilities	23	**70,366**	86,296
Lease Liabilities	16	**59,316**	-
Subordinated debt	24	**591,035**	650,919
TOTAL LIABILITIES		**15,774,908**	13,341,131
EQUITY			
Share capital	25	**21,014**	21,014
Share premium	25	**521,190**	521,190
Retained earnings		**2,008,397**	1,543,581
Share based payment reserve	26	**(62,669)**	(33,591)
Revaluation reserve for premises		**56,286**	57,153
Fair value reserve		**(6,399)**	8,775
Cumulative currency translation reserve		**(6,691)**	(6,933)
Net assets attributable to owners		**2,531,128**	2,111,189
Non-controlling interest		**582**	568
TOTAL EQUITY		**2,531,710**	2,111,757
TOTAL LIABILITIES AND EQUITY		**18,306,618**	15,452,888

The financial statements on pages 109 to 208 were approved by the Board of Directors on 28 April 2020 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 117 to 208 form an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents		**978,870**	1,155,388
Due from other banks		**12,709**	28,930
Mandatory cash balances with the National Bank of Georgia		**1,591,829**	1,422,809
Loans and advances to customers	19	**12,416,985**	10,079,844
Investment securities measured at fair value through other comprehensive income		**983,131**	1,004,235
Bonds carried at amortised cost		**1,021,568**	653,893
Investment properties		**71,801**	83,422
Current income tax prepayment		**25,126**	1,166
Other financial assets	12	**119,593**	121,353
Other assets		**197,904**	144,437
Premises and equipment	15	**353,198**	335,286
Intangible assets	15	**152,393**	104,066
Right of use assets		**55,571**	-
Goodwill		**27,502**	27,502
Investments in Subsidiaries and Associates		**33,080**	26,350
TOTAL ASSETS		**18,041,260**	**15,188,681**
LIABILITIES			
Due to credit institutions		**3,418,798**	2,859,090
Customer accounts		**10,177,027**	9,481,716
Debt securities in issue		**1,213,598**	-
Other financial liabilities	22	**58,809**	45,347
Deferred income tax liability	33	**20,790**	22,237
Provisions for liabilities and charges	21	**16,978**	13,817
Other liabilities		**60,371**	82,258
Lease Liabilities	16	**58,476**	-
Subordinated debt		**562,060**	623,863
TOTAL LIABILITIES		**15,586,907**	**13,128,328**
EQUITY			
Share capital		**21,014**	21,014
Share premium		**521,190**	521,190
Retained earnings		**1,925,690**	1,485,812
Share based payment reserve		**(62,669)**	(33,591)
Revaluation reserve for premises		**56,286**	57,153
Fair value reserve		**(7,158)**	8,775
TOTAL EQUITY		**2,454,353**	**2,060,353**
TOTAL LIABILITIES AND EQUITY		**18,041,260**	**15,188,681**

The financial statements on pages 109 to 208 were approved by the Board of Directors on 28 April 2020 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 117 to 208 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of GEL	Note	2019	2018
Interest income	28	**1,435,106**	1,283,213
Interest expense	28	**(670,422)**	(512,655)
Net gains on currency swaps		**28,556**	-
Net interest income		**793,240**	**770,558**
Fee and commission income	29	**284,428**	234,626
Fee and commission expense	29	**(105,302)**	(78,134)
Net fee and commission income		**179,126**	**156,492**
Net gains from trading in foreign currencies		**79,287**	91,678
Net gains from foreign exchange translation		**23,428**	15,503
Net losses from derivative financial instruments		**(280)**	(204)
Net gains from disposal of Investment Securities measured at fair value through other comprehensive income		**169**	2
Other operating income	30	**17,576**	30,906
Share of profit of associates		**632**	1,154
Other operating non-interest income	**9**	**120,812**	139,039
Credit loss allowance for loans to customers	13	**(82,030)**	**(143,723)**
Credit loss allowance for net investments in lease	21	**582**	(1,765)
Credit loss allowance for performance guarantees and credit related commitments	12	**(2,156)**	(3,486)
Credit loss allowance for other financial assets		**(7,717)**	(16,446)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		**(291)**	(86)
Operating income after credit impairment losses	**31**	**1,001,566**	**900,583**
Staff costs	15,16	**(226,008)**	(212,469)
Depreciation and amortisation	21	**(57,319)**	(45,278)
(Provision for)/recovery of provision for liabilities and charges	32	**(2,105)**	(4,000)
Administrative and other operating expenses		**(126,927)**	(134,185)
Operating expenses		**(412,359)**	**(395,932)**
Profit before tax		**589,207**	**504,651**
Income tax expense	33	**(43,522)**	(71,351)
Profit for the year		**545,686**	**433,300**
Other comprehensive income (OCI):			
Items that may be reclassified subsequently to profit or loss:			
Revaluation of available-for-sale investments	10	**(15,175)**	6,966
Exchange differences on translation to presentation currency		**241**	425
Items that will not be reclassified to profit or loss:			
Revaluation of premises and equipment		**-**	10,749
Income tax recorded directly in other comprehensive income	33	**-**	(2,442)
Other comprehensive income for the year		**(14,934)**	**15,698**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**530,752**	**448,998**
Profit is attributable to:			
- Shareholders of TBCG		**545,612**	433,051
- Non-controlling interest		**73**	249
Profit for the year		**545,685**	**433,300**
Total comprehensive income is attributable to:			
- Shareholders of TBCG		**530,678**	448,749
- Non-controlling interest		**73**	249
Total comprehensive income for the year		**530,751**	**448,998**

The notes set out on pages 117 to 208 form an integral part of these financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of GEL	Note	2019	2018
Interest income		**1,387,720**	1,244,451
Interest expense		**(657,579)**	(502,331)
Net effect from swaps		**28,556**	-
Net interest income		**758,697**	**742,120**
Fee and commission income	29	**254,764**	206,555
Fee and commission expense	29	**(118,969)**	(88,769)
Net fee and commission income		**135,795**	**117,786**
Net gains from trading in foreign currencies		**79,618**	91,723
Net gains from foreign exchange translation		**23,872**	15,706
Net losses from derivative financial instruments		**(280)**	(204)
Net gains from disposal of Investment Securities measured at fair value through other comprehensive income		**169**	2
Other operating income		**15,452**	22,847
Share of profit of associates		**633**	1,092
Other operating non-interest income		**119,464**	**131,166**
Credit loss allowance for loan to customers	9	**(84,562)**	(148,443)
Credit loss allowance for performance guarantees and credit related commitments		**(2,156)**	(3,486)
Credit loss allowance for other financial assets	12	**(1,278)**	(12,521)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		**(291)**	(86)
Credit loss allowance for financial assets measured at amortised cost		**(895)**	-
Operating income after credit impairment losses		**924,774**	**826,536**
Staff costs	31	**(205,026)**	(194,016)
Depreciation and amortisation		**(50,726)**	(39,969)
(Provision for)/recovery of provision for liabilities and charges	21	**(2,105)**	(4,000)
Administrative and other operating expenses	32	**(102,939)**	(112,460)
Operating expenses		**(360,796)**	**(350,445)**
Profit before tax		**563,978**	**476,091**
Income tax expense		**(43,101)**	(70,034)
Profit for the year		**520,877**	**406,057**
Other comprehensive income (OCI):			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserve		**(15,933)**	6,966
Items that will not be reclassified to profit or loss:			
Revaluation of premises and equipment		**-**	10,749
Income tax recorded directly in other comprehensive income		**-**	(2,443)
Other comprehensive income for the year		**(15,933)**	**15,272**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**504,944**	**421,329**

The notes set out on pages 117 to 208 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Net assets Attributable to owners									
In thousands of GEL	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for premises	Fair value reserve[1]	Cumulative currency translation r eserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 1 January 2018		21,014	521,190	(7,272)	70,038	1,809	(7,358)	1,180,548	1,779,969	4,735	1,784,704
Profit for the year		-	-	-	-	-	-	433,051	433,051	249	433,300
Other comprehensive income		-	-	-	8,307	6,966	425	-	15,698	-	15,698
Total comprehensiv income for 2018		-	-	-	8,307	6,966	425	433,051	448,749	249	448,998
Purchase of additional interest from NCI		-	-	-	-	-	-	4,416	4,416	(4,416)	-
Share based payment	26	-	-	11,691	-	-	-	-	11,691	-	11,691
Share based payment recharge by parent company		-	-	(38,010)	-	-	-	-	(38,010)	-	(38,010)
Dividends declared		-	-	-	-	-	-	(95,626)	(95,626)	-	(95,626)
Transfer of revaluation surplus to RE		-	-	-	(21,192)	-	-	21,192	-	-	-
Balance as of 31 December 2018		21,014	521,190	(33,591)	57,153	8,775	(6,933)	1,543,581	2,111,189	568	2,111,757
Profit for the year		-	-	-	-	-	-	545,612	545,612	73	545,685
Other comprehensive income		-	-	-	-	(15,175)	241	-	(14,934)	-	(14,934)
Total comprehensive income for 2019		-	-	-	-	(15,175)	241	545,612	530,678	73	530,751
Purchase of additional interest from NCI		-	-	-	-	-	-	-	-	(19)	(19)
Share based payment		-	-	33,762	-	-	-	-	33,762	-	33,762
Share based payment recharge by parent company	26	-	-	(62,840)	-	-	-	-	(62,840)	-	(62,840)
Dividends declared		-	-	-	-	-	-	(80,911)	(80,911)	-	(80,911)
Transfer of revaluation surplus to retained earnings		-	-	-	(867)	-	-	(88)	(955)	-	(955)
Balance as of 31 December 2019		**21,014**	**521,190**	**(62,669)**	**56,286**	**(6,399)**	**(6,691)**	**2,008,397**	**2,531,128**	**582**	**2,531,710**

The notes set out on pages 117 to 208 form an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

In thousands of GEL	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for Premises	Fair value reserve	Retained earnings	Total equity
Balance as at 1 January 2018		21,014	521,190	(7,272)	70,038	1,809	1,154,190	1,760,969
Profit for the year		-	-	-	-	-	406,057	406,057
Other comprehensive income		-	-	-	8,306	6,966	-	15,272
Total comprehensive income for 2018		-	-	-	8,306	6,966	406,057	421,329
Transfer of revaluation surplus to RE		-	-	-	(21,191)	-	21,191	-
Share based payment	26	-	-	11,691	-	-	-	11,691
Share based payment recharge by parent company		-	-	(38,010)	-	-	-	(38,010)
Dividends declared		-	-	-	-	-	(95,626)	(95,626)
Balance as of 31 December 2018		**21,014**	**521,190**	**(33,591)**	**57,153**	**8,775**	**1,485,812**	**2,060,353**
Profit for the year		-	-	-	-	-	520,877	520,877
Other comprehensive income		-	-	-	-	(15,933)	-	(15,933)
Total comprehensive income for 2019		-	-	-	-	(15,933)	520,877	504,944
Purchase of additional interest from NCI								
Share based payment	26	-	-	33,762	-	-	-	33,762
Share based payment recharge by parent company		-	-	(62,840)	-	-	-	(62,840)
Dividends declared		-	-	-	-	-	(80,911)	(80,911)
Transfer of revaluation surplus to retained earnings		-	-	-	(867)	-	(88)	(955)
Balance as of 31 December 2019		**21,014**	**521,190**	**(62,669)**	**56,286**	**(7,158)**	**1,925,690**	**2,454,353**

The notes set out on pages 117 to 208 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of GEL	Note	2019	2018
Cash flows from (used in) operating activities			
Interest received		**1,359,528**	1,224,200
Interest received on currency swaps		**28,556**	-
Interest paid		**(657,671)**	(504,138)
Fees and commissions received		**282,715**	235,508
Fees and commissions paid		**(105,207)**	(78,123)
Income received from trading in foreign currencies		**79,287**	91,678
Other operating income received		**18,356**	15,655
Staff costs paid		**(198,345)**	(195,160)
Administrative and other operating expenses paid		**(132,181)**	(122,467)
Income tax paid		**(68,166)**	(34,918)
Cash flows from operating activities before changes in operating assets and liabilities		**606,872**	632,235
Net change in operating assets			
Due from other banks and mandatory cash balances with the National Bank of Georgia		**(14,811)**	(336,232)
Loans and advances to customers		**(2,013,577)**	(1,718,446)
Net investments in lease		**(44,268)**	(54,784)
Other financial assets		**26,582**	(32,481)
Other assets		**2,702**	(3,866)
Net change in operating liabilities			
Due to other banks		**(1,938)**	69,755
Customer accounts		**274,769**	1,442,126
Other financial liabilities		**10,205**	(7,153)
Other liabilities and provision for liabilities and charges		**8,432**	3,602
Net cash (used in)/from operating activities		**(1,145,032)**	(5,244)
Cash flows from (used in) investing activities			
Acquisition of investment securities measured at fair value through other comprehensive income	10	**(1,781,816)**	(717,630)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	**240,603**	14,781
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	**1,598,536**	370,571
Acquisition of subsidiaries, net of cash acquired		**410**	-
Cash acquired		**-**	809
Acquisition of bonds carried at amortised cost		**(613,383)**	(395,717)
Proceeds from redemption of bonds carried at amortised cost		**216,871**	200,658
Acquisition of premises, equipment and intangible assets		**(120,677)**	(104,960)
Proceeds from disposal of premises, equipment and intangible assets		**13,225**	17,933
Proceeds from disposal of investment property		**13,681**	42,515
Net cash used in investing activities		**(432,50)**	(571,040)
Cash flows from (used in) financing activities			
Proceeds from other borrowed funds		**1,819,899**	1,776,489
Redemption of other borrowed funds		**(1,392,897)**	(1,539,562)
Proceeds from subordinated debt		**-**	255,899
Repayment of principal of lease liabilities		**(6,453)**	-
Redemption of subordinated debt		**(104,079)**	(60,910)
Proceeds from debt securities in issue		**1,176,049**	(7,596)
Redemption of debt securities in issue		**(14,296)**	-
Dividends paid		**(80,911)**	(95,626)
Recharge paid		**(62,840)**	(38,010)
Net cash flows from financing activities		**1,334,472**	290,684
Effect of exchange rate changes on cash and cash equivalents		**73,186**	21,232
Net (decrease)/increase in cash and cash equivalents		**(169,924)**	(264,368)
Cash and cash equivalents at the beginning of the year	6	**1,164,403**	1,428,771
Cash and cash equivalents at the end of the year	6	**994,479**	1,164,403

The notes set out on pages 117 to 208 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of GEL	**Note**	**2019**	2018
Cash flows from (used in) operating activities			
Interest received		**1,310,626**	1,186,528
Interest received on currency swaps		**28,556**	-
Interest paid		**(663,802)**	(494,409)
Fees and commissions received		**253,250**	207,663
Fees and commissions paid		**(118,969)**	(88,769)
Income received from trading in foreign currencies		**79,618**	91,723
Other operating income received		**9,543**	12,716
Staff costs paid		**(178,518)**	(176,966)
Administrative and other operating expenses paid		**(110,569)**	(102,331)
Income tax paid		**(68,508)**	(34,500)
Cash flows used in operating activities before changes in operating assets and liabilities		**541,227**	601,655
Net change in operating assets			
Due from other banks and mandatory cash balances with the National Bank of Georgia		**(20,393)**	(333,075)
Loans and advances to customers		**(2,042,091)**	(1,746,945)
Other financial assets		**(477)**	(24,692)
Other assets		**19,332**	19,304
Net change in operating liabilities			
Due to other banks		**(1,938)**	69,755
Customer accounts		**300,888**	1,431,035
Other financial liabilities		**3,456**	5,370
Other liabilities and provision for liabilities and charges		**5,019**	1,858
Net cash flows (used in)/from operating activities		**(1,194,023)**	24,265
Cash flows from (used in) investing activities			
Acquisition of investment securities measured at fair value through other comprehensive income	10	**(1,781,432)**	(717,630)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	**240,603**	14,781
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	**1,598,536**	370,571
Cash acquired with subsidiaries		**-**	809
Acquisition of bonds carried at amortised cost		**(613,383)**	(395,717)
Proceeds from redemption of bonds carried at amortised cost		**216,871**	200,658
Acquisition of premises, equipment and intangible assets		**(112,345)**	(76,631)
Proceeds from disposal of premises, equipment and intangible assets		**10,140**	3,902
Proceeds from disposal of investment property		**12,446**	42,574
Dividends received		**5,211**	-
Net cash used in investing activities		**(423,353)**	(556,683)
Cash flows from (used in) financing activities			
Proceeds from other borrowed funds		**1,703,411**	1,685,389
Redemption of other borrowed funds		**(1,270,653)**	(1,487,189)
Repayment of principal of lease liabilities		**(6,960)**	-
Proceeds from subordinated debt		**-**	211,808
Redemption of subordinated debt		**(104,079)**	(40,558)
Proceeds from debt securities in issue		**1,196,422**	-
Dividends paid		**(80,911)**	(95,626)
Recharge paid		**(62,840)**	(38,010)
Acquisition of non-controlling interest in subsidiary		**-**	7,190
Net cash flows from financing activities		**1,374,390**	**243,004**
Effect of exchange rate changes on cash and cash equivalents		**66,468**	**27,418**
Net (decrease)/ increase in cash and cash equivalents		**(176,518)**	(261,996)
Cash and cash equivalents at the beginning of the year	6	**1,155,388**	1,417,384
Cash and cash equivalents at the end of the year	6	**978,870**	1,155,388

The notes set out on pages 117 to 208 form an integral part of these financial statements.

1. INTRODUCTION

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

The Bank has 148 (2018:146) branches within Georgia.

TBC Bank Group PLC ("TBCG"), a public limited liability company, incorporated in England as of 31 December 2019 TBCG holds 99.88% (2018: 99.88%) of the share capital of the Bank, thus representing the Bank's ultimate parent company. TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Group PLC is 10029943.

As of 31 December 2019, and 2018, the following shareholders directly owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares. As of 31 December 2019, and 2018 the Group had no ultimate controlling party.

	% of ownership interest held as of 31 December	
Shareholders	**2019**	2018
TBC Bank Group PLC	**99.88%**	99.88%
Other*	**0.12%**	0.12%
Total	**100.00%**	**100.00%**

* Other includes individual as well as corporate shareholders.

As of 31 December 2019 and 2018 the shareholder structure by beneficiary ownership interest was as follows:

	% of ownership interest held as of 31 December	
Shareholders	**2019**	2018
Mamuka Khazaradze	**10.26%**	13.54%
Badri Japaridze	**6.00%**	6.77%
Institutional and retail investors	**68.70%**	66.91%
IFIs	**8.04%**	8.18%
Other Shareholders	**7.00%**	4.60%
Total	**100.00%**	**100.00%**

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New accounting policy for leases by the Group as a lessee. The Group adopted IFRS 16, Leases, using modified retrospective method and applied certain simplifications or practical expedients. Standard is effective for annual periods beginning on or after 1 January 2019. Refer to section 2.3 below. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

Subsidiaries Name	Proportion of voting rights and ordinary share capital held as of 31 December		Principal place of business or incorporation	Year of incorporation	Industry	Amount of share capital held as of 31 December 2019
	2019	2018				
United Financial Corporation JSC	**99.53%**	98.67%	Tbilisi, Georgia	1997	Card processing	564
TBC Capital LLC	**100.00%**	100.00%	Tbilisi, Georgia	1999	Brokerage	2,688
TBC Leasing JSC	**100.00%**	99.61%	Tbilisi, Georgia	2003	Leasing	3,659
TBC Kredit LLC	**100.00%**	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution	18,092
Banking System Service Company LLC*	**N/A**	100.00%	Tbilisi, Georgia	2009	Information services	-
TBC Pay LLC	**100.00%**	100.00%	Tbilisi, Georgia	2009	Processing	1,170
TBC Invest LLC	**100.00%**	100.00%	Ramat Gan, Israel	2011	PR and marketing	1,188
Index LLC	**100.00%**	100.00%	Tbilisi, Georgia	2011	Real estate management	60

** company was merged with United Financial Corporation JSC 2019*

The consolidated financial statements include the following associates:

Associate Name	Proportion of voting rights and ordinary share capital held as of 31 December		Principal place of business or incorporation	Year of incorporation	Industry
	2019	2018			
JSC CreditInfo Georgia	**21.08%**	21.08%	Tbilisi, Georgia	2005	Financial intermediation
LLC Online Tickets**	**N/A**	26.00%	Tbilisi, Georgia	2015	Computer and Software Services

***became entitiy under common control with JSC TBC Bank.*

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries.

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.[1]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

The instruments that failed the SPPI test are generally measured at FVTPL. The Bank did not have such category of Loans to customers during 2018 and 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are recognised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

When derivative instruments are entered into with a view to decrease cost of funding, respective interest effect is presented as a separate line of statement of comprehensive income, within net interest income.

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

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

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

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

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

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

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

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

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment 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;
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. IInvestment property is property that the Groups owns to earn rental income or for capital appreciation, or both, and that it does not occupy.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

Accounting for leases by the Group as a lessee from 1 January 2019. The Group leases office, branches and service centre premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, plastic card transactions, merchant fees, fees for cash settlements, collection or cash disbursements, etc

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

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2019 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 3.7593 (2018: GBP 1 = GEL 3.3955); USD 1 = 2.8677 (2018: USD 1 = GEL 2.6766); EUR 1 = 3.2095 (2018: EUR 1 = GEL 3.0701).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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. The Bank pays recharge amount to the TBC Bank Group PLC and the share based reserve is debited correspondingly when treasury shares are purchased by employee benefit trust (EBT). 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:

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

Significant increase in credit risk ("SICR"). The Bank applies both qualitative and quantitative indicators to determination of SICR considering all reasonable and supportable information available without undue cost and effort, on past events, current conditions and future behavioural aspects of particular portfolios. The Bank tries to identify indicators of increase in credit risk of individual instruments prior to delinquency and incorporates significant assumptions in the model in doing so. One of such judgement is determination of thresholds of significant increase in credit risk. The effects of respective sensitivity are described below: ***Risk parameters:*** Probability of default (PD) and Loss given default (LGD) parameters are one of the key drivers of expected credit losses. The effects of respective sensitivity are described below:

3.CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
CONTINUED

In thousands of GEL	2019	2018
20% decrease in SICR thresholds	Increase impairment allowance on loans and advances by GEL 1,954	Increase impairment allowance on loans and advances by GEL 2,056
	Change of the Bank's cost of credit risk ratio by 2 basis points	Change of the Bank's cost of credit risk ratio by 2 basis points
10% increase in Stage 2 exposures	Increase impairment allowance on loans and advances by GEL 2,380	Increase impairment allowance on loans and advances by GEL 2,723
	Change of the Bank's cost of credit risk ratio by 2 basis points	Change of the Bank's cost of credit risk ratio by 3 basis points

In thousands of GEL	2019	2018
10% increase (decrease) in PD estimates	Increase (decrease) impairment allowance on loans and advances by GEL 17,427 (GEL 17,547)	Increase impairment allowance on loans and advances by GEL 18,876 (GEL 18,942)
	Change of the Bank's cost of credit risk ratio by 16 (16) basis points	Change of the Bank's cost of credit risk ratio by 21 (21) basis points
10% increase (decrease) in LGD estimates	Increase (decrease) impairment allowance on loans and advances by GEL 24,758 (GEL 26,604)	Increase impairment allowance on loans and advances by GEL 28,185 (GEL 28,012)
	Change of the Bank's cost of credit risk ratio by 22 (24) basis points	Change of the Bank's cost of credit risk ratio by 31 (31) basis points

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Adoption of IFRS 16, Leases. IFRS 16 replaces IAS 17 Leases for annual periods beginning on or after 1 January 2019. The group has adopted IFRS 16 using modified retrospective method from 1 January 2019 with certain simplifications, and has not restated comparatives for the previous reporting periods, as permitted under the specific transitional provisions in the standard (modified retrospective approach). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as of 1 January 2019 which were applied on a portfolio basis of leases with reasonably similar characteristics.

The average incremental borrowing rates applied to the lease liabilities on 1 January 2019 was 3.77% for USD denominated contracts and 9.19% for GEL denominated contracts.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17, Leases, and IFRIC 4, in determining whether an arrangement contains a Lease.

The Group did not have finance leases balances outstanding as at 31 December 2018. TBCG has made no adjustments where the Group acts as lessor, in either a finance or operating lease, of physical assets it owns. Where TBCG acts as an intermediate lessor, i.e., enters into a head lease and subleases the asset to a third party, the sublease has been classified as either a finance or operating lease based primarily on whether the sublease term consumes the majority of the remaining useful life of the right-of-use asset arising from the head lease as at the transition date.

The following table reconciles the commitments in respect of operating leases as at 31 December 2018 to the opening lease liabilities recognized on 1 January 2019:

In thousands of GEL	**1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases disclosed as at 31 December 2018.	6,844
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	68,252
- Effect of discounting to present value	(8,056)
- Less short-term leases not recognised as a liability	(575)
- Less low-value leases not recognised as a liability	(6,233)
Total effect on the Lease Liability as at 1 January 2019	**60,232**
Of which are:	
- Current lease liabilities	11,467
- Non-current lease liabilities	49,576

* Non-cancellable leases include those cancellable only: (a) upon the occurrence of some remote contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The right-of use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use assets mostly relate to properties for own use, in particular branches and office buildings.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by GEL 60,232 thousand;
- lease liabilities – increase by GEL 60,232 thousand.

The net impact on retained earnings on 1 January 2019 was nil.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 16 subsequent recognition and policies

As at 31 December 2019, the balances of Right of the use asset and the Lease liability are GEL 61,555 thousand and GEL 62,598 thousand respectively. The interest charge on lease liabilities presented within interest expense amounted GEL 1,182 thousand, recognized within interest expense. During the first six month period of 2019, the weighted average lease term was approximately 5 years and depreciation expense of right-of-use assets amounted GEL 6,590 thousand.

TBCG predominantly enters into lease contracts, or contracts that include lease components, as a lessee of real estate, including offices, retail branches and service centers. TBCG identifies non-lease components of a contract and accounts for them separately from lease components.

When TBCG is lessee in a lease arrangement, TBCG recognizes a lease liability and corresponding right-of-use (RoU) asset at the commencement of the lease term when TBCG acquires control of the physical use of the asset. The lease liability is measured based on the present value of the lease payments over the lease term, discounted using TBCG's incremental borrowing rate. Interest expense on the lease liability is presented within Interest expense from financial instruments. The RoU asset is recorded at an amount equal to the lease liability but is adjusted for rent prepayments, initial direct costs, any costs to refurbish the leased asset or lease incentives received. The RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within depreciation expense in statement of comprehensive income.

Lease payments generally include fixed payments. When the lease contains an extension or termination option that the Group considers reasonably certain to be exercised, the expected rental payments or costs of termination are included within the lease payments used to generate the lease liability. TBCG does not typically enter into leases with purchase options or residual value guarantees.

Where TBCG acts as lessor or sublessor under a finance lease, a receivable is recognized and measured at amortized cost at an amount equal to the present value of the aggregate of the lease payments plus any unguaranteed residual value that TBCG expects to recover at the end of the lease term.

Initial direct costs are also included in the initial measurement of the lease receivable. Lease payments received during the lease term are allocated as repayments of the outstanding receivable.

Interest income reflects a constant periodic rate of return on TBCG's net investment using the interest rate implicit in the lease (or, for subleases, the rate for the head lease). TBCG reviews the estimated unguaranteed residual value annually, and if the estimated residual value to be realized is less than the amount assumed at lease inception, a loss is recognized for the expected shortfall. Where TBCG acts as a lessor or sublessor in an operating lease of owned real estate, TBCG recognizes the operating lease income on a straight-line basis over the lease term.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following at initial recognition:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture or the items below the market value of around GEL 15,000.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The Group also determines non-cancellable lease period for leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Group's operations.

As for the adoption date management has reassessed expected lease terms for the branch offices. The assessment was performed by retail sales department taking into account a few criteria, namely: location, profitability and strategic importance of the branch offices. Based on the analysis performed, management identified and recorded expected terms for the lease contracts, subject to lease extension options that are reasonably certain to be exercised. As at 31 December 2019, the Group has reassessed expected terms for existing lease contracts in line with standard requirements.

Adoption of other IFRS.

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle.

5. NEW ACCOUNTING PRONOUNCEMENTS

Minor amendments to IFRSs

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2019 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC.

Major new IFRSs

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUE

in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately The Group is currently assessing the impact of the interpretation on its financial statements.

6. CASH AND CASH EQUIVALENTS

In thousands of GEL	2019	2018
Cash on hand	**646,394**	491,891
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	**35,133**	118,749
Correspondent accounts and overnight placements with other banks	**186,623**	369,431
Placements with and receivables from other banks with original maturities of less than three months	**126,359**	184,429
Total gross amount of cash and cash equivalents	**994,509**	1,164,500
Less: Credit loss allowance	**(30)**	(97)
Total carrying amount of cash and cash equivalents	**994,479**	1,164,403

85% of the correspondent accounts and overnight placements with other banks are placed with OECD (The Organization for Economic Co-operation and Development) banking institutions (31 December 2018: 95%).

As of 31 December 2019 GEL 11,348 thousand was placed on interbank term deposits with one non-OECD bank and GEL 115,012 thousand with One OECD bank (31 December 2018: GEL 13,383 thousand with one non-OECD bank and GEL 171,046 thousand with two OECD bank).

Interest rate analysis of cash and cash equivalents is disclosed in Note 36.

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

In thousands of GEL	2019	2018
AAA	**-**	5,883
A+	**66,805**	249,802
A	**13,816**	4,628
BBB+	**20,286**	93,450
BBB	**69,302**	-
BBB-	**-**	872
BB+	**733**	241
BB	**2,970**	208
BB-	**12,336**	13,926
B+	**375**	395
B	**-**	26
Total	**186,623**	369,431

Credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

In thousands of GEL	2019	2018
AAA	**-**	10,021
A-	**115,012**	161,025
BB	**1,718**	-
B+	**9,629**	13,383
Total	**126,359**	184,429

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 and for those financial institutions which are not assigned credit ratings, country ratings are used. As of 31 December 2019 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (31 December 2018: nil;). For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1.

7. DUE FROM OTHER BANKS

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2019 and 2018. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

In thousands of GEL	**2019**	2018
AA	**-**	8,913
A+	**9,541**	-
BBB+	**-**	80
BBB	**2,493**	3,838
BB+	**-**	4,388
BB-	**-**	19,500
BB	**1,388**	-
B+	**2,175**	665
Not rated	**-**	-
Total	**15,597**	37,384

As of 31 December 2019 the TBC Bank had no placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2018: one placement with one bank). The total aggregated amount of these placement was nil (2018: GEL 19,311 thousand) or 40.8% of the total amount due from other (2018: 41%).

As of 31 December 2019 GEL 11,836 thousand, (2018: GEL 15,725 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 36.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2019 is GEL 9 thousand (31 December 2018 GEL 39 thousand).

8. MANDATORY CASH BALANCES WITH THE NATIONAL BANK OF GEORGIA

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 9.0%, 1.25% and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in 2019 (2018: 6.0%, 0.8% and (0.6%) in GEL, USD and EUR respectively).

In February 2019 Fitch Ratings has upgraded Georgia's Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-'. The outlook is a stable. The issue ratings on Georgia's long-term senior unsecured foreign and local-currency bonds are also upgraded to 'BB' from 'BB-'. The Country Ceiling is upgraded to 'BBB-' from 'BB' and the Short-term Foreign and Local-Currency IDRs affirmed at 'B'.

9. LOANS AND ADVANCES TO CUSTOMERS

In thousands of GEL	**2019**	2018
Corporate loans	**4,660,473**	3,177,289
Consumer loans	**1,884,006**	1,989,516
Mortgage loans	**3,169,197**	2,709,183
Loans to micro, small and medium enterprises	**2,948,279**	2,496,594
Total gross loans and advances to customers at AC	**12,661,955**	10,372,582
Less: credit loss allowance	**(312,556)**	(334,130)
Total carrying amount of loans and advances to customers at AC	**12,349,399**	10,038,452

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit loss allowance as at 31 December 2019 and 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017.

As of 31 December 2019 loans and advances to customers carried at GEL 474,480 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2018: GEL 228,454 thousand; 2017: GEL 246,267 thousand).

In 2019, the Group has reassessed its definition of segments as disclosed in Note 29. Some of the clients were reallocated to different segments. Comparative information as of 31 December 2018 has not been updated due to impracticability.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. It should be noted, that
  - Movement does not include exposures which were issued and repaid during the period;
  - For loans, which existed at the beginning of the period, opening exposures are disclosed as transfer amounts;
  - For newly issued loans, starting exposures are disclosed as transfer amount
  - For the exposures which changed stage several times during the period, transfers between starting and ending stage is disclosed.
- New originated or purchased gives us information regarding gross loans and corresponding credit impairment losses issued during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- The line, derecognised during the period refers to starting balance of loans which were repaid or written-off during the period (gross exposure and corresponding credit impairment losses, however, exposures which were issued and repaid during the period and repaid by newly issued refinancing loans are excluded);
- Net repayments refers to net changes in gross carrying amounts, consisting of withdrawal of loan and repayment;
- Net write offs refer to write off of loans during the period, and net of written off and recoveries of already written off loans for ECL
- Foreign exchange translations of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary.
- Net remeasurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations.

For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases is disclosed as nil.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,903,315**	**138,713**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(126,154)	137,126	(10,972)	**-**	(2,876)	5,184	(2,308)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(27,531)	(5,261)	32,792	**-**	(2,914)	(192)	3,106	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	72,484	(71,151)	(1,333)	**-**	2,806	(2,806)	-	**-**
New originated or purchased	1,638,709	-	-	**1,638,709**	25,355	-	-	**25,355**
Derecognised during the period	1,988	(31,192)	(13,862)	**(43,066)**	(2,544)	(1,064)	(9,094)	**(12,702)**
Net repayments	(186,960)	(70,283)	(27,812)	**(285,055)**	-	-	-	**-**
Resegmentation	55,356	711	-	**56,067**	176	76	-	**252**
Net Write-offs	-	-	-	**-**	-	-	630	**630**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(14,698)	(4,398)	991	**(18,105)**
Foreign exchange movements	103,478	5,746	7,305	**116,529**	908	175	2,732	**3,815**
At 31 December 2019	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	**2,041,538**	**325,919**	**107,935**	**2,475,392**	**21,208**	**15,036**	**31,719**	**67,963**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(93,957)	100,702	(6,745)	**-**	(1,811)	2,185	(374)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,395)	(85,409)	88,804	**-**	(32)	(8,341)	8,373	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	129,019	(126,886)	(2,133)	**-**	3,908	(3,908)	-	**-**
New originated or purchased	1,787,999	-	-	**1,787,999**	22,031	-	-	**22,031**
Derecognised during the period	(873,776)	(53,958)	(14,720)	**(942,454)**	(9,217)	(3,140)	(21,293)	**(33,650)**
Net repayments	(145,691)	(25,028)	(39,857)	**(210,576)**	-	-	-	**-**
Other movements	2	-	-	**2**	-	-	-	**-**
Resegmentation	36,699	488	-	**37,187**	283	-	-	**283**
Net Write-offs	-	-	(321)	**(321)**	-	-	3,269	**3,269**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(3,430)	3,162	21,877	**21,609**
Foreign exchange movements	24,877	2,885	2,298	**30,060**	-	-	-	**-**
At 31 December 2018	**2,903,315**	**138,713**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**2,210,725**	**193,049**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(181,576)	186,581	(5,005)	**-**	(3,097)	5,142	(2,045)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(51,354)	(42,338)	93,692	**-**	(2,568)	(6,711)	9,279	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	49,093	(48,292)	(801)	**-**	6,191	(5,872)	(319)	**-**
New originated or purchased	1,312,100	-	-	**1,312,100**	11,981	-	-	**11,981**
Derecognised during the period	(354,274)	(47,777)	(48,874)	**(450,925)**	(2,356)	(2,582)	(6,102)	**(11,040)**
Net repayments	(333,220)	(42,225)	(14,348)	**(389,793)**	-	-	-	**-**
Resegmentation	(55,356)	(786)	-	**(56,142)**	(176)	(78)	-	**(254)**
Net Write-offs	-	-	(28,963)	**(28,963)**	-	-	(12,946)	**(12,946)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(11,134)	6,047	10,948	**5,861**
Foreign exchange movements	54,123	6,487	4,798	**65,408**	227	268	1,034	**1,529**
At 31 December 2019	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**1,630,103**	**149,799**	**64,770**	**1,844,672**	**9,894**	**11,890**	**24,468**	**46,252**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(142,901)	152,463	(9,562)	**-**	(13,479)	15,630	(2,151)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(83,887)	(21,578)	105,465	**-**	(6,489)	(2,130)	8,619	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,601	(30,683)	(918)	**-**	2,973	(2,552)	(421)	**-**
New originated or purchased	1,360,236	-	-	**1,360,236**	21,595	-	-	**21,595**
Derecognised during the period	(528,289)	(61,702)	(49,272)	**(639,263)**	(4,388)	(2,679)	(3,210)	**(10,277)**
Net repayments	(146,754)	(20,622)	788	**(166,588)**	-	-	-	**-**
Other movements	(21)	6	349	**334**	-	-	-	**-**
Resegmentation	75,069	23,747	1,725	**100,541**	4,377	8,457	1,611	**14,445**
Net Write-offs	-	-	(22,004)	**(22,004)**	-	-	(5,664)	**(5,664)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	4,781	(6,245)	5,997	**4,533**
Foreign exchange movements	15,568	1,619	1,479	**18,666**	9	8	113	**130**
At 31 December 2018	**2,210,725**	**193,049**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**1,641,993**	**265,673**	**81,850**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(166,459)	176,428	(9,969)	**-**	(16,454)	21,029	(4,575)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(60,362)	(67,012)	127,374	**-**	(5,682)	(16,168)	21,850	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	81,453	(80,023)	(1,430)	**-**	16,851	(16,013)	(838)	**-**
New originated or purchased	641,207	-	-	**641,207**	34,363	-	-	**34,363**
Derecognised during the period	(101,437)	(39,416)	(125,004)	**(265,857)**	3,706	(11,085)	(7,972)	**(15,351)**
Net repayments	(460,569)	(42,047)	109,209	**(393,407)**	-	-	-	**-**
Resegmentation	2,583	1,092	572	**4,247**	15	97	184	**296**
Net Write-offs	-	-	(110,243)	**(110,243)**	-	-	(97,652)	**(97,652)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(38,995)	15,213	78,558	**54,775**
Foreign exchange movements	14,853	2,122	1,568	**18,543**	17	122	663	**802**
At 31 December 2019	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,440**	**44,793**	**133,956**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**1,788,523**	**301,923**	**72,981**	**2,163,427**	**42,066**	**64,309**	**48,195**	**154,570**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(244,838)	253,057	(8,219)	**-**	(34,737)	38,429	(3,692)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(97,030)	(64,020)	161,050	**-**	(28,073)	(16,142)	44,215	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	73,142	(71,235)	(1,907)	**-**	10,012	(9,115)	(897)	**-**
New originated or purchased	1,359,515	109	20	**1,359,644**	65,303	-	-	**65,303**
Derecognised during the period	(794,286)	(96,300)	(52,401)	**(942,987)**	(23,551)	(13,147)	(23,220)	**(59,918)**
Net repayments	(339,487)	(34,337)	32,155	**(341,669)**	-	-	-	**-**
Other movements	1,033	(77)	1,636	**2,592**	-	-	-	**-**
Resegmentation	(109,359)	(24,193)	(1,725)	**(135,277)**	(4,886)	(8,391)	(1,611)	**(14,888)**
Net Write-offs	-	-	(122,095)	**(122,095)**	-	-	(100,885)	**(100,885)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	16,760	3,298	92,489	**112,547**
Foreign exchange movements	4,780	746	355	**5,881**	9	4	(19)	**(6)**
At 31 December 2018	**1,641,993**	**265,673**	**81,850**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**2,470,634**	**194,410**	**44,170**	**2,709,183**	1,696	9,166	14,026	**24,888**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(172,796)	182,744	(9,948)	**-**	(384)	3,294	(2,910)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(12,481)	(23,593)	36,074	**-**	(95)	(1,597)	1,692	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	66,513	(64,675)	(1,838)	**-**	2,563	(1,991)	(572)	**-**
New originated or purchased	811,030	-	-	**811,030**	818	-	-	**818**
Derecognised during the period	(81,648)	(46,649)	4,720	**(123,577)**	(137)	(1,796)	(691)	**(2,624)**
Net repayments	(313,331)	(22,613)	(10,569)	**(346,513)**	-	-	-	**-**
Resegmentation	(2,583)	(1,017)	(572)	**(4,172)**	(15)	(94)	(184)	**(293)**
Net Write-offs	-	-	(955)	**(955)**	-	-	3,608	**3,608**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(3,018)	2,172	4,478	**3,632**
Foreign exchange movements	108,419	12,562	3,220	**124,201**	43	532	1,101	**1,676**
At 31 December 2019	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**1,839,707**	**189,887**	**40,136**	**2,069,730**	1,371	9,336	12,102	**22,809**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(144,596)	156,655	(12,059)	**-**	(2,118)	5,254	(3,136)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(14,734)	(20,146)	34,880	**-**	(1,700)	(1,248)	2,948	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	50,917	(50,040)	(877)	**-**	1,717	(1,466)	(251)	**-**
New originated or purchased	1,367,848	-	-	**1,367,848**	3,035	-	-	**3,035**
Derecognised during the period	(480,297)	(67,350)	(8,657)	**(556,304)**	(801)	(2,083)	(1,575)	**(4,459)**
Net repayments	(174,623)	(18,409)	(8,435)	**(201,467)**	-	-	-	**-**
Other movements	211	71	1,807	**2,089**	-	-	-	**-**
Resegmentation	(2,385)	(61)	-	**(2,446)**	(12)	(8)	-	**(20)**
Net Write-offs	-	-	(3,576)	**(3,576)**	-	-	1,963	**1,963**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	195	(632)	1,969	**1,532**
Foreign exchange movements	28,555	3,803	951	**33,309**	9	13	6	**28**
At 31 December 2018	**2,470,634**	**194,410**	**44,170**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Movements in the provision for loan impairment during 2019 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Credit Loss allowance as of 1 January 2019	**81,505**	**156,723**	**24,888**	**71,014**	**334,130**
Resegmentation effect	**767**	**-**	**-**	**(767)**	**-**
Credit loss allowance during the year	**(3,261)**	**74,581**	**2,742**	**7,968**	**82,030**
Amounts written off during the period as uncollectible	**-**	**(110,243)**	**(955)**	**(28,963)**	**(140,161)**
Recoveries	**630**	**12,591**	**4,563**	**16,017**	**33,801**
Effect of translation to presentation currency	**-**	**64**	**115**	**383**	**562**
Foreign exchange movements	**1,109**	**240**	**352**	**493**	**2,194**
Credit Loss allowance as of 31 December 2019	**80,750**	**133,956**	**31,705**	**66,145**	**312,556**

Loans and advances to customers written off in 2019 included loans to customers in the gross amount of GEL 39,464 thousand issued in 2019, out of which, none was previously issued performance guarantee transformed into loan in 2019 and GEL 100,697 thousand was issued in previous years.

Movements in the provision for loan impairment during 2018 were as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Credit Loss allowance as of 1 January 2018	**67,963**	**154,570**	**22,809**	**46,252**	**291,594**
Resegmentation effect	446	(14,889)	(21)	14,464	**-**
Credit loss allowance during the year	13,416	139,143	5,648	32,194	**190,401**
Amounts written off during the period as uncollectible	(320)	(122,095)	(3,576)	(22,004)	**(147,995)**
Effect of translation to presentation currency	-	(6)	28	108	**130**
Credit Loss allowance as of 31 December 2018	**81,505**	**156,723**	**24,888**	**71,014**	**334,130**

Loans and advances to customers written off in 2018 included loans to customers in the gross amount of GEL 43,422 thousand issued in 2018, out of which, none was previously issued performance guarantee transformed into loan in 2018 and GEL 104,573 thousand was issued in previous years.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 36.

The table below contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans. For details please refer to Note 2.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2019:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	4,094,403	7,882	-	**4,102,285**
- Low	339,960	75,872	-	**415,832**
- Moderate	322	19,827	-	**20,149**
- High	-	828	-	**828**
- Default	-	-	121,379	**121,379**
Gross carrying amount	**4,434,685**	**104,409**	**121,379**	**4,660,473**
Credit loss allowance	(39,153)	(1,969)	(39,628)	**(80,750)**
Carrying amount	**4,395,532**	**102,440**	**81,751**	**4,579,723**
Consumer loans risk category				
- Very low	1,107,490	5,436	-	**1,112,926**
- Low	330,361	17,620	-	**347,981**
- Moderate	155,411	176,815	-	**332,226**
- High	-	16,946	-	**16,946**
- Default	-	-	73,9287	**73,927**
Gross carrying amount	**1,593,262**	**216,817**	**73,927**	**1,884,006**
Credit loss allowance	(36,724)	(52,439)	(44,793)	(133,956)
Carrying amount	**1,556,538**	**164,378**	**29,134**	**1,750,050**
Mortgage loans risk category				
- Very low	2,668,691	17,970	-	**2,686,661**
- Low	182,049	80,289	-	**262,338**
- Moderate	22,986	121,743	-	**144,729**
- High	-	11,167	-	**11,167**
- Default	-	-	64,302	**64,302**
Gross carrying amount	**2,873,726**	**231,169**	**64,302**	**3,169,197**
Credit loss allowance	(1,471)	(9,686)	(20,548)	**(31,705)**
Carrying amount	**2,872,255**	**221,483**	**43,754**	**3,137,492**
Loans to MSME risk category				
- Very low	2,223,262	23,114	-	**2,246,376**
- Low	407,106	87,244	-	**494,350**
- Moderate	19,893	80,947	-	**100,840**
- High	-	13,394	-	**13,394**
- Default	-	-	93,319	**93,319**
Gross carrying amount	**2,650,261**	**204,699**	**93,319**	**2,948,279**
Credit loss allowance	(18,341)	(18,593)	(29,211)	**(66,145)**
Carrying amount	**2,631,920**	**186,106**	**64,108**	**2,882,134**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

For description of the credit risk grading used in the tables above refer to Note 36.

Analysis by credit quality of loans outstanding as of 31 December 2018 is as follows:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	2,712,885	6,417	-	**2,719,302**
- Low	189,086	130,798	-	**319,884**
- Moderate	1,344	1,238	-	**2,582**
- High	-	260	-	**260**
- Default	-	-	135,261	**135,261**
Gross carrying amount	**2,903,315**	**138,713**	**135,261**	**3,177,289**
Credit loss allowance	(32,940)	(4,994)	(43,571)	**(81,505)**
Carrying amount	**2,870,375**	**133,719**	**91,690**	**3,095,784**
Consumer loans risk category				
- Very low	1,118,057	3,373	-	**1,121,430**
- Low	349,406	19,874	-	**369,280**
- Moderate	174,530	212,707	-	**387,237**
- High	-	29,719	-	**29,719**
- Default	-	-	81,850	**81,850**
Gross carrying amount	**1,641,993**	**265,673**	**81,850**	**1,989,516**
Credit loss allowance	(42,903)	(59,245)	(54,575)	**(156,723)**
Carrying amount	**1,599,090**	**206,428**	**27,275**	**1,832,793**
Mortgage loans risk category				
- Very low	2,268,634	20,051	-	**2,288,685**
- Low	177,274	62,060	-	**239,334**
- Moderate	24,695	104,550	-	**129,245**
- High	-	7,749	-	**7,749**
- Default	-	-	44,170	**44,170**
Gross carrying amount	**2,470,603**	**194,410**	**44,170**	**2,709,183**
Credit loss allowance	(1,697)	(9,165)	(14,026)	**(24,888)**
Carrying amount	**2,468,906**	**185,245**	**30,144**	**2,684,295**
Loans to MSME risk category				
- Very low	1,865,077	16,285	-	**1,881,362**
- Low	324,306	72,742	-	**397,048**
- Moderate	21,342	84,520	-	**105,862**
- High	-	19,502	-	**19,502**
- Default	-	-	92,820	**92,820**
Gross carrying amount	**2,210,725**	**193,049**	**92,820**	**2,496,594**
Credit loss allowance	(19,301)	(22,379)	(29,334)	**(71,014)**
Carrying amount	**2,191,424**	**170,670**	**63,486**	**2,425,580**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2019		31 December 2018	
In thousands of GEL	**Amount**	**%**	Amount	%
Individual	**5,046,804**	**40%**	4,677,328	45%
Energy & Utilities	**1,089,643**	**9%**	776,204	7%
Hospitality & Leisure	**988,467**	**8%**	759,605	7%
Real Estate	**1,076,102**	**8%**	564,197	5%
Food Industry	**785,539**	**6%**	570,810	6%
Trade	**616,475**	**5%**	445,290	4%
Construction	**576,923**	**5%**	359,549	3%
Agriculture	**498,783**	**4%**	418,432	4%
Healthcare	**305,152**	**2%**	220,756	2%
Services	**212,661**	**2%**	180,045	2%
Pawn Shops	**203,633**	**2%**	278,384	3%
Automotive	**183,912**	**1%**	156,241	2%
Transportation	**134,223**	**1%**	80,075	1%
Metals and Mining	**99,321**	**1%**	100,855	1%
Financial Services	**96,430**	**1%**	71,617	1%
Communication	**43,329**	**0%**	229,522	2%
Other	**704,558**	**5%**	483,672	5%
Total loans and advances to customers (before impairment)	**12,661,955**	**100%**	**10,372,582**	**100%**

As of 31 December 2019 the Group had 239 borrowers (2018: 170 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 4,443,036 thousand (2018: GEL 3,054,314 thousand) or 35.1%of the gross loan portfolio (2018: 29.4%).

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate;
- Movable property including fixed assets, inventory and precious metals;
- Financial assets including deposits, shares, and third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The effect of collateral as of 31 December 2019:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	**Carrying value of the assets**	**Fair Value of collateral**	**Carrying value of the assets**	**Fair Value of collateral**
Corporate loans	**3,682,456**	**8,481,849**	**978,017**	**310,419**
Consumer loans	**950,847**	**2,232,728**	**933,159**	**37,658**
Mortgage loans	**2,949,426**	**6,171,802**	**219,771**	**107,183**
Loans to micro, small and medium enterprises	**2,579,002**	**5,983,285**	**369,277**	**164,979**
Total	**10,161,731**	**22,869,664**	**2,500,224**	**620,239**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral as of 31 December 2018:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	**Carrying value of the assets**	**Fair Value of collateral**	**Carrying value of the assets**	**Fair Value of collateral**
Corporate loans	2,857,207	6,516,492	320,082	47,249
Consumer loans	1,213,594	2,543,720	775,922	34,242
Mortgage loans	2,663,362	5,404,518	45,821	28,934
Loans to micro, small and medium enterprises	2,340,847	5,324,290	155,747	68,110
Total	**9,075,010**	**19,789,020**	**1,297,572**	**178,535**

The effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collaterals such as movable assets and precious metals.

Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan's carrying value. The values of third-party guarantees in the tables above . The values of third-party guarantees in the tables above amounted to GEL 595,464 thousand and GEL 625,719 thousand as of 31 December 2019 and 2018 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 36. Information on related party balances is disclosed in Note 43. As of 31 December 2019 gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL 844 thousand (As of 31 December 2018: GEL 196 thousand).

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The figures below represent Investment securities measured at FVOCI under IFRS 9.

In thousands of GEL	**2019**	2018
Corporate bonds	**611,694**	549,477
Ministry of Finance of Georgia Treasury Bills	**330,096**	373,447
Certificates of Deposit of the National Bank of Georgia	**40,346**	14,985
Ministry of Finance of Uzbekistan Treasury Bills	**1,596**	-
Netherlands Government Bonds	**-**	66,760
Less: Credit loss allowance	**(1,438)**	(1,136)
Total debt securities	**982,294**	**1,003,533**
Corporate shares – unquoted	2,999	1,706
Total investment securities measured at fair value through other comprehensive income	**985,293**	**1,005,239**

All debt securities except for corporate bonds and Uzbekistan Treasury Bills 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 October 2019). Latest country ratings for Uzbekistan and Nederlands stands at BB- and AAA, respectively. 56.7% of corporate bonds are issued by triple A rated international financial institutions, 19.7% of corporate bonds are issued by A rated international financial institutions and 6.0% of corporate bond are issued at BB- rating, whereas 17.4% and 0.2% of corporate bonds are issued by B+ and B- rated corporations respectively. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. The Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME CONTINUED

As of 31 December 2019 Investment securities measured at fair value through OCI carried at GEL 696,961 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2018: GEL 613,466 thousand). Refer to Note 19. None of the debt securities measured at fair value through other comprehensive income are overdue or impaired.

The principal equity investment securities measured at fair value through other comprehensive income are as follows:

	Nature of business	Country of registration	Carrying value as of 31 December	
In thousands of GEL			**2019**	2018
JSC GRDC	Property development	Netherlands Antilles	**365**	365
Georgian Stock Exchange	Stock exchange	Georgia	**2,111**	1,004
Other			**523**	337
Total			**2,999**	1,706

The movements in investment securities measured at fair value through other comprehensive income are as follows:

In thousands of GEL	Note	**2019**	2018
Carrying amount as of 1 January		**1,005,239**	657,938
Transfers from bonds carried at amortised cost		**27,241**	-
Purchases		**1,781,817**	717,630
Disposals		**(240,603)**	(14,781)
Redemption at maturity		**(1,598,534)**	(370,571)
Revaluation		**(15,156)**	6,949
Interest income accrued	29	**74,043**	57,057
Interest income received		**(58,539)**	(48,442)
Effect of translation to presentation currency		**10,087**	595
Change in credit loss allowance		**(302)**	(1,136)
Carrying amount as of 31 December		**985,293**	1,005,239

For the purpose of ECL measurement, securities balances are included in Stage 1. Refer to note 36 for the ECL measurement approach.

11.BONDS CARRIED AT AMORTISED COST

In thousands of GEL	**2019**	2018
Ministry of Finance Treasury Bills	**1,023,473**	654,618
Less: Credit loss allowance	**(1,905)**	(915)
Total bonds carried at amortised cost	**1,021,568**	653,703

All debt securities except for corporate bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as per international rating agencies in August 2018).

The movements in bonds carried at amortised cost are as follows:

In thousands of GEL	**2019**	2018
Carrying amount as of 1 January	**643,703**	449,538
Transfers to investment securities at FVOCI	**(27,241)**	-
Purchases	**613,383**	395,717
Redemption at maturity	**(216,674)**	(200,658)
Interest income accrual	**58,597**	40,625
Interest income received	**(59,222)**	(30,611)
Effect of translation to presentation currency	**13**	7
Change in credit loss allowance	**(991)**	(915)
Carrying amount as of 31 December	**1,021,568**	653,703

11. BONDS CARRIED AT AMORTISED COST CONTINUED

For the disclosure of bonds' fair value carried at amortised cost refer to Note 40. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 36.

As of 31 December 2019 bonds carried at amortised cost of GEL 579,142 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2018: GEL 212,337 thousand). Refer to Note 19.

None of the bonds carried at amortised cost as of 31 December 2019 and 2018 were either overdue or impaired.

For the purpose of ECL measurement securities balances are included in Stage 1. Refer to Note 36 for the ECL measurement approach.

12. OTHER FINANCIAL ASSETS

Other financial assets of the Group are as follows:

In thousands of GEL	**2019**	2018
Receivables on repossessed assets disposed	**32,844**	43,671
Receivables on guarantees / letters of credit	**-**	35,373
Prepayments for purchase of leasing assets	**3,866**	32,293
Receivables on credit card services and money transfers	**21,895**	14,390
Receivable on terminated leases	**21,837**	12,651
Bank assurance income receivable	**-**	9,618
Trade receivable	**4,420**	8,273
Rental income receivables	**2,833**	3,492
Receivables on guarantees	**1,695**	1,496
Foreign exchange forward contracts	**2,087**	-
Other	54,601	21,096
Less: Credit loss allowance	**(30,867)**	(28,094)
Total other financial assets	**115,211**	154,259

Other financial assets of the Bank are as follows:

In thousands of GEL	**2019**	2018
Receivables on repossessed assets disposed	**32,844**	43,671
Receivables on guarantees / letters of credit	**-**	35,373
Receivables on credit card services and money transfers	**21,270**	13,849
Bank assurance income receivable	**-**	9,618
Rental income receivables	**2,833**	3,492
Receivables on guarantees	**1,695**	1,511
Trade receivable	**1,043**	111
Other	73,467	30,057
Less: Provision for impairment	**(13,559)**	(16,329)
Total other financial assets	**119,593**	121,353

Movements in the credit loss allowance of other financial assets during 2019 for the Group were as follows:

In thousands of GEL	**Receivables on terminated leases**	**Other**	**Total**
Credit loss allowance as of 1 January 2019	**9,377**	**18,717**	**28,094**
Credit loss allowance during the year	**5,380**	**(1,102)**	**4,278**
Amounts written off during the year as uncollectible	**-**	**(1,489)**	**(1,489)**
Foreign exchange translation gains less losses	**-**	**(16)**	**(16)**
Credit loss allowance as of 31 December 2019	**14,757**	**16,110**	**30,867**

12. OTHER FINANCIAL ASSETS CONTINUED

Movements in the credit loss allowance of other financial assets during 2019 for the Bank were as follows:

In thousands of GEL	Total
Credit loss allowance as of 1 January 2019	**16,329**
Credit loss allowance as of 1 January 2019	(1,265)
Amounts written off during the year as uncollectible	(1,489)
Foreign exchange translation gains less losses	(16)
Credit loss allowance as of 31 December 2019	**13,559**

Movements in the credit loss allowance of other financial assets during 2018 for the Group were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Credit loss allowance as of 1 January 2018	**6,234**	**12,805**	**19,039**
Credit loss allowance during the year	3,143	12,097	15,240
Amounts written off during the year as uncollectible	-	(6,404)	(6,404)
Foreign exchange translation gains less losses	-	219	219
Credit loss allowance as of 31 December 2018	**9,377**	**18,717**	**28,094**

Movements in the credit loss allowance of other financial assets during 2018 for the Bank were as follows:

In thousands of GEL	Total
Credit loss allowance as of 1 January 2018	**11,199**
Credit loss allowance as of 1 January 2018	11,315
Amounts written off during the year as uncollectible	(6,404)
Foreign exchange translation gains less losses	219
Credit loss allowance as of 31 December 2018	**16,329**

As at 31 December 2019, presentation of other financial assets gross carrying amount and credit loss allowance for the Group by IFRS 9 stages are as follows:

	Gross carrying amount					Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total		Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**134,977**	**74**	**47,302**	**182,353**	**13,145**	**14**	**14,935**	**28,094**	**28,094**
Transfers:									
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(21)	23	(2)	**-**		(4)	4	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(55)	(15)	70	**-**		(1)	(15)	16	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	47	(47)	-	**-**		4	(4)	-	**-**
New originated or purchased	105,754	-	-	**105,754**	**21,675**	-	-	21,675	**21,675**
Changes to ECL measurement model assumptions	-	-	-	**-**		31	(6)	(41)	**(16)**
Derecognised during the period	(115,851)	(11)	(30,852)	**(146,714)**		(16,644)	13	(2,255)	**(18,886)**
Net repayments	4,565	-	(1,134)	**3,431**		-	-	-	**-**
Net Write-offs	-	-	-	**-**		-	-	-	**-**
FX movements	123	1	1,130	**1,254**		-	-	-	**-**
At 31 December 2019	**129,539**	**25**	**16,514**	**146,078**		**18,206**	**6**	**12,655**	**30,867**

12. OTHER FINANCIAL ASSETS CONTINUED

As at 31 December 2018, presentation of other financial assets gross carrying amount and credit loss allowance of bank by IFRS 9 stages are as follows:

	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**118,882**	**174**	**33,099**	**152,155**	**9,895**	**32**	**9,112**	**19,039**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(48)	48	-	-	(3)	3	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5,013)	(17)	5,030	-	(81)	(4)	85	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	210	(86)	(124)	-	57	(20)	(37)	-
New originated or purchased	54,802	13	35,855	90,670	4,439	1	5,596	10,036
Changes to ECL measurement model assumptions	-	-	-	-	(653)	8	7,707	7,062
Derecognised during the period	(26,786)	(44)	(1,243)	(28,073)	(509)	(6)	(1,343)	(1,858)
Net repayments	(6,070)	(14)	(130)	(6,214)	-	-	-	-
Net Write-offs	-	-	(16,772)	(16,772)	-	-	(6,404)	(6,404)
FX movements	(1,000)	-	(8,413)	(9,413)	-	-	219	219
At 31 December 2018	**134,977**	**74**	**47,302**	**182,353**	**13,145**	**14**	**14,935**	**28,094**

The newly originated exposure in Stage 3 of GEL 35,855 thousand mainly relates to the guarantee transferred to other financial assets.

The credit quality of Other Financial Assets is as follows at 31 December 2019:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Other Financial Assets risk category				
- Very low	129,218	1	-	129,219
- Low	234	1	-	235
- Moderate	87	23	-	110
- High	-	-	-	-
- Default	-	-	16,514	16,514
Gross carrying amount	**129,539**	**25**	**16,514**	**146,078**
Credit loss allowance	**(18,206)**	**(6)**	**(12,655)**	**(30,867)**
Carrying amount	**111,333**	**19**	**3,858**	**115,210**

12. OTHER FINANCIAL ASSETS CONTINUED

The credit quality of Other Financial Assets is as follows at 31 December 2018:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Other Financial Assets risk category				
- - Very low	134,716	18	-	134,734
- - Low	254	39	-	293
- - Moderate	7	17	-	24
- - High	-	-	-	-
- - Default	-	-	47,302	47,302
Gross carrying amount	**134,977**	**74**	**47,302**	**182,353**
Credit loss allowance	**(13,145)**	**(14)**	**(14,935)**	**(28,094)**
Carrying amount	**121,832**	**60**	**32,367**	**154,259**

13. INVESTMENTS IN FINANCE LEASE

As of 31 December 2019 investments in finance lease of GEL 203,802 thousand (2018: GEL 203,802 thousand) are represented by leases of fixed assets excluding land and buildings.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 1 and 5 years	Total
Lease payments receivable as of 31 December 2019	**147,959**	**193,143**	**341,102**
Unearned finance income	(41,969)	(39,688)	(81,657)
Impairment loss provision	(1,430)	(1,355)	(2,785)
Present value of lease payments receivable as of 31 December 2019	**104,560**	**152,100**	**256,660**
Finance lease payments receivable as of 31 December 2018	122,056	148,623	270,679
Unearned finance income	(32,981)	(30,294)	(63,275)
Impairment loss provision	(1,789)	(1,813)	(3,602)
Present value of lease payments receivable as of 31 December 2018	87,286	116,516	203,802

For fair values refer to Note 40.

The table below illustrates the movements in the credit loss allowance of net investment in finance lease:

In thousands of GEL	31 December 2019	31 December 2018
Credit loss allowance at the beginning of the year	**3,602**	2,237
Credit loss allowance during the year	**(582)**	1,765
Amounts written off during the year as uncollectible	**(235)**	(400)
Credit loss allowance at the end of the year	**2,785**	3,602

13. NET INVESTMENTS IN LEASE CONTINUED

The following table discloses the changes in the credit loss allowance and gross carrying amount for Investments in finance lease between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,045**	**205**	**1,352**	**3,602**	**178,171**	**10,861**	**18,372**	**207,404**
Transfers:								
- - to lifetime (from Stage 1 to Stage 2 and Stage3)	(14)	14	-	-	(5,951)	6,598	(647)	-
- - to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(27)	(65)	92	-	(22,099)	(2,941)	25,040	-
- - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(1)	-	-	4,968	(2,972)	(1,996)	-
New originated or purchased	1,319	89	81	1,489	138,634	18,663	5,836	163,133
Derecognised during the period	(858)	(154)	(1,536)	(2,548)	(55,562)	(4,849)	(10,407)	(70,818)
Partial repayment	-	-	-	-	(38,828)	(2,253)	(9,448)	(50,529)
Net repayments	(467)	8	701	242	-	-	-	-
Foreign currency effect	-	-	-	-	2,622	170	1,022	3,814
Other movements	-	-	-	-	3,660	522	2,259	6,441
At 31 December 2019	**1,999**	**96**	**690**	**2,785**	**205,615**	**23,799**	**30,031**	**259,445**

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment);
- Down payment;
- Real estate properties;
- Third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value("over-collateralized assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralized assets").

Per IFRS 9 impairment methodology, the Company classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – credit-impaired exposures.

For stage 1 exposures the Company creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

13. NET INVESTMENTS IN LEASE CONTINUED

For the Stage 2 classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition;

Under IFRS 9 methodology the default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

The Company incorporates forward looking information for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Group derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Refer to Note 36 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Group calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

As at 31 December 2019, credit quality of net investment in finance lease is analysed below:

In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net Investments in Lease risk category				
- Very low	175,468	-	-	175,468
- Low	30,147	13,688	-	43,835
- Moderate	-	6,361	-	6,361
- High	-	3,750	-	3,750
- Default	-	-	30,031	30,031
Gross carrying amount	**205,615**	**23,799**	**30,031**	**259,445**
Credit loss allowance	**(1,999)**	**(96)**	**(690)**	**(2,785)**
Carrying amount	**203,616**	**23,703**	**29,341**	**256,660**

Credit quality of net investment in finance lease as at 31 December 2018 is analysed below:

In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net Investments in Lease risk category				
- Very low	145,220	-	-	145,220
- Low	32,951	2,350	-	35,301
- Moderate	-	6,712	-	6,712
- High	-	1,799	-	1,799
- Default	-	-	18,372	18,372
Gross carrying amount	**178,171**	**10,861**	**18,372**	**207,404**
Credit loss allowance	**(2,045)**	**(205)**	**(1,352)**	**(3,602)**
Carrying amount	**176,126**	**10,656**	**17,020**	**203,802**

13. NET INVESTMENTS IN LEASE CONTINUED

The effect of collateral as of 31 December 2019:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	228,651	365,934	30,794	22,292
Total	**228,651**	**365,934**	**30,794**	**22,292**

The effect of collateral as of 31 December 2018:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	166,362	253,582	41,042	34,527
Total	**166,362**	**253,582**	**41,042**	**34,527**

14. OTHER ASSETS

In thousands of GEL	**2019**	2018
Current other assets		
Repossessed collateral	**152,134**	120,663
Prepayments for other assets	**33,106**	27,923
Prepayments for purchase of leasing assets	**31,417**	-
Other inventories	**5,016**	3,979
Prepaid taxes other than income tax	**2,880**	772
Other debtors	**-**	-
Total current other assets	**224,553**	153,337
Non-current other assets		
Assets repossessed from terminated leases	**6,321**	10,819
Assets purchased for leasing purposes	**190**	6,985
Prepayments for construction in progress	**10,248**	2,260
Prepaid insurance of leasing assets	**3,287**	2,330
Other	**2,602**	2,192
Total non-current other assets	**22,648**	24,586
Total other assets	**247,201**	177,923

Included in Other Debtors is receivable from one corporate client, in respect of settlement of previously written-off loan.

Repossessed collateral represent real estate assets and equipment acquired by the Group in settlement of impaired loans, other than those classified as investment property or premises and equipment. The Group expects to dispose these assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value. In 2019, collateral repossessed for settlement of impaired loans amounted to GEL 78.9 million (2018: GEL 30 million).

With regards to certain repossessed collaterals, the Group has granted previous owners a right to repurchase the assets at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 24 months from the reporting date, during this time the Group is obliged not to dispose of the repossessed collateral to third parties. As of 31 December 2019, the carrying value of the repossessed collateral subjected to the repurchase agreement was GEL 62,578 thousand (2018: GEL 44,024 thousand).

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of GEL	Land, Premises and leasehold improvements	Office and Other equipment*	Construction in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 1 January 2018	232,557	191,157	90,456	514,170	123,253	**637,423**
Accumulated depreciation/amortisation including accumulated impairment loss	(34,996)	(113,109)	-	(148,105)	(40,181)	**(188,286)**
Carrying amount as of 1 January 2018	197,561	78,048	90,456	366,065	83,072	**449,137**
Additions	8,395	46,118	8,538	63,051	41,958	**105,009**
Business Combination	3,607	301	-	3,908	-	**3,908**
Transfers within premises and equipment	2,661	-	(2,661)	-	-	**-**
Transfer from investment property	-	-	1,317	1,317	-	**1,317**
Transfer to investment property	-	-	(32,628)	(32,628)		**(32,628)**
Disposals	(3,948)	(23,062)	-	(27,010)	(517)	**(27,527)**
Revaluation	10,635	-	114	10,749	-	**10,749**
Effect of translation to presentation currency Cost	23	23	-	46	11	**57**
Impairment charge to profit and loss	(474)	(21)	(4)	(499)	-	**(499)**
Depreciation/amortisation charge	(5,575)	(22,422)	-	(27,997)	(16,100)	**(44,097)**
Elimination of accumulated depreciation/ amortisation on disposals	155	8,901	-	9,056	89	**9,145**
Effect of translation to presentation currency - Accumulated depreciation	(22)	35	-	13	(8)	**5**
Carrying amount as of 31 December 2018	213,018	87,921	65,132	366,071	108,505	**474,576**
Cost or valuation as of 31 December 2018	253,456	214,516	65,132	533,104	164,705	**697,809**
Accumulated depreciation/amortisation including accumulated impairment loss	(40,438)	(126,595)	-	(167,033)	(56,200)	**(223,233)**
Carrying amount as of 1 January 2019	**213,018**	**87,921**	**65,132**	**366,071**	**108,505**	**474,576**
Additions	3,897	25,061	24,945	53,903	66,799	**120,702**
Transfers within premises and equipment	3,597	36	(3,633)	-	-	**-**
Transfers from Investment Property	-	-	1,817	1,817	-	**1,817**
Transfer to Financial leases or repossessed assets	-	(1,439)	-	(1,439)		**(1,439)**
Disposals	(5,954)	(11,345)	(4,785)	(22,084)	(480)	**(22,564)**
Effect of translation to presentation currency Cost	48	75	-	123	23	**146**
Impairment charge to profit and loss	-	43	(6)	37	-	**37**
Depreciation/amortisation charge	(5,399)	(22,352)	-	(27,751)	(16,281)	**(44,032)**
Elimination of accumulated depreciation/ amortisation on disposals	1,556	8,397	-	9,952	568	**10,521**
Effect of translation to presentation currency - Accumulated depreciation	(48)	(45)	-	(93)	(25)	**(118)**
Carrying amount as of 31 December 2019	**210,715**	**86,352**	**83,470**	**380,537**	**159,109**	**539,646**
Cost or valuation as of 31 December 2019	255,044	226,947	83,470	565,461	231,047	**796,508**
Accumulated depreciation/amortisation including accumulated impairment loss	(44,329)	(140,595)	-	(184,924)	(71,938)	**(256,862)**
Carrying amount as of 31 December 2019	**210,715**	**86,352**	**83,470**	**380,537**	**159,109**	**539,646**

**Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment.*

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

As of 31 December 2019 GEL 353,071 thousand of premises and equipment and GEL 152,393 thousand of intangible assets were attributable to the Bank (2018: GEL 335,286 thousand and GEL 104,066 thousand).

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

The latest valuation date of premises to market value is 30 November 2018. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

The management considers that the fair value has not changed significantly between 30 November 2018 and 31 December 2019. Fair value of respective assets is disclosure below.

In thousands of GEL 5except for range of inputs)	**Fair value as of 30 November 2019 (valuation date)**	**Valuation technique**	**Other key information**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	153,590	Sales comparison approach	Land	Price per square meter	287 – 10,274 (577)
			Buildings		670 – 5,257 (2,715)
Branches	98,737	Sales comparison approach	Land	Price per square meter	7 – 4,057 (235)
			Buildings		337 – 12,911 (2,982)

Sensitivity of the input to fair value – increase/(decrease) in the price per square metre would result in increase/(decrease) in fair value.

As of 31 December 2019 the carrying amount of premises would have been GEL 164,404 thousand (2018: GEL 166,707 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2019 the carrying amount of construction in progress would have been GEL 60,581 thousand (2018: GEL 42,243 thousand) had the assets been carried at cost less impairment losses.

16. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Group leases offices, branches and service centers. Rental contracts are typically made for fixed periods of 1 to 15 years.

Until 31 December 2018 leases of premises were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

In thousands of GEL	**Buildings**	**Total**
Carrying amount at 1 January 2019	**60,232**	**60,232**
Additions	18,801	**18,801**
Disposals	(7,340)	**(7,340)**
Depreciation charge	(12,377)	**(12,377)**
Carrying amount at 31 December 2019	**59,316**	**59,316**

Interest expense on lease liabilities was GEL 2,428 thousand.

Expenses relating to short-term leases (included in in administrative and other operating expenses) and to leases of low-value assets that are not shown as short-term leases are included in in administrative and other operating expenses:

16. RIGHT OF USE ASSETS AND LEASE LIABILITIES CONTINUED

In thousands of GEL	**2019**
Expense relating to short-term leases	7,388
Expense relating to leases of low-value assets that are not shown above as short-term leases	6,154

Total cash outflow for leases in 2019 was GEL 21,266 thousand.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

17. INVESTMENT PROPERTIES

In thousands of GEL	**Note**	**2019**	2018
Gross book value as of 1 January		**86,884**	83,871
Accumulated depreciation as of 1 January		**(2,588)**	(4,639)
Carrying amount as of 1 January		**84,296**	**79,232**
Transfer to premises and equipment	15	**(1,817)**	(1,317)
Transfer from repossessed collateral		**4,914**	4,625
Addition from foreclosure		**47**	-
Disposals at cost		**(13,507)**	(36,080)
Elimination of depreciation on disposal		**717**	3,232
Depreciation charge		**(933)**	(1,181)
Acquisition through business combination		**-**	3,157
Transfer from Premises and equipment		**-**	32,628
Effect of translation to presentation currency		**(1,050)**	-
Gross book value as of 31 December		**76,521**	86,884
Accumulated depreciation as of 31 December		**(3,854)**	(2,588)
Carrying amount as of 31 December		**72,667**	**84,296**

As of 31 December 2019, investment properties comprised of 63 lots (2018: 73 lots) of land and 111 buildings (2018: 127 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 123,325 thousand (2018: GEL 97,425 thousand).

For disclosure purposes a fair valuation exercise was carried out for Investment Properties as of 31 December 2019. The valuation in 2019 and 2018 was carried out by external valuators who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	**Fair value as of 31 December 2019 (valuation date)**	**Valuation technique**	**Unobservable inputs**	**Range of unobser-vable inputs (weighted average)**
Land	60,946	Sales comparison approach	Price per square meter	0.80 – 974 (88)
Buildings	62,379	Sales comparison approach	Price per square meter	3.92 – 4,098 (960)

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

In thousands of GEL	**2019**	2018
Not later than 1 year	**207**	185
Later than 1 year and not later than 5 years	**230**	-
Total operating lease payments receivable	**437**	**185**

18. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	Note	2019	2018
Carrying amount as of 1 January		**29,459**	26,892
Acquisition of subsidiaries		-	2,567
Carrying amount as of 31 December		**29,459**	29,459

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2019	2018
JSC Bank Republic	**24,166**	24,166
Bank Republic Retail	11,088	11,088
Bank Republic Corporate	7,491	7,491
Bank Republic MSME	4,791	4,791
Bank Republic Other	796	796
LLC Bonaco	2,567	2,567
CGU Micro	**769**	769
JSC United Financial Corporation	**695**	695
LLC TBC Kredit	**1,262**	1,262
Total carrying amount of goodwill	**29,459**	29,459

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

In thousands of GEL	2019	2018
JSC Bank Republic*		
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	5.54% p.a.
Pre-tax discount rate	**16.50% p.a.**	20.27% p.a.
CGU SME / JSC Bank Constanta		
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	5.54% p.a.
Pre-tax discount rate	**10.36 p.a.**	13.06% p.a.
JSC United Financial Corporation		
Growth rate beyond five years of Free Cash Flow to equity	**4.64 p.a.**	5.54% p.a.
Pre-tax discount rate	**15.51% p.a.**	18.31% p.a.
LLC TBC Kredit		
Growth rate beyond five years of Free Cash Flow to equity	**2.7% p.a.**	1.3% p.a.
Pre-tax discount rate	**16.37% p.a.**	24.57% p.a.

*Assumptions related to JSC Bank Republic are similar for all related CGU's.

The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Retail had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 3,068,466 thousand (2018: GEL 84,111 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 39.87% p.a. (2018: 21.77% p.a.).

18. GOODWILL CONTINUED

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 2,316,056 thousand (2018: GEL 850,072 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 36.34% p.a. (2018: 38.86% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 1,210,045 thousand (2018: GEL 461,500 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 36.52% p.a. (2018: 35.83% p.a.).

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. Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 732,567 thousand (2018: GEL 913,325 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.74% p.a. (2018: 48.53% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Bonaco had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2018: nil). Recoverable amount of LLC Bonaco CGU exceeds its carrying amount by GEL 500,031 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 49.45% p.a..

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU . Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 8,222 thousand (2018: GEL 13,458 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 19.53% p.a. (2018: 29.8% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill (2018:nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 192,435 thousand (2018: GEL 277,830 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 134.64% of p.a.(2018: 132.34% p.a.).

19. DUE TO CREDIT INSTITUTIONS

In thousands of GEL	**2019**	2018
Due to other banks		
Correspondent accounts and overnight placements	**27,747**	23,273
Deposits from banks	**139,267**	136,161
Total due to other banks	**167,014**	**159,434**
Other borrowed funds		
Borrowings from foreign banks and financial institutions	**2,005,900**	2,065,560
Borrowings from local banks and financial institutions	**1,378,995**	769,911
Borrowings from Ministry of Finance	**536**	1,520
Borrowings from other financial institutions	**41,456**	35,078
Total other borrowed funds	**3,426,887**	**2,872,069**
Total amounts due to credit institutions	**3,593,901**	**3,031,503**

As of 31 December 2019 GEL 3,418,798 thousand of due to credit institutions were attributable to the Bank (2018: GEL 2,859,090 thousand).

As of 31 December 2018 for the purposes of maturity analysis of financial liabilities (Note 36) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

20. CUSTOMER ACCOUNTS

In thousands of GEL	2019	2018
State and public organisations		
- Current/settlement accounts	**616,397**	667,553
- Term deposits	**298,177**	538,311
Other legal entities		
- Current/settlement accounts	**3,161,526**	2,797,214
- Term deposits	**363,217**	337,697
Individuals		
- Current/demand accounts	**2,712,910**	2,426,597
- Term deposits	**2,959,775**	2,677,374
Total customer accounts	**10,112,002**	**9,444,746**

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	31 December 2019		31 December 2018	
In thousands of GEL	**Amount**	**%**	Amount	%
Individual	**5,672,685**	**56%**	5,103,971	54%
Construction	**596,703**	**6%**	613,973	7%
Trade	**741,385**	**7%**	550,527	6%
Government sector	**505,494**	**5%**	531,964	6%
Transportation	**308,268**	**3%**	486,939	5%
Energy & Utilities	**322,331**	**3%**	417,037	4%
Financial Services	**351,537**	**3%**	397,653	4%
Services	**446,876**	**4%**	360,084	4%
Real Estate	**322,416**	**3%**	207,227	2%
Hotels and Leisure	**110,816**	**1%**	102,529	1%
Healthcare	**98,294**	**1%**	76,464	1%
Agriculture	**50,915**	**1%**	35,884	0%
Metals and Mining	**12,264**	**0%**	12,479	0%
Food Industry	**-**	**0%**	-	0%
Automotive	**-**	**0%**	-	0%
Communication	**-**	**0%**	-	0%
Other	**572,018**	**6%**	548,015	6%
Total customer accounts	**10,112,002**	**100%**	**9,444,746**	**100%**

As of 31 December 2019 the Group had 361 customers (2018: 310 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 4,327,035 thousand (2018: GEL 4,389,710 thousand) or 43% of total customer accounts (2018: 45%)

As of 31 December 2019 included in customer accounts are deposits of GEL 9,555 thousand and GEL 101,615 thousand (2018: GEL 6,766 thousand and GEL 158,306 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 36. As of 31 December 2019, deposits held as collateral for loans to customers amounted to GEL 469,205 thousand (2018: GEL 270,787 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.

21. DEBT SECURITIES IN ISSUE

In thousands of GEL	**Currency**	**Carrying amount in GEL as of 31 December 2019**	**Maturity Date**	**Coupon rate**	**Effective interest rate**
Bonds issued on Irish stock exchange	USD	**842,471**	19-Jun-24	5.8%	6.4%
Bonds issued on Irish stock exchange	USD	**371,127**	3-Oct-24	10.8%	11.4%
Total debt securities in issue		**1,213,598**			

21. DEBT SECURITIES IN ISSUE CONTINUED

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2018	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian stock exchange	USD	**7,927**	22-Jul-19	7.3%	8.1%
Bonds issued on Georgian stock exchange	USD	**5,416**	16-May-19	8.0%	8.7%
Total debt securities in issue		**13,343**			

Refer to Note 41 for the disclosure of the fair value of debt securities in issue.

On 19 June 2019 the Bank completed the transaction of a debut USD 300 million 5-year 5.75% (6% yield) senior unsecured bonds issue (the "Notes"). The Notes are listed on the regulated market of Euronext Dublin and are rated Ba2 by Moody's and BB- by Fitch. The Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of senior unsecured Notes from Georgia.

On 3 July 2019 the Bank completed the transaction of a debut inaugural USD 125 million 10.75% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue ("AT1 Notes"). The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch. The AT1 Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of additional Tier 1 Capital Notes from Georgia.

22. PROVISIONS FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2018	**2,751**	**3,578**	**-**	**6,329**
Charges less releases recorded in profit or loss	1,640	1,846	4,000	7,486
Effect of translation to presentation currency	2	-	-	2
Carrying amount as of 31 December 2018	**4,393**	**5,424**	**4,000**	**13,817**
Charges less releases recorded in profit or loss	3,069	(913)	2,006	3,158
Utilization of provision			(1,104)	(1,104)
Effect of translation to presentation currency	4	-	-	4
Carrying amount as of 31 December 2019	**7,466**	**4,511**	**5,002**	**16,979**

Credit related commitments and performance guarantees: Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

For letter of credits and guarantees allowance estimation purposes the Bank applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 3 guarantees are assessed individually. Non-significant stage 3 as well as all stage 1 and stage 2 guarantees and letter of credits are assessed collectively using exposure, marginal probability of conversion, loss given default and discount factor. Amount of the expected allowance differs based on the classification of the facility in the respective stage.

For impairment allowance assessment purposes for undrawn exposures the Bank distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Bank does not create impairment allowance. As for the irrevocable undisbursed exposures the Bank estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

Once the respective on balance exposure is estimated, the Bank applies the same impairment framework approach as the one used for the respective type of on balance exposures.

For the purpose of ECL measurement other guarantees balances are included in mainly Stage 1 or Stage 2. Refer to Note 36 for the ECL measurement approach.

23. OTHER FINANCIAL LIABILITIES

Other financial liabilities of the Group comprise the following:

In thousands of GEL	Note	2019	2018
Trade payables		**21,223**	24,270
Security deposits for finance lease		**27,094**	22,100
Debit or credit card payables		**13,259**	19,146
Derivative financial liabilities	40	**20,335**	2,064
Other accrued liabilities		**13,732**	10,625
Total other financial liabilities		**95,643**	**78,205**

Other financial liabilities of the Bank comprise the following:

In thousands of GEL	Note	2019	2018
Trade payables		**12,709**	12,437
Debit or credit card payables		**14,378**	19,939
Derivative financial liabilities	40	**18,014**	2,064
Other accrued liabilities		**13,708**	10,907
Total other financial liabilities		**58,809**	**45,347**

Refer to Note 41 for disclosure of the fair value of other financial liabilities.

24. OTHER LIABILITIES

Other liabilities comprise the following:

In thousands of GEL	2019	2018
Accrued employee benefit costs	**42,017**	48,116
Taxes payable other than on income	**11,669**	19,624
Advances received	**11,161**	10,867
Other	**5,520**	7,689
Total other liabilities	**70,367**	**86,296**

All of the above liabilities are expected to be settled within twelve months after the year-end.

25. SUBORDINATED DEBT

As of 31 December 2019, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,739	6,739
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,305	43,890
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,663	21,975
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,662	21,971
Asian Development Bank (ADB)	18-Oct-16	31-Dec-26	USD	50,585	145,064
Private lenders	8-Jun-17	19-Dec-24	USD	25,218	72,318
Subordinated Bond	17-Aug-18	30-Nov-22	USD	10,101	28,976
Global climate partnership fund	20-Nov-18	20-Nov-28	USD	25,089	71,948
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,006	2,884
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,117	8,940
ResponsAbility Micro and SME finance fund	30-Nov-18	30-Nov-28	USD	5,935	17,020
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-25	USD	14,924	42,797
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-28	USD	14,920	42,786
European Fund for Southeast Europe	21-Dec-18	21-Dec-28	USD	20,074	57,565
Total subordinated debt					**591,035**

As of 31 December 2018, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,509	20,100
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	29,213	78,191
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,161	6,161
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,312	40,983
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,666	20,520
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,665	20,516
Asian Development Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,617	135,482
Private lenders	30-Jun-17	30-Jun-23	USD	25,218	67,497
Subordinated Bond	17-Aug-18	30-Nov-22	USD	10,109	27,057
Global climate partnership fund	20-Nov-18	20-Nov-28	USD	25,111	67,211
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,007	2,695
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,121	8,354
ResponsAbility Micro and SME finance fund	30-Nov-18	30-Nov-28	USD	5,943	15,906
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-25	USD	14,916	39,923
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-28	USD	14,915	39,923
European Fund for Southeast Europe	21-Dec-18	21-Dec-28	USD	20,049	53,663
Total subordinated debt					**650,919**

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.

In the event of any liquidation and/or significant financial distress with respect to the Borrower, the Lender agrees that the claims of the Lender in respect of the principal of, and interest on, the Loan and all other amounts payable under this Agreement shall be subordinated and subject in right of payment to the prior payment of claims of depositors and unsecured creditors of the Borrower, except for claims which are themselves so subordinated.

Unless otherwise agreed with the Regulatory Authority, any voluntary or mandatory prepayment of the Loan or cancellation of this Agreement (except in the case of Clause 9.2 (Voluntary Prepayment)) can be made no earlier than five calendar years after the Disbursement Date of the Loan and shall require the prior written consent of the Regulatory Authority.

The purpose of the Facility is to provide the Borrower with funding to be used by the Borrower as an instrument that qualifies as Tier 2 Capita to increase its lending capacity and to provide a capital cushion for the Borrower in accordance with the provisions of this Agreement.

26. SHARE CAPITAL

As of 31 December 2019 the total authorised number of ordinary shares was 52,539,769 shares (31 December 2018: 52,539,769 shares;). Each share has a nominal value of GEL 0.4 (31 December 2018: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

In thousands of GEL except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2018	52,539,769	21,014	521,190	542,204
At 31 December 2018	52,539,769	21,014	521,190	542,204
At 31 December 2019	52,539,769	21,014	521,190	542,204

On 19 April 2019, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.54 per share, based on the 2018 audited financial statements. The dividend was recorded on 28 May 2019 and on 12 July 2019 shareholders received the payment of the total GEL 80,911 thousand dividends.

On 21 May 2018, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.64 per share, based on the 2017 audited financial statements. The dividend was recorded on 12 June 2018 and on 14 June 2018 shareholders received the payment of the total GEL 95,626 thousand dividends.

27. SHARE BASED PAYMENTS

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved management compensation scheme for the top and middle management and it accordingly authorised the issue of a maximum 3,115,890 new shares. The system was enforced from 2015 through 2018. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares were awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management also received the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares are vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted. The shares were gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme remained conceptually the same and was only updated to reflect the Group's new structure, whereby TBC Bank Group PLC distributes its shares to the scheme's participants, instead of JSC TBC Bank. The respective shares' value is recharged to JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The Bank also payed personal income tax on behalf of equity settled scheme beneficiaries, which was accounted as cash settled part.

The share based payment scheme for middle management and other eligible employees continues under existing terms for 2019-2020.

December 2018 arrangements:

In December 2018, the Bank's Supervisory Board approved following new compensation schemes for the top management. The Group considered 28 December 2018 as the grant date. Arrangements are discussed in below paragraphs:

27. SHARE BASED PAYMENTS CONTINUED

Deferred share salary plan

Part of the top management salary is given in the form of shares and despite being salary, is still intended to promote the long-term success of the Group by closely aligning executive directors' and shareholders' interests. The new system is enforced from January 2019 through 2021. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition, the shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Where applicable, deferred share salary is paid in part under the executive director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive director's duties to each. Initial salaries are set by the Remuneration Committee based on responsibilities and market data and are set out in a directors' service contracts with the Group. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

Deferred Bonus plan

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. The new system is enforced from January 2019 through 2021. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition the shares are registered in the trustees name as the nominee for the participants and the participants are entitled to receive dividends.

KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year. To the extent that the KPIs are achieved, the Remuneration Committee may decide whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs (but not necessarily their specific weightings) will be disclosed in the annual report published in the performance year. However, the precise targets are commercially sensitive and will be disclosed retrospectively. Awards are subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

Long Term Incentive Plan (LTIP)

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align our executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet performance conditions over the 3 year performance period. The new system will be enforced from 2021 through 2023. Shares are usually delivered during the first quarter of the fourth year (i.e. the year after the performance period ends) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to 2 year holding period and continued employment requirements. An award holder shall have no voting rights, or rights to receive dividends, in respect of a conditional share award before such award becomes a vested award. The awards may be granted in the form of conditional share awards, options or restricted share awards. Performance Conditions are set by the Remuneration Committee for a period of 3 years. The Remuneration Committee determines the level of award at the end of the performance period, based on the extent

27. SHARE BASED PAYMENTS CONTINUED

to which the performance conditions have been met. Awards are subject to the Group's malus and clawback policies until three years after the shares are delivered. If at any time after making the award the award holder deliberately mislead the Company or the Bank in relation to the financial performance, there is a material misstatement (or material error) in the financial statements of the Company or the Bank, the award holder's unit has suffered a material downturn in its financial performance caused by the award holder, there is misconduct on the part of the award holder that caused material harm to the Company's or the Bank's reputation or there is misconduct on the part of the award holder that caused failure of the risk management resulting in a material loss to the Company or the Bank, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) and to clawback any amount that has already been paid. For newly issued and treasury shares, the LTIP is limited to using 10% in 10 years for employee plans and 5% in 10 years for discretionary plans. These limits will exclude shares under awards that have been renounced, forfeited, released, lapsed or cancelled or awards that were granted prior to the Company's IPO or awards that the Remuneration Committee decide will be satisfied by existing shares.

The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

The performance conditions for the award are set by the Committee each year. The Remuneration Committee's current view is that performance conditions will include: 1) a measure of efficiency (e.g. ROE) 2) a measure of share price performance (e.g. EPS/TSR) 3) a measure of customer experience Weightings of these measures may vary year-on-year. The performance period is three year.

Tabular information on both of the schemes is given below:

In GEL except for number of shares	**31 December 2019**	31 December 2018
Number of unvested shares at the beginning of the period	**2,121,129**	2,284,773
Number of shares granted	**1,613,101**	-
Change in estimates of number of shares expected to be granted**	**(57,058)**	-
Change in estimate of number of shares expected to vest based on performance conditions	**(16,501)**	166,377
Number of shares vested	**(519,130)**	(330,021)
Number of unvested shares at the end of the period	**3,141,541**	2,121,129
Value at grant date per share (GEL) according to June 2015 scheme (GEL)	**24.64**	24.64
Value at grant date per share (GEL) middle management and other eligible employees plan	**50.16**	-
Value at grant date per share (GEL) Deferred share salary plan	**50.16**	-
Value at grant date per share (GEL) Deferred bonus plan	**50.16**	-
Value at grant date per share (GEL) LTIP*	**50.16**	-
Expense on equity-settled part (GEL thousand)	**33,762**	11,691
Expense on cash-settled part (GEL thousand)	**59**	8,401
Expense recognised as staff cost during the period (GEL thousand)	**33,822**	**20,092**

**Grant date for LTIP plan has been determined for the first award tranche only, which is planned in 2021. For remaining tranches expense is accrued based on estimated fair value during the future grant date.*
*** The maximum amount is fixed for deferred share compensations for top management, the exact number will be calculated as per policy.*

Liability in respect of the cash-settled part of the award amounted to GEL 3,160 thousand as of 31 December 2019 (31 December 2018: GEL 11,001 thousand). Tax part of the new bonus system for the top management is accounted under equity settled basis.

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

27. SHARE BASED PAYMENTS CONTINUED

On 31 December 2019 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system and decreased estimated number of shares to vest by 16,501 (31 December 2018: increased by 166,377 shares).

In 2019 the Group established employee benefit trust (EBT) set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's share based payments plan. As at 31 December 2019 the share number held by Trustee was 595,380.

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 2019 the Group made the re-segmentation after which some of the clients were reallocated to different segments – GEL 166 million of loans and customers amount was transferred from MSME to Corporate segment. In the tables below is disclosed the information as of 31 December 2019 both with and without re-segmentation effect.

The operating segments are determined as follows:

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

The 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 2019 or 2018.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in Note 36.

Allocation is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the most related expenses to it (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

28. SEGMENT ANALYSIS CONTINUED

Per New Segmentation:

In thousands of GEL	Corpo¬rate	Retail	Micro, small and medium enterprises	Corpo¬rate centre and other operations	Total
31 December 2019					
- Interest income	356,654	582,788	299,451	196,213	**1,435,106**
- interest expense	(166,857)	(152,566)	(10,153)	(340,846)	**(670,422)**
- Net gains on currency swaps	-	-	-	28,556	**28,556**
- Inter-segment interest income(expense)	31,352	(66,951)	(101,423)	137,022	**-**
Net interest income	**221,149**	**363,271**	**187,875**	**20,945**	**793,240**
- Fee and commission income	49,387	207,258	26,271	1512	**284,428**
- Fee and commission expense	(7,059)	(88,680)	(9,081)	(482)	**(105,302)**
Net Fee and commission income	**42,328**	**118,578**	**17,190**	**1,030**	**179,126**
- Net gains from trading in foreign currencies	49,852	30,990	24,220	(25,775)	**79,287**
- Net gains from foreign exchange translation	-	-	-	23,428	**23,428**
- Net losses from derivative financial instruments	-	(264)	-	(16)	**(280)**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	169	**169**
- Other operating income	2,952	9,563	1,093	3,968	**17,576**
- Share of profit of associates	-	-	-	632	**632**
Other operating non-interest income	**52,804**	**40,289**	**25,313**	**2,406**	**120,812**
- Credit loss allowance for loans to customers	3,262	(77,324)	(7,968)	-	**(82,030)**
- Credit loss allowance for performance guarantees and credit related commitments	(2,691)	411	124	-	**(2,156)**
Credit loss allowance for Net investments in lease	-	-	-	582	**582**
- Credit loss allowance for other financial assets	2,211	(3,545)	(11)	(6,372)	**(7,717)**
- Credit loss allowance for financial assets measured at fair value through OCI	(142)	-	-	(149)	**(291)**
Profit before administrative and other expenses and income taxes	**318,921**	**441,680**	**222,523**	**18,442**	**1,001,566**
- Staff costs	(36,630)	(131,583)	(46,912)	(10,883)	**(226,008)**
- Depreciation and amortisation	(2,509)	(45,429)	(7,170)	(2,211)	**(57,319)**
- Provision for liabilities and charges	-	-	-	(2,105)	**(2,105)**
- Administrative and other operating expenses	(14,043)	(72,998)	(19,122)	(20,764)	**(126,927)**
Operating expenses	**(53,182)**	**(250,010)**	**(73,204)**	**(35,963)**	**(412,359)**
Profit before tax	**265,739**	**191,670**	**149,319**	**(17,521)**	**589,207**
- Income tax expense	(29,048)	(18,101)	(14,825)	18,452	**(43,522)**
Profit for the year	**236,691**	**173,569**	**134,494**	**931**	**545,685**
Total gross loans and advances to customers reported	4,660,473	5,053,203	2,948,279	**-**	**12,661,955**
Total customer accounts reported	3,250,046	5,672,685	1,189,271	**-**	**10,112,002**
Total credit related commitments and performance guarantees	2,451,769	205,433	302,649	**-**	**2,959,851**

28. SEGMENT ANALYSIS CONTINUED

Per old segmentation:

In thousands of GEL	Corpo¬rate	Retail	Micro, small and medium enterprises	Corpo¬rate centre and other operations	Total
31 December 2019					
- Interest income	344,109	582,788	311,996	196,213	**1,435,106**
- interest expense	(165,881)	(152,566)	(11,129)	(340,846)	**(670,422)**
- Net gains on currency swaps	-	-	-	28,556	**28,556**
- Inter-segment interest income(expense)	31,352	(66,951)	(101,423)	137,022	**-**
Net interest income	**209,580**	**363,271**	**199,444**	**20,945**	**793,240**
- Fee and commission income	48,565	207,258	27,093	1,512	**284,428**
- Fee and commission expense	(7,059)	(88,680)	(9,081)	(482)	**(105,302)**
Net Fee and commission income	**41,506**	**118,578**	**18,012**	**1,030**	**179,126**
- Net gains from trading in foreign currencies	51,672	30,990	22,400	(25,775)	**79,287**
- Net gains from foreign exchange translation	-	-	-	23,428	**23,428**
- Net losses from derivative financial instruments	-	(264)	-	(16)	**(280)**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	169	**169**
- Other operating income	2,952	9,563	1,093	3,968	**17,576**
- Share of profit of associates	-	-	-	632	**632**
Other operating non-interest income	**54,624**	**40,289**	**23,493**	**2,406**	**120,812**
- Credit loss allowance for loans to customers	3,262	(77,324)	(7,968)	-	**(82,030)**
- Credit loss allowance for performance guarantees and credit related commitments	(2,691)	411	124	-	**(2,156)**
Credit loss allowance for Net investments in lease	-	-	-	582	**582**
- Credit loss allowance for other financial assets	2,211	(3,545)	(11)	(6,372)	**(7,717)**
- Credit loss allowance for financial assets measured at fair value through OCI	(142)	-	-	(149)	**(291)**
Profit before administrative and other expenses and income taxes	**308,350**	**441,680**	**233,094**	**18,442**	**1,001,566**
- Staff costs	(36,741)	(133,282)	(47,440)	(8,545)	**(226,008)**
- Depreciation and amortisation	(2,509)	(45,429)	(7,170)	(2,211)	**(57,319)**
- Provision for liabilities and charges	-	-	-	(2,105)	**(2,105)**
- Administrative and other operating expenses	(14,229)	(78,921)	(21,021)	(12,756)	**(126,927)**
Operating expenses	**(53,479)**	**(257,632)**	**(75,631)**	**(25,617)**	**(412,359)**
Profit before tax	**254,871**	**184,048**	**157,463**	**(7,175)**	**589,207**
- Income tax expense	(29,020)	(17,371)	(14,593)	17,462	**(43,522)**
Profit for the year	**225,851**	**166,677**	**142,870**	**10,287**	**545,685**
Total gross loans and advances to customers reported	4,494,349	5,053,203	3,114,403	**-**	**12,661,955**
Total customer accounts reported	3,163,680	5,671,370	1,276,952	**-**	**10,112,002**
Total credit related commitments and performance guarantees	2,451,769	205,433	302,649	**-**	**2,959,851**

28. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
- Interest income	264,559	609,989	255,833	152,832	**1,283,213**
- interest expense	(138,840)	(123,729)	(9,710)	(240,376)	**(512,655)**
- Inter-segment interest income(expense)	35,531	(78,453)	(83,475)	126,397	**-**
Net interest income	**161,250**	**407,807**	**162,648**	**38,853**	**770,558**
- Fee and commission income	40,663	170,082	22,498	1,383	**234,626**
- Fee and commission expense	(6,624)	(64,270)	(6,861)	(379)	**(78,134)**
Net Fee and commission income	**34,039**	**105,812**	**15,637**	**1,004**	**156,492**
- Net gains from trading in foreign currencies	44,629	28,811	22,002	(3,764)	**91,678**
- Net gains from foreign exchange translation	-	-	-	15,503	**15,503**
- Net losses from derivative financial instruments	-	(223)	-	19	**(204)**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	2	**2**
- Other operating income	19,691	8,658	748	1,809	**30,906**
- Share of profit of associates	-	-	-	1,154	**1,154**
Other operating non-interest income	**64,320**	**37,246**	**22,750**	**14,723**	**139,039**
- Credit loss allowance for loans to customers	(9,826)	(118,043)	(15,854)	-	**(143,723)**
- Credit loss allowance for performance guarantees and credit related commitments	(2,826)	(412)	(248)	-	**(3,486)**
Credit loss allowance for net investments in lease	-	-	-	(1,765)	**(1,765)**
- Credit loss allowance for other financial assets	(8,634)	(3,959)	(2)	(3,851)	**(16,446)**
- Credit loss allowance for financial assets measured at fair value through OCI	(95)	-	-	9	**(86)**
Profit before administrative and other expenses and income taxes	**238,228**	**428,451**	**184,931**	**48,973**	**900,583**
- Staff costs	(29,145)	(127,299)	(42,669)	(13,356)	**(212,469)**
- Depreciation and amortisation	(2,226)	(36,745)	(4,981)	(1,326)	**(45,278)**
- Provision for liabilities and charges	-	-	-	(4,000)	**(4,000)**
- Administrative and other operating expenses	(10,939)	(87,846)	(20,110)	(15,290)	**(134,185)**
Operating expenses	**(42,310)**	**(251,890)**	**(67,760)**	**(33,972)**	**(395,932)**
Profit before tax	**195,918**	**176,561**	**117,171**	**15,001**	**504,651**
- Income tax expense	(29,907)	(22,898)	(17,249)	(1,297)	**(71,351)**
Profit for the year	**166,011**	**153,663**	**99,922**	**13,704**	**433,300**
Total gross loans and advances to customers reported	3,177,289	4,698,699	2,496,594	**-**	**10,372,582**
Total customer accounts reported	3,323,257	5,103,971	1,017,518	**-**	**9,444,746**
Total credit related commitments and performance guarantees	1,578,218	246,639	246,825	**-**	**2,071,682**

28. SEGMENT ANALYSIS CONTINUED

Reportable segments' assets were reconciled to total assets as follows:

In thousands of GEL	31 December 2019	31 December 2018
Total segment assets (gross loans and advances to customers)	**12,661,955**	10,372,582
Credit loss allowance	**(312,556)**	(334,130)
Cash and cash equivalents	**994,479**	1,164,403
Mandatory cash balances with National Bank of Georgia	**1,591,829**	1,422,809
Due from other banks	**15,597**	37,384
Investment securities measured at fair value through other comprehensive income	**985,293**	1,005,239
Bonds carried at amortised cost	**1,021,568**	653,703
Current income tax prepayment	**25,695**	2,159
Deferred income tax asset	**2,173**	1,992
Other financial assets	**115,211**	154,259
Net investments in lease	**256,660**	203,802
Other assets	**247,201**	177,923
Premises and equipment	**380,537**	366,071
Right of use assets (Net)	**57,086**	-
Intangible assets	**159,109**	108,505
Investment properties	**72,667**	84,296
Goodwill	**29,459**	29,459
Investments in Subsidiaries and Associates	**2,655**	2,432
Total assets per statement of financial position	**18,306,618**	15,452,888

Reportable segments' liabilities are reconciled to total liabilities as follows:

In thousands of GEL	31 December 2019	31 December 2018
Total segment liabilities (customer accounts)	**10,112,002**	9,444,746
Due to Credit institutions	**3,593,901**	3,031,505
Debt securities in issue	**1,213,598**	13,343
Current income tax liability	**818**	63
Deferred income tax liability	**21,250**	22,237
Provisions for liabilities and charges	**16,979**	13,817
Other financial liabilities	**95,643**	78,205
Lease Liabilities	**59,316**	-
Other liabilities	**70,366**	86,296
Subordinated debt	**591,035**	650,919
Total liabilities per statement of financial position	**15,774,908**	13,341,131

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
- Fee and commission income	49,387	207,258	26,271	1,512	284,428
- Other operating income	2,952	9,563	1,093	3,968	17,576
Total	**52,339**	**216,821**	**27,364**	**5,480**	**302,004**
Timing of revenue recognition:					
- At point in time	52,311	215,341	27,359	**5,480**	**300,491**
- Over time	28	1,480	5	**-**	**1,513**
31 December 2018					
- Fee and commission income	40,663	170,082	22,498	1,383	234,626
- Other operating income	19,691	8,658	748	1,809	30,906
Total	**60,354**	**178,740**	**23,246**	**3,192**	**265,532**
Timing of revenue recognition:					
- At point in time	56,393	160,555	22,950	**3,187**	**243,085**
- Over time	3,961	18,185	296	**5**	**22,447**

29. INTEREST INCOME AND EXPENSE

In thousands of GEL	2019	2018
Interest income calculated using effective interest method		
Loans and advances to customers	**1,225,201**	1,123,972
Bonds carried at amortised cost	**58,597**	40,625
Investment securities measured at fair value through OCI	**74,043**	57,057
Due from other banks	**27,915**	22,722
Other interest income		
Investments in leases	**47,934**	38,837
Other	1,416	-
Total interest income	**1,435,106**	**1,283,213**
Interest expense		
Customer accounts	**327,154**	272,279
Due to credit institutions	**226,899**	197,403
Subordinated debt	**63,693**	41,571
Debt securities in issue	50,248	1,402
Other interest expense		
Lease liabilities	**2,428**	-
Total interest expense	**670,422**	**512,655**
Net effect from swaps	28,556	-
Net interest income	**793,240**	**770,558**

In 2019, the Group entered into swap agreements denominated in foreign currencies in order to decrease its cost of funding. As the contracts reached significant volume, the Group revisited the presentation of effects in the Statement of profit or loss. 2018 information has not been restated due to immateriality of amounts.

As of 31 December 2019 GEL 1,244,451 thousand of interest income and GEL 502,331 thousand of interest expense were attributable to the Bank (2018: GEL 1,244,451 thousand and GEL 502,331 thousand)

In the year ended 31 December 2019 the interest accrued on impaired loans amounted to GEL 14,372 thousand (2018: GEL 41,373 thousand).

30. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense of the Group are as follows:

In thousands of GEL	2019	2018
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Card operations	**138,825**	106,067
- Settlement transactions	**81,933**	70,718
- Guarantees issued	**28,738**	19,814
- Cash transactions	**13,212**	17,147
- Issuance of letters of credit	**5,215**	6,463
- Foreign exchange operations	**2,841**	2,183
- Other	**13,638**	12,234
Total fee and commission income	**284,401**	**234,626**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Card operations	**82,562**	55,893
- Settlement transactions	**13,729**	8,654
- Cash transactions	**4,731**	5,180
- Guarantees and letters of credit received	**3,628**	2,863
- Self-service and POS terminal transactions	**59**	34
- Other	**593**	5,510
Total fee and commission expense	**105,302**	**78,134**
Net fee and commission income	**179,099**	**156,492**

30. FEE AND COMMISSION INCOME AND EXPENSE CONTINUED

Fee and commission income and expense of the Bank are as follows:

In thousands of GEL	2019	2018
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Card operations	**135,729**	102,802
- Settlement transactions	**56,257**	45,676
- Guarantees issued	**28,738**	19,815
- Cash transactions	**14,884**	18,585
- Issuance of letters of credit	**5,703**	6,497
- Foreign exchange operations	**2,842**	2,186
- Other	**10,585**	10,994
Total fee and commission income	**254,737**	**206,555**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Card operations	**89,368**	63,190
- Settlement transactions	**11,406**	8,312
- Cash transactions	**14,395**	13,724
- Guarantees and letters of credit received	**1,844**	2,863
- Self-service and POS terminal transactions	**55**	-
- Other	**119**	680
Total fee and commission expense	**118,969**	**88,769**
Net fee and commission income	**135,768**	**117,786**

31. OTHER OPERATING INCOME

In thousands of GEL	2019	2018
Gain from sale of investment properties	**938**	9,781
Revenues from operational leasing	**3,046**	6,544
Warrant option	**-**	2,677
Gain from sale of repossessed collateral	**2,755**	2,577
Revenues from sale of cash-in terminals	**926**	1,715
Revenues from non-credit related fines	**81**	487
Gain on disposal of premises and equipment	**2,115**	352
Gain from sale of receivables	**-**	225
Other	**7,715**	6,548
Total other operating income	**17,576**	**30,906**

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the repossessed collateral disposed in the year ended 31 December 2019 was GEL 32,306 thousand for the Group and the Bank (2018: GEL 33,295 thousand).

32. STAFF COSTS

Staff costs of the Group are as follows:

In thousands of GEL	2019	2018
Salaries and bonuses	**180,856**	183,822
Share based compensation	**33,624**	20,092
Other compensation cost	**11,528**	8,555
Salaries and other employee benefits	**226,008**	**212,469**

32. STAFF COSTS CONTINUED

Staff costs of the Bank are as follows:

In thousands of GEL	2019	2018
Salaries and bonuses	**160,941**	166,356
Share based compensation	**33,624**	19,973
Other compensation cost	**10,460**	7,687
Salaries and other employee benefits	**205,025**	194,016

Position		2019	2018
Top Management	*Temporary*	-	-
	Permanent	7	10
Middle Management	*Temporary*	5	5
	Permanent	231	244
Other Employees	*Temporary*	1,341	1,541
	Permanent	5,396	5,213
Total		**6,980**	**7,013**

Position		2019	2018
Top Management	*Temporary*	-	-
	Permanent	7	10
Middle Management	*Temporary*	3	3
	Permanent	216	229
Other Employees	*Temporary*	1,140	1,405
	Permanent	4,935	4,795
Total		**6,301**	**6,442**

33. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses of the Group are as follows:

In thousands of GEL	2019	2018
Advertising and marketing services	**18,344**	28,770
Rent	**13,076**	23,738
Intangible asset enhancement	**12,885**	11,366
Professional services	**19,027**	10,585
Insurance	**6,083**	7,659
Taxes other than on income	**6,851**	6,686
Utility services	**6,800**	6,486
Premises and equipment maintenance	**9,208**	5,773
Communications and supply	**5,555**	5,030
Stationery and other office expenses	**4,638**	4,636
Security services	**2,001**	2,040
Business trip expenses	**2,163**	2,005
Transportation and vehicle maintenance	**2,027**	1,988
Personnel training and recruitment	**2,904**	1,809
Charity	**1,990**	1,074
Loss on disposal of premises and equipment	**937**	860
Loss on disposal of inventories	**1,310**	137
Impairment of intangible assets	**-**	-
Reversal of previously written-down current assets to fair value less costs to sell	**1,730**	(1,026)
Other	**9,398**	14,569
Total administrative and other operating expenses	**126,927**	134,185

33. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Administrative and other operating expenses of the Bank are as follows:

In thousands of GEL	2019	2018
Advertising and marketing services	**17,491**	27,885
Rent	**9,412**	19,822
Intangible asset enhancement	**11,307**	9,932
Professional services	**17,323**	9,203
Insurance	**1,292**	3,884
Taxes other than on income	**3,669**	3,757
Utility services	**6,576**	6,280
Premises and equipment maintenance	**8,586**	6,891
Communications and supply	**4,682**	4,312
Stationery and other office expenses	**4,353**	4,403
Security services	**1,875**	1,916
Business trip expenses	**2,024**	1,878
Transportation and vehicle maintenance	**640**	770
Personnel training and recruitment	**2,760**	1,710
Charity	**1,975**	1,012
Loss on disposal of premises and equipment	**938**	806
Loss on disposal of inventories	**1,270**	108
Impairment of intangible assets	**-**	-
Reversal of previously written-down current assets to fair value less costs to sell	**912**	(1,593)
Other	**5,854**	9,484
Total administrative and other operating expenses	**102,939**	**112,460**

Auditors' remuneration is included within professional services expenses above and comprises:

In thousands of GEL	Audit	Audit Related	Other Services	Total
2019				
Audit of TBC Bank Group and subsidiaries annual financial statements	**1,165**	**-**	**-**	**1,165**
Review of TBC Bank Group and subsidiaries interim financial statements	**-**	**463**	**-**	**463**
Other assurance services	**-**	**-**	**864**	**864**
Total auditor's remuneration	**1,165**	**463**	**864**	**2,492**
2018				
Audit of TBC Bank Group and subsidiaries annual financial statements	**1,256**	**-**	**-**	**1,256**
Review of TBC Bank Group and subsidiaries interim financial statements	**-**	**220**	**-**	**220**
Other assurance services	**-**	**-**	**97**	**97**
Total auditor's remuneration	**1,256**	**220**	**97**	**1,573**

Fees presented in the tables above are exclusive of taxes. As of 31 December 2019, GEL 1,125 thousands is attributable to reporting accountant fees related to listing of debt securities on the Irish stock exchange.

34. INCOME TAXES

Income tax expenses comprises of the following:

In thousands of GEL	2019	2018
Current tax charge	**44,690**	51,500
Deferred tax (credit)/charge	**(1,168)**	19,851
Income tax expense for the year	**43,522**	71,351

34. INCOME TAXES CONTINUED

The income tax rate applicable to the majority of the Group's income was 15% (2018: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2018: 15% - 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	**2019**	**2018**
Profit before tax	**545,154**	504,651
Theoretical tax charge at statutory rate 15%	**88,419**	75,828
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	**(22,002)**	(17,611)
- Non-deductible expenses	**(2,083)**	(746)
- Effect of change in tax legislation	**(55)**	13,833
- Other differences	**(20,757)**	47
Income tax expense for the year	**43,522**	71,351

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2018: 15%) for Georgia and 20% for Azerbaijan (2018: 20%).

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023.The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

In thousands of GEL	**1 January 2019**	**(Charged)/credited to profit or loss**	**31 December 2019**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(23,201)	9,385	(13,816)
Loans to customers	2,864	(11,686)	(8,822)
Other financial assets	2,317	2,485	4,802
Due to credit institutions	(3,641)	1,155	(2,486)
Subordinated debt	(70)	70	-
Other financial liabilities	(41)	833	792
Other liabilities	864	(2,664)	(1,800)
Share based payment	663	1,590	2,253
Net deferred tax asset/(liability)	(20,245)	1,168	(19,077)
Recognised deferred tax asset	1,992	181	2,173
Recognised deferred tax liability	(22,237)	987	(21,250)
Net deferred tax asset/(liability)	**(20,245)**	**1,168**	**(19,077)**

34. INCOME TAXES CONTINUED

In thousands of GEL	1 January 2018	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	Changes due to the business combination	31 December 2018
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards					
Premises and equipment	(4,298)	(16,460)	(2,443)	(23,201)	(5,323)
Loans to customers	2,401	417	-	2,864	(92)
Other financial assets	2,015	302	-	2,317	165
Other assets	29	(29)	-	-	2,122
Investment property	(342)	342	-	-	39
Due to credit institutions	(816)	(2,825)	-	(3,641)	-
Subordinated debt	(23)	(47)	-	(70)	(982)
Other financial liabilities	(72)	31	-	(41)	(1,295)
Other liabilities	1,652	(788)	-	864	(85)
Share based payment	1,486	(823)	-	663	676
Tax loss carry forwards	(29)	29	-	-	(29)
Net deferred tax asset/(liability)	**2,003**	**(19,851)**	**(2,443)**	**(20,245)**	**(2,381)**
Recognised deferred tax asset	2,605	(659)	-	1,992	3,265
Recognised deferred tax liability	(602)	(19,192)	(2,443)	(22,237)	(5,646)
Net deferred tax asset/(liability)	**2,003**	**(19,850)**	**(2,443)**	**(20,245)**	**(2,381)**

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities				
In thousands of GEL	Other borrowed funds	Debt Securities in Issue	Subordinated debt	Lease Liabilities	Total
Net debt at 1 January 2018	2,558,496	20,695	426,788	**-**	**3,005,979**
Cash flows	54,486	(9,308)	171,781	-	241,863
Foreign exchange adjustments	70,883	554	9,958	-	81,395
Other non-cash movements	188,206	1,402	42,392	-	232,000
Liabilities from financing activities at31 December 2018	**2,872,071**	**13,343**	**650,919**	**-**	**3,536,333**
Adoption of IFRS 16, Leases					676
Liabilities from financing activities at 1 January 2019	**2,872,071**	**13,343**	**650,919**	**60,232**	**3,596,565**
Cash flows	222,395	1,160,729	(167,847)	(21,416)	1,193,861
Foreign exchange adjustments	122,589	37,362	45,533	4,336	209,820
Other non-cash movements	209,832	2,164	62,430	16,164	290,590
Net debt at 31 December 2019	**3,426,887**	**1,213,598**	**591,035**	**59,316**	**5,290,836**

36. FINANCIAL AND OTHER RISK MANAGEMENT

TBC Bank Group's strong risk governance reflects the importance placed by the Board and the Group's Risks, Ethics and Compliance Committee on shaping the risk strategy and managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organization structure: enterprise risk management; credit, financial and non-financial risks management; risk reporting & supporting IT infrastructure; cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensures sustainability and resiliency of the business model and positioning of risk management as Group's competitive advantage and strategic enabler.

The TBC Bank Group's governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. The Risks, Ethics and Compliance Committee is responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the Board. Namely, the committee carries out following duties: 1) Review and assessment of the Group's risk management strategy, risk appetite and tolerance, risk management system and risk policies; 2) Review and monitoring of the processes for compliance with laws, regulations and ethical codes of practice; 3) monitoring of the remediation of internal control deficiencies identified by internal and external auditors around compliance, ethics and risk management functions; 4) Annual self-assessment of the committee's performance and reporting of the results to the Board; 5) Review of the key risk management framework and other policy documents and make recommendations to the Board for their approval.

On the Bank level, risk management is the duty of the Supervisory Board, which has the overall responsibility to set the tone at the top and monitor compliance with established objectives. At the same time, Management Board governs and directs Groups' daily activities.

Both the Supervisory Board and the management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Bank's Risk Appetite, supervises risk profile and risk governance practice within the Bank while Audit Committee is responsible for implementation of key accounting policies and facilitation of activities of internal and external auditors. Management Board Risk Committee is established to guide group-wide risk management activities and monitor major risk trends to make sure risk profile complies with the established Risk Appetite of the Group. Operational Risk Committee makes decisions related to operational risk governance while Asset-Liability Management Committee ("ALCO") is responsible for implementation of ALM policies.

The Board, the Supervisory Board and Senior Management govern risk objectives through Risk Appetite Statement ("RAS") which sets desired risk profile and respective risk limits for different economic environments. Risk Appetite ("RA") establishes monitoring and reporting responsibilities as well as escalation paths for different trigger events and limit breaches which as well prompt risk teams to establish and implement agreed mitigation actions. In order to effectively implement Risk Appetite in the Group's day-to-day operations, the RA metrics are cascaded into more granular business unit level limits. That way risk allocation is established across different segments and activities. The Board level oversight coupled with the permanent involvement of the Senior Management in TBC Group risk management ensures the clarity regarding risk objectives, intense monitoring of risk profile against risk appetite, prompt escalation of risk-related concerns and establishment of remediation actions.

The daily management of individual risks is based on the principle of the three lines of defense. While business lines are primary risk owners, risk teams assume the function of the second line defense. This role is performed through sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees are established at operational levels in charge of making transaction-level decisions that comprise of component of clear and sophisticated delegations of the authority framework based on "four-eye principle". All new products/projects go through the risk teams to assure risks are analyzed comprehensively.

Such control arrangements guarantee that the Bank takes informed risk-taking decisions that are adequately priced, avoiding taking risks that are beyond the Group's established threshold. Within the Risk Organization the below teams manage the credit, liquidity, market, operational and other non-financial risks:

- Enterprise Risk Management (ERM);
- Credit Risk Management;
- Underwriting (Credit sanctioning);
- Restructuring and Collections;
- Financial Risk Management;
- Operational Risk Management.

The strong and independent structure enables fulfillment of all the required risk management functions within the second line of defense by highly skilled professionals with a balanced mix of credentials in banking and real sectors both on the local and international markets.

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

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.

Credit risk. The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values. For maximum exposure on off-balance sheet commitments refer to note37.

Credit risks include: risks arising from transactions with individual counterparties, concentration risk, currency-induced credit risks and residual risks.

- Risks arising from transactions with individual counterparties are the loss risk related to default or non-fulfillment of contracts due to deterioration in the counterparty's credit quality
- Concentration risk is the risk related to the quality deterioration due to large exposures provided to single borrowers or a group of connected borrowers, or loan concentration in certain economic industries
- Currency-induced credit risks relate to risks arising from foreign currency-denominated loans in the Group's portfolio
- Residual risks result from applying credit risk-mitigation techniques, which could not satisfy expectation in relation to received collateral

Comprehensive risk management methods and processes are established as part of the Group's risk management framework to manage credit risk effectively. The main principles for Group's credit risk management are: establish a prudent credit risk environment; operate under a sound credit-granting process; and maintain efficient processes for credit risk identification, measurement, control and monitoring. Respective policies and procedures establish a framework for lending decisions reflecting the Group's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

Credit Approval. The Group strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. The concept of three lines of defense is embedded in the credit risk assessment framework, with a clear segregation of duties among the parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting the different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis with thorough analysis of the borrower's creditworthiness and structure of the loan; whereas smaller retail and micro loans are mostly assessed in an automated way applying respective scoring models for the loan approval. Lending guidelines for business borrowers have been tailored to individual economic sectors, outlining key lending criteria and target ratios within each industry.

The Loan Approval Committees are responsible to review the credit applications and approve the credit products. Different Loan Approval Committees with clearly defined delegation authority are in place for the approval of credit exposures to Corporate, MSME and Retail customers (except those products which are assessed applying scorecards). The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of respective Loan Approval Committees) ensure that the borrower and the proposed credit

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers or exceeding 5% of the Bank's regulatory capital requires the review and the approval of the Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties resulting in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

Credit Risk Monitoring. The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react timely to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as they encompass individual credit exposures, overall portfolio performance and external trends that may impact the portfolios risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

Complex monitoring system is in place for monitoring of individual counterparties with frequency of monitoring depending on the borrower's risk profile and exposure. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Watch category is used as one of the qualitative indicators for transferring of exposures to stage 2 for the corporate and SME borrowers. For retail and micro borrowers along with other portfolio level indicators, portfolio breakdown across risk categories is monitored on a regular basis. In case there are indicators that portfolio distribution across risk categories deteriorates above the predefined threshold it might trigger transferring the respective portfolio to stage 2, as long as deterioration signs are in place.

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

Credit Risk Mitigation. Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, the Group uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The reliance that can be placed on these mitigation factors is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor. A centralised unit for collateral management governs the Group's view and strategy in relation to collateral management and ensures that collateral serves as an adequate mitigating factor for credit risk management purposes. The collateral management framework consists of a sound independent appraisal process, haircut system throughout the underwriting process, monitoring and revaluations.

Credit Risk Restructuring and Collection. A comprehensive portfolio supervision system is in place to identify weakened or problem credit exposures in a timely manner and to take prompt remedial actions. Dedicated restructuring units manage weakened borrowers across all business segments. The Bank differentiates between two types of restructuring considering the severity of financial weakness of the borrowers. For the measurement of ECL, restructured borrowers may be classified either in Stage 2 or Stage 3. The primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category or to Stage 1. The sophistication and complexity of rehabilitation process differs based on the type and size of exposure.

A centralised monitoring team monitors retail borrowers in delinquency, which coupled with branches' efforts, are aimed at maximizing collection. The specialised software is applied for early collection processes management. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Correcting the delinquency at early stage limits the amount of exposures becoming past due more than 30 days (one of the criteria indicating SICR) and transferred to Stage 2.

Dedicated recovery units manage loans with higher risk profile. Corporate and SME borrowers are transferred to a recovery unit in case of a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Retail and micro loans are generally transferred to the recovery unit or external collection agencies (in the case of unsecured loans) at 90 days overdue, although they may be transferred earlier if it is evident that the borrower is unable to repay the loan.

Credit Quality. Depending on the type of financial asset the Group may utilize different sources of asset credit qualityinformationincluding credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), credit scoring information from credit bureau and internally developed credit ratings. Financial assets are classified in an internally developed credit quality grades by taking into account the internal and external credit quality information in combination with other indicators specific to the particular exposure (e.g. delinquency). The Group defines following credit quality grades:

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

The rating models are regularly reviewed and back tested on actual default data. The Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Expected credit loss (ECL) measurement: ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Bank uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Bank classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not credit-impaired when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered credit-impaired. The exposures for which the credit-impaired indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by the Bank affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries

Definition of default: Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3. For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. The Group's definition of default for the purpose of ECL measurement, is in accordance with the Capital Requirements Regulation (EU).

The Group uses both quantitative and qualitative criteria for the definition of default. The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Factors indicating the borrower's unlikeliness-to-pay.

In case of individually significant borrowers the Bank additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its financial condition, breach of the contract terms etc. For SME and corporate borrowers default is identified on the counterparty level, meaning that all the claims against the borrower are treated as defaulted. As for retail and micro exposures, facility level default definition is applied considering additional pulling effect criteria. If the amount of defaulted exposure exceeds predefined threshold, all the claims against the borrower are classified as defaulted. Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Grace period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage 2 from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

Significant increase in credit risk ("SICR"). Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

Quantitative criteria

On a quantitative basis the Bank assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

Qualitative criteria

Financial asset is transferred to Stage 2 and lifetime ECLs is measured if at least one of the following SICR qualitative criteria is observed:

- delinquency period of more than 30 days on contractual repayments;
- exposure is restructured, but is not credit impaired;
- borrower is classified as "watch".

The Group has not rebutted the presumption that there has been significant increase in credit risk since origination when financial asset becomes more than 30 days past due. This qualitative indicator of SICR together with debt restructuring is applied to all segments. Particularly for corporate and SME segment the Group uses downgrade of risk category since origination of the financial instrument as a qualitative indicator of SICR. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Once the borrower is classified as "watch" category it is transferred to Stage 2. If any of the SICR indicators described above occur financial instrument is transferred to Stage 2. Financial asset may be moved back to Stage 1, if SICR indicators are no longer observed.

ECL measurement: The Group utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for credit impaired individually significant borrowers. Additionally, the Bank may arbitrarily designate selected exposures to individual measurement of ECL based on the Bank's credit risk management or underwriting departments' decision.

The Bank uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Bank may utilize scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis the Bank forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

As for the non-significant and non-impaired significant borrowers the Bank estimates expected credit losses collectively. For the collective assessment and risk parameters estimation purposes the exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: Stage (Stage 1, Stage 2 or Stage 3), type of counterparty (individual vs business), type of product, rating (external or internal), overdue status, restructuring status, months in default category or any other characteristics that may differentiate certain sub-segments for risk parameter's estimation purposes. Number of pools differs for different products/ segments considering specifics of portfolio and availability of data within each pool. Collective ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters:

Exposure at default (EAD). The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. For revolving products, the Bank estimates the EAD based on the expected limit utilisation percentage conditional on the default event.

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

Probability of default (PD). Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. Taking into account specific nature of different segments of clients for which the PD is estimated as well as unique characteristics that drive their default propensity, the PD is modelled differently for Retail and Micro segments and Corporate and SME segments. PD assessment approach is also differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period. Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Group uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

Loss given default (LGD).The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Bank is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied.

Forward-looking information. The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy with weights of 50%, 25% and 25% assigned to each scenario respectively.

To derive the baseline macro-economic scenario, the Group takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF") as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

Model maintenance and validation. The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual credit loss. Such back-testing is performed at least once a year. As part of the back-testing process, the Group evaluates actual realization of the risk parameters and their consistency with the model estimates. Additionally staging criteria are also analysed within the back-testing process. The results of back-testing the ECL measurement methodology are communicated to the Group Management and further actions for tuning the models and assumptions are defined after discussions between authorised persons.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2019 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	692,905	287,063	14,511	994,479
Due from other banks	3,530	12,067	-	15,597
Mandatory cash balances with National Bank of Georgia	1,591,829	-	-	1,591,829
Loans and advances to customers	11,775,027	408,217	166,155	12,349,399
Investment securities measured at fair value through OC	985,293	-	-	985,293
Bonds carried at amortised cost	1,021,568	-	-	1,021,568
Investments in leases	255,596	-	1,064	256,660
Other financial assets	113,535	1,431	245	115,211
Total financial assets	16,439,283	708,778	181,975	17,330,036
Non-financial assets	972,829	27	3,726	976,582
Total assets	17,412,112	708,805	185,701	18,306,618
Liabilities				
Due to credit institutions	1,813,684	1,744,130	36,087	3,593,901
Customer accounts	8,469,206	733,778	909,018	10,112,002
Debt securities in issue	1,213,598	-	-	1,213,598
Other financial liabilities	155,397	316	8	155,721
Subordinated debt	100,993	343,861	146,181	591,035
Total financial liabilities	11,752,878	2,822,085	1,091,294	15,666,257
Non-financial liabilities	102,526	829	5,296	108,651
Total liabilities	11,855,404	2,822,914	1,096,590	15,774,908
Net balance sheet position	5,556,708	(2,114,109)	(910,889)	2,531,710
Performance guarantees	603,910	232,328	622,646	1,458,884
Credit related commitments	1,485,032	4,476	11,459	1,500,967

Table above includes geographical concentration by country of incorporation. Loans and advances to OECD and Non-OECD resident customers, as well as to Georgian customers, are issued to the entities most of which are based and performing in Georgia. As at 31 December 2019, out of total net exposure of loans and advances to customers, GEL 12,330,467 thousand is issued to the entities operating in Georgian market, GEL 18,932 thousand operating in other economies.

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2018 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	648,068	515,159	1,176	1,164,403
Due from other banks	18,485	12,852	6,047	37,384
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	1,422,809
Loans and advances to customers	9,526,936	121,712	389,804	10,038,452
Investment securities measured at fair value through OCI	1,004,564	-	675	1,005,239
Bonds carried at amortised cost	653,703	-	-	653,703
Investments in leases	202,850	-	952	203,802
Other financial assets	153,640	329	290	154,259
Total financial assets	13,631,055	650,052	398,944	14,680,051
Non-financial assets	769,139	56	3,642	772,837
Total assets	14,400,194	650,108	402,586	15,452,888
Liabilities				
Due to credit institutions	1,154,329	1,811,299	65,877	3,031,505
Customer accounts	7,882,839	697,753	864,154	9,444,746
Debt securities in issue	7,927	-	5,416	13,343
Other financial liabilities	77,870	296	39	78,205
Subordinated debt	94,263	420,031	136,625	650,919
Total financial liabilities	9,217,228	2,929,379	1,072,111	13,218,718
Non-financial liabilities	121,395	525	493	122,413
Total liabilities	9,338,623	2,929,904	1,072,604	13,341,131
Net balance sheet position	5,061,571	(2,279,796)	(670,018)	2,111,757
Performance guarantees	684,844	291,795	219,208	1,195,847
Credit related commitments	870,446	3,751	1,638	875,835

Table above includes geographical concentration by country of incorporation. Loans and advances to OECD and Non-OECD resident customers, as well as to Georgian customers, are issued to the entities most of which are based and performing in Georgia. As at 31 December 2018, out of total net exposure of loans and advances to customers, GEL 10,015,062 thousand is issued to the entities operating in Georgian market, GEL 23,390 thousand operating in other economies.

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As of 31 December 2019, the Bank maintained an aggregate open currency position of 0.5% of regulatory capital (2018: 7.6%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

On 13 August 2018 the NBG introduced new regulation on changes to OCP calculation method, according to this regulation, from March 2019 special reserves assigned to FC balance-sheet assets would be deductible gradually for OCP calculation purposes and fully implemented by July 2022 in line with the transition period defined by the NBG (according to the amendment disclosed in December 2019).

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. The Bank has in place the methodology developed for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers part of the provisions to be denominated in the FC currency. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented.

	As of 31 December 2019			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	**Net balance sheet position**
Georgian Laris	7,479,851	5,760,987	(100,140)	**1,618,724**
US Dollars	6,827,012	8,765,374	1,954,878	**16,516**
Euros	2,968,554	1,036,267	(1,925,463)	**6,824**
Other	54,619	103,629	56,134	**7,124**
Total	**17,330,036**	**15,666,257**	**(14,591)**	**1,649,188**

	As of 31 December 2018			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Georgian Lari	5,915,034	4,751,326	86,122	**1,249,830**
US Dollars	7,289,483	7,431,595	323,246	**181,134**
Euros	1,374,805	948,620	(409,565)	**16,620**
Other	100,729	87,165	(463)	**13,101**
Total	**14,680,051**	**13,218,706**	**(660)**	**1,460,685**

US Dollar strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 1,652 (decrease by GEL 1,652). Euro strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 682 (decrease by GEL 682). US Dollar strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2018 by GEL 18,113 (decrease by GEL 18,113). Euro strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 1,662 (decrease by GEL 1,662).

Interest rate risk. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The Bank's deposits and the part of the loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank used to enter also into interest rate swap agreements or apply for other interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Cross-Currency swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables. The tables consider both reserves placed with NBG and Interest bearing Nostro accounts. Income on NBG reserves and Nostros are calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates are considered in case of USD and EUR respectively. Therefore, they have impact on the TBC's Net interest income in case of both upward and downward shift of interest rates.

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

In thousands of GEL	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2019					
Total financial assets	6,640,548	5,014,385	1,013,935	5,350,249	**18,019,117**
Total financial liabilities	6,025,604	3,075,630	1,078,228	6,183,671	**16,363,133**
Net interest sensitivity gap as of 31 December 2019	**614,944**	**1,938,755**	**(64,293)**	**(833,422)**	**1,655,984**
31 December 2018					
Total financial assets	4,776,646	3,596,006	1,009,348	5,298,973	**14,680,973**
Total financial liabilities	4,565,789	3,327,654	1,026,112	4,300,095	**13,219,650**
Net interest sensitivity gap as of 31 December 2018	**210,857**	**268,352**	**(16,764)**	**998,878**	**1,461,323**

As of 31 December 2019, if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 19 million lower (2018: GEL 4.4 million) mainly as a result of lower interest income on variable interest assets. Other comprehensive income would have been GEL 9.4 million higher (2018: GEL 6.1 million), as a result of an increase in the fair value of fixed rate financial assets measured at fair value through other comprehensive income and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 19.6 million higher (2018: GEL 4.4 million), mainly as a result of higher interest income on variable interest assets. Other comprehensive income would have been GEL 9.1 million lower (2018: GEL 5.9 million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

With the assistance of Ernst & Young LLC the Bank has developed an advanced model to manage the interest rate risk on a standalone basis. The interest rate risk analysis is performed monthly by the Financial Risk Management Department.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. TBC Bank closely monitors the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period to ensure compliance with the predefined risk appetite of the Bank.

In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Ethics and Compliance Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank internally developed Liquidity Coverage ratio and a Net Stable Funding ratio models set, forth under Basel III, as well as minimum liquidity ratio defined by the NBG. In addition the Bank performs stress tests and "what-if" scenario analysis and minimum liquidity ratio defined by the NBG. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches were applied to Mandatory Reserves' weighting and to the deposits' withdrawal rates depending on the clients group's concentration. From 1st of September, 2017 the Bank also monitors compliance with NBG LCR limits. In 2019, for long-term liquidity risk management purposes NBG introduced Net Stable Funding Ratio (""NBG NSFR"). From September, 2019, on a monthly basis the Bank monitors compliance with the set limit for NBG NSFR.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis. TBC Bank also stress tests the results of liquidity through large shock scenarios provided by the NBG.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also monitors deposit concentration for large deposits and set limits for non-Georgian residents deposits share in total deposit portfolio.

The management believes that a strong and diversified funding structure is one of TBC Bank's differentiators. The Bank relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance the liability structure TBC Bank sets the targets for deposits and IFI funding within the Bank's risk appetite.

The loan to deposit and IFI funding ratio (defined as total value of net loans divided by total value of deposits and funds received from International financial institutions) stood at 104.3% 89.1% and 92.3%, at the 31 December 2019 and 2018 respectively.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2019. Subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The maturity analysis of financial liabilities as of 31 December 2019 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Ove 5 years	Total
Liabilities					
Due to Credit institutions	1,590,089	616,417	3,724,084	435,233	**6,365,823**
Customer accounts – individuals	3,407,952	1,658,316	699,554	27,344	**5,793,166**
Customer accounts – other	3,722,452	339,114	250,328	142,043	**4,453,937**
Other financial liabilities	85,338	6,151	4,917	-	**96,406**
Lease liabilities	4,367	12,508	57,058	11,988	**85,921**
Subordinated debt	2,351	55,182	1,283,737	2,330,270	**3,671,540**
Debt securities in issue	-	-	1,213,598	-	**1,213,598**
Gross settled forwards	1,476,685	552,630	164,099	-	**2,193,414**
Performance guarantees	115,901	332,833	909,599	100,551	**1,458,884**
Financial guarantees and letter of credit	84,103	176,822	89,342	590	**350,857**
Other credit related commitments	1,150,110	-	-	-	**1,150,110**
Total potential future payments for financial obligations	**11,639,348**	**3,749,973**	**8,396,316**	**3,048,019**	**26,833,656**

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

The maturity analysis of financial liabilities as of 31 December 2018 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	950,084	372,517	1,909,587	187,454	**3,419,642**
Customer accounts – individuals	3,152,851	1,408,710	628,831	27,397	**5,217,789**
Customer accounts – other	3,821,862	208,250	137,274	195,007	**4,362,393**
Other financial liabilities	72,399	5,806	-	-	**78,205**
Subordinated debt	5,573	71,519	415,090	588,197	**1,080,379**
Debt securities in issue	366	13,847	-	-	**14,213**
Gross settled forwards	567,259	16,008	-	-	**583,267**
Performance guarantees	119,994	349,354	671,333	55,166	**1,195,847**
Financial guarantees and letter of credit	105,973	-	-	-	**105,973**
Other credit related commitments	769,863	-	-	-	**769,863**
Total potential future payments for financial obligations	**9,566,224**	**2,446,011**	**3,762,115**	**1,053,221**	**16,827,571**

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

As of 31 December 2019 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	994,479	-	-	-	**994,479**
Due from other banks	12,685	-	2,912	-	**15,597**
Mandatory cash balances with National Bank of Georgia	1,591,829	-	-	-	**1,591,829**
Loans and advances to customers	1,303,715	2,307,064	5,108,649	3,629,971	**12,349,399**
Investment securities measured at fair value through other comprehensive income	985,293	-	-	-	**985,293**
Bonds carried at amortised cost	122,889	215,711	555,379	127,589	**1,021,568**
Net investments in lease	34,448	70,398	148,542	3,272	**256,660**
Other financial assets	112,263	2,946	2	-	**115,211**
Total financial assets	**5,157,601**	**2,596,119**	**5,815,484**	**3,760,832**	**17,330,036**
Liabilities					
Due to Credit institutions	1,573,721	427,794	1,496,457	95,929	**3,593,901**
Customer accounts	1,088,948	175,996	-	8,847,058	**10,112,002**
Debt securities in issue	-	-	1,213,598	-	**1,213,598**
Subordinated debt	530	-	113,278	477,227	**591,035**
Other financial liabilities	88,309	14,663	44,590	8,159	**155,721**
Total financial liabilities	**2,751,508**	**618,453**	**2,867,923**	**9,428,373**	**15,666,257**
Credit related commitments and performance guarantees					
Performance guarantees	7,466	-	-	-	7,466
Financial guarantees	4,511	-	-	-	**4,511**
Other credit related commitments	100,212	-	-	-	**100,212**
Credit related commitments and performance guarantees	**112,189**	**-**	**-**	**-**	**112,189**
Net liquidity gap as of 31 December 2019	**2,293,904**	**1,977,666**	**2,947,561**	**(5,667,541)**	**1,551,590**
Cumulative gap as of 31 December 2019	**2,293,904**	**4,271,570**	**7,219,131**	**1,551,590**	

36. FINANCIAL AND OTHER RISK MANAGEMENTS CONTINUED

As of 31 December 2018 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,164,403	-	-	-	**1,164,403**
Due from other banks	25,471	8,075	3,838	-	**37,384**
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	-	**1,422,809**
Loans and advances to customers	1,090,521	2,056,149	4,152,436	2,739,346	**10,038,452**
Investment securities measured at fair value through other comprehensive income	1,005,239	-	-	-	**1,005,239**
Bonds carried at amortised cost	118,989	92,877	368,843	72,994	**653,703**
Net investments in lease	31,134	56,432	113,087	3,149	**203,802**
Other financial assets	132,270	20,325	1,664	-	**154,259**
Total financial assets	**4,990,836**	**2,233,858**	**4,639,868**	**2,815,489**	**14,680,051**
Liabilities					
Due to Credit institutions	933,513	271,993	1,653,575	172,424	**3,031,505**
Customer accounts	1,007,472	129,666	-	8,307,608	**9,444,746**
Debt securities in issue	112	13,231	-	-	**13,343**
Other financial liabilities	72,399	5,806	-	-	**78,205**
Subordinated debt	3,049	23,245	182,986	441,639	**650,919**
Total financial liabilities	**2,016,545**	**443,941**	**1,836,561**	**8,921,671**	**13,218,718**
Credit related commitments and performance guarantees					
Performance guarantees	4,393	-	-	-	**4,393**
Financial guarantees	5,424	-	-	-	**5,424**
Other credit related commitments	103,029	-	-	-	**103,029**
Credit related commitments and performance guarantees	**112,846**	**-**	**-**	**-**	**112,846**
Net liquidity gap as of 31 December 2018	**2,861,445**	**1,789,917**	**2,803,307**	**(6,106,182)**	**1,348,487**
Cumulative gap as of 31 December 2018	**2,861,445**	**4,651,362**	**7,454,669**	**1,348,487**	

The management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

37. CONTINGENCIES AND COMMITMENTS

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as it will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as of 31 December 2019 and 2018 no provision for potential tax liabilities has been recorded.

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with all covenants as of 31 December 2019 and 31 December 2018

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

Outstanding credit related commitments are as follows:

In thousands of GEL	**2019**	**2018**
Undrawn credit lines	**1,150,110**	769,863
Letters of credit issued	**109,733**	105,972
Financial guarantees issued	**241,124**	-
Total gross credit related commitments	**1,500,967**	875,835
Credit loss allowance for credit related commitments	**(4,511)**	(5,424)
Total credit related commitments	**1,496,456**	870,411

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2019 were GEL 472,485 thousand (2018: GEL 344,360 thousand;).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of December 2019 is GEL 1,458,884 thousand and GEL 47,466 thousand (2018: GEL 1,195,847 thousand and GEL 4,511 thousand).

37. CONTINGENCIES AND COMMITMENTS CONTINUED

Fair value of credit related commitments and financial guarantees were GEL 4,511 thousand as of 31 December 2019 (2018: GEL 5,424 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	**2019**	**2018**
Georgian Lari	1,155,422	854,000
US Dollars	1,203,296	955,829
Euro	542,303	218,091
Other	58,830	43,762
Total	**1,155,422**	**2,071,682**

Capital expenditure commitments. As of 31 December 2019, the Group has contractual capital expenditure commitments amounting to GEL 33,723 thousand (2018: GEL 12,210 thousand). Out of total amount as at 31 December 2019, contractual commitments related to the head office construction amounted GEL 13,186.

38. NON-CONTROLLING INTEREST

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2019:

In thousands of GEL	**Proportion of non-controlling interest's voting rights held**	**Profit attributable to non-controlling interest**	**Accumulated non-controlling interest in the subsidiary**
TBC Leasing JSC*	0.39%	11	-
United Financial Corporation JSC	0.47%	63	582

*In May 2019 the Group purchased remaining 0.39% shareholding from TBC Leasing JSC shareholders and became 100% owner of the Company.

The summarised financial information of these subsidiaries was as follows as of 31 December 2019:

In thousands of GEL	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**Profit**	**Total comprehensive income**	**Cash flows**
TBC Leasing JSC	180,282	172,275	133,198	182,804	29,894	6,861	6,861	719
TBC Kredit LLC	10,605	14,140	6,238	5,730	4,543	2,221	2,221	473
United Financial Corporation JSC	9,507	8,821	155	435	12,023	4,725	4,725	(622)

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2018:

In thousands of GEL	**Proportion of non-controlling interest's voting rights held**	**Profit attributable to non-controlling interest**	**Accumulated non-controlling interest in the subsidiary**
TBC Leasing JSC	0.39%	26	96
TBC Kredit LLC*	-	251	-
United Financial Corporation JSC	1.33%	59	517
BG LLC**	-	(88)	-

**In 2018 the Group purchased remaining 25% shareholding from TBC Kredit LLC shareholders and became 100% owner of the company.*
***In 2018 the Group obtained de-facto control over BG LLC and the total return from the subsidiary have been attributable to the NCI.*

The summarised financial information of these subsidiaries was as follows as of 31 December 2018:

In thousands of GEL	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**Profit**	**Total comprehensive income**	**Cash flows**
TBC Leasing JSC	160,619	128,610	138,582	126,954	26,998	6,585	6,585	10,773
TBC Kredit LLC	19,639	14,987	13,961	10,813	3,177	1,836	1,836	(1,622)
United Financial Corporation JSC	8,711	6,646	3,284	-	12,401	4,427	4,427	(438)
BG LLC	8,964	1	60	8,993	123	(88)	(88)	63

39. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2019, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instruments (d)	Cash collateral received (e)	
ASSETS						
Other financial assets:	**24,139**	**2,244**	**21,895**			**21,895**
- Receivables on credit card services and money transfers						
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**24,139**	**2,244**	**21,895**			**21,895**
LIABILITIES						
Other financial liabilities:	**17,518**	**2,244**	**15,274**			**15,274**
- Payables on credit card services and money transfers						
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,518**	**2,244**	**15,274**			**15,274**

As of 31 December 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross 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	17,544	3,154	14,390	-	-	14,390
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,544**	**3,154**	**14,390**	**-**	**-**	**14,390**
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	21,426	3,154	18,272	-	-	18,272
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**21,426**	**3,154**	**18,272**	**-**	**-**	**18,272**

39. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

40. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	**2019**	**2018**
Fair value of gross settled currency swaps, included in other financial assets or due from banks	**5,849**	1,370
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**(20,440)**	(2,030)
Fair value of Interest rate swaps, included in other financial liabilities	**-**	-
Total	**(14,591)**	**(660)**

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Group entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term by their nature.

	2019		2018	
In thousands of GEL	**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 (-)	**-**	**(205,292)**	-	(19,631)
- USD receivable on settlement (+)	**2,089,038**	**-**	105,753	-
- GEL payable on settlement (-)	**-**	**(133,987)**	-	(119,465)
- GEL receivable on settlement (+)	**105,152**	**-**	442,711	-
- EUR payable on settlement (-)	**-**	**(1,950,702)**	-	(441,617)
- EUR receivable on settlement (+)	**25,239**	**-**	32,052	-
- Other payable on settlement (-)	**-**	**(4,517)**	-	(1,621)
- Other receivable on settlement (+)	**60,652**	**-**	1,158	-
Fair value of foreign exchange forwards and gross settled currency swaps	**2,280,081**	**(2,294,498)**	581,794	(582,384)
Net fair value of foreign exchange forwards and gross settled currency swaps		**(14,417)**		(660)

40. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Interest rate swaps. In March 2010 TBC Bank entered into an interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers the payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expired in November 2018.

Information on related party balances is disclosed in Note 43.

41. FAIR VALUE DISCLOSURES

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2019				31 December 2018			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities measured at fair value through other comprehensive income								
- Certificates of Deposits of National Bank of Georgia	**-**	**40,346**	**-**	**40,346**	**-**	14,985	-	14,985
- Corporate bonds	**-**	**611,000**	**-**	**611,000**	**-**	549,477	-	549,477
- Netherlands Government Bonds	**-**	**1,596**	**-**	**1,596**	**-**	66,760	-	66,760
- Ministry of Finance Treasury Bills	**-**	**329,353**	**-**	**329,353**	**-**	373,447	-	372,447
- Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	**-**	**5,849**	**-**	**5,849**	**-**	1,370	-	1,370
NON-FINANCIAL ASSETS								
- Premises and leasehold improvements	**-**	**-**	**210,715**	**210,715**	**-**	-	277,798	277,798
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**988,144**	**210,715**	**1,198,859**	**-**	1,006,039	277,798	1,283,837
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	20,440	-	20,440	-	2,030	-	2,030
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**20,440**	**-**	**20,440**	**-**	2,030	-	2,030

There were no transfers between levels 1 and 2 during the year ended 31 December 2019 and 2018

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:

	Fair value at 31 December			
In thousands of GEL	2019	2018	Valuation technique	Inputs used
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
- Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	982,295	1,004,669	Discounted cash flows ("DCF")	Government bonds yield curve
- Foreign exchange forwards and gross settled currency swaps, included in due from banks	5,849	1,370	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**988,144**	**1,006,039**		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Foreign exchange forwards included in other financial liabilities	20,440	2,030	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**20,440**	**2,030**		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2019 (2018: none).

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.

(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:

41. FAIR VALUE DISCLOSURES CONTINUED

	31 December 2019				31 December 2018			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**	Level 1	Level 2	Level 3	**Carrying Value**
FINANCIAL ASSETS								
Cash and cash equivalents	646,394	348,085	-	**994,479**	1,164,403	-	-	**1,164,403**
Due from other banks	-	15,597	-	**15,597**	-	37,384	-	**37,384**
Mandatory cash balances with the NBG	-	1,591,829	-	**1,591,829**	-	1,422,809	-	**1,422,809**
Loans and advances to customers:	-	-	-					
- Corporate loans	-		4,838,348	**4,579,723**	-	-	3,212,490	**3,095,784**
- Consumer loans	-	-	1,876,364	**1,750,050**	-	-	1,970,006	**1,832,793**
- Mortgage loans	-	-	3,354,901	**3,137,492**	-	-	2,702,768	**2,684,295**
- Loans to micro, small and medium enterprises	-	-	2,891,382	**2,882,134**	-	-	2,440,078	**2,425,580**
Bonds carried at amortised cost	-	990,537	-	**1,021,568**	-	660,915	-	**653,703**
Investments in leases	-	-	265,165	**256,660**	-	-	207,579	**203,802**
Other financial assets	-	-	109,362	**109,362**	-	-	152,889	**152,889**
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	123,324	**72,667**	-	-	97,425	84,296
TOTAL ASSETS	**646,394**	**2,946,048**	**13,458,846**	**16,411,561**	**1,164,403**	**2,121,108**	**10,783,235**	**13,757,738**
FINANCIAL LIABILITIES								
Due to credit institutions	-	3,600,318	-	**3,593,901**	-	3,028,182	-	**3,031,505**
Customer accounts	-	6,490,267	3,633,289	**10,112,002**	-	5,891,364	3,569,222	**9,444,746**
Debt securities in issue	1,136,297	-	-	**1,136,297**	-	13,343	-	**13,343**
Other financial liabilities	-	134,519	-	**134,519**	-	76,175	-	**76,175**
Subordinated debt	-	594,892	-	**591,035**	-	648,803	-	**650,919**
TOTAL LIABILITIES	**1,136,297**	**10,819,996**	**3,633,289**	**15,567,754**	**-**	**9,657,867**	**3,569,222**	**13,216,688**

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 2019 and 2018.

42. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 2. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

In thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	994,479	-	-	**994,479**
Due from other banks	15,597	-	-	**15,597**
Mandatory cash balances with the National Bank of Georgia	1,591,829	-	-	**1,591,829**
Loans and advances to customers	12,349,399	-	-	**12,349,399**
Investment securities measured at fair value through other comprehensive income	-	985,293	-	**985,293**
Bonds carried at amortised cost	1,021,568	-	-	**1,021,568**
Other financial assets:				
- Other financial receivables	133,736	-	-	**133,736**
TOTAL FINANCIAL ASSETS	**16,088,083**	**985,293**	**-**	**17,073,376**
INVESTMENTS IN LEASES				**256,660**
NON-FINANCIAL ASSETS				**976,582**
TOTAL ASSETS				**18,306,618**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,166,403	-	-	**1,166,403**
Due from other banks	37,384	-	-	**37,384**
Mandatory cash balances with the National Bank of Georgia	1,422,809	-	-	**1,422,809**
Loans and advances to customers	10,038,452	-	-	**10,038,452**
Investment securities measured at fair value through other comprehensive income	-	1,005,239	-	**1,005,239**
Bonds carried at amortised cost	653,703	-	-	**653,703**
Other financial assets:				
- Other financial receivables	154,259	-	-	**154,259**
TOTAL FINANCIAL ASSETS	**13,471,010**	**1,005,239**	**-**	**14,476,249**
INVESTMENTS IN LEASES				**203,802**
NON-FINANCIAL ASSETS				**772,837**
TOTAL ASSETS				**15,452,888**

43. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

- Parties with more than 10% of ownership stake in the TBC Bank Group or with representatives in the Board of Directors are considered as Significant Shareholders.
- The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members. Entities under common control include TBC Bank Group PLC's Insurance subsidiary.

Transactions between TBC Bank Group and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia (link to the document below in the footnote[2]).

As of 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 0.4% – 48.0%)	-	77	9,624	99
Impairment provisions for loans and advances to customers	-	-	1	-
Customer accounts (contractual interest rate: 0.0% – 10.2 %)	47,426	16,418	13,098	15,991
Guarantees	-	-	-	97
Provision on guarantees	-	-	-	1

The income and expense items with related parties except from key management compensation for the year 2019 were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Interest income - loans and advances to customers	42	7	620	-
Interest expense	5,814	87	197	1,135
Gains less losses from trading in foreign currencies	713	159	65	126
Foreign exchange translation gains less losses	-	85	207	51
Fee and commission income	-	123	342	2
Administrative and other operating expenses (excluding staff costs)	-	68	978	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2019 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Amounts advanced to related parties during the year	1,512	15,137	48
Amounts repaid by related parties during the year	(3,146)	(17,747)	-

During the year 2019, 3 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2019 would have been GEL 266 thousand higher.

2 https://www.nbg.gov.ge/uploads/legalacts/fts/eng/regulation_on_the_management_of_the_conflict_of_interests.pdf

43. RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2019, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**Balance as of 31 December 2019**
Gross amount of loans and advances granted to subsidiaries	86,518
Customer accounts of subsidiaries	65,025
Other Financial Assets	22,061
Other Assets	19
Other Financial Liabilities	22,268
Investment in subsidiaries	30,426

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**2019**
Interest income	2,109
Interest expense	5,527
Fee and commission income	16,471
Fee and commission expense	2,415
Foreign exchange translation gains less losses	54
Other operating income	4,477
Administrative and other operating expense	223

As of 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 0.4% - 36.0%)	-	1,614	11,407	-
Impairment provisions for loans and advances to customers	-	-	9	-
Customer accounts (contractual interest rate: 0.0% – 11.8 %)	81,311	27,095	21,328	11,123
Guarantees	-	10,216	-	35
Provision on guarantees	-	36	-	-

The income and expense items with related parties except from key management compensation for the year 2018 were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Interest income - loans and advances to customers	-	22	591	-
Interest income - available securities for sale	-	-	-	-
Interest expense	5,879	411	301	563
Gains less losses from trading in foreign currencies	-	479	65	25
Foreign exchange translation gains less losses		28	352	-
Fee and commission income	3	87	50	8
Fee and commission expense	-	-	-	-
Administrative and other operating expenses (excluding staff costs)	-	89	297	-

43. RELATED PARTY TRANSACTIONS CONTINUED

The aggregate loan amounts advanced to, and repaid, by related parties during 2018 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	2,465	13,547	-
Amounts repaid by related parties during the year	(1,055)	(10,195)	-

As of 31 December 2018, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	Balance as of 31 December 2018
Gross amount of loans and advances granted to subsidiaries	64,782
Customer accounts of subsidiaries	36,971
Bonds Carried at Amortised Cost	190
Other Financial Assets	10,995
Other Assets	495
Other Financial Liabilities	2,405
Investment in subsidiaries	26,761

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	2018
Interest income	5,423
Interest expense	2,556
Fee and commission income	1,757
Fee and commission expense	15,857
Foreign exchange translation gains less losses	56
Other operating income	121
Administrative and other operating expense	5,001

Compensation of the key management personnel and Supervisory Board members is presented below:

	2019		2018	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	7,376	-	11,094	270
Cash settled bonuses related to share-based compensation	(1,627)	-	6,424	8,395
Equity-settled share-based compensation	25,695	-	9,369	-
Total	**31,444**	**-**	**26,887**	**8,665**

44. EVENTS AFTER REPORTING PERIOD

COVID 19- outbreak

In late February 2020 the first incident of the coronavirus (COVID-19) was reported in Georgia. This is clearly a serious situation impacting not just Georgia, but also the global economy. The position has been, and continues to be difficult to predict with any certainty. The Group does not consider COVID-19 to be an adjusting event and as such any impacts are not reflected within these financial statements. Our economists' latest analysis forecasts the Georgian economy to contract in 2020, which will have a negative impact on many businesses and individuals in the country. Therefore, in close co-ordination with the National Bank of Georgia ("NBG"), we have decided to create an extra loan loss provision buffer to prepare for the potential impact of the COVID-19 pandemic on the Georgian economy.

TBC Bank has implemented a number of actions to protect its customers and staff members and to minimize disruption to the Group's operations during the COVID-19 outbreak. In developing our response, we have looked at best practices from major global companies as well as organizations like the World Health Organization.

44. EVENTS AFTER REPORTING PERIOD CONTINUED

We are also closely coordinating with the Government of Georgia, NBG and the other banks in the country. While for the time being most of our branches remain open, we have introduced a number of additional security and infection prevention measures in our branch network. We have introduced remote working practices for most of our head office and back office units and divided all our critical service units into different groups and locations. We have also refreshed the list of critical roles in the company and ensured their continuous operational engagement and remote access.

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

Our digital penetration is very high, mainly driven by mobile banking transactions. To ensure continued communication and customer care, we have activated and enhanced all our channels, launched intensive communication campaigns to promote cashless transactions (cash is a potential transmission vector for the virus) and active usage of our digital channels. For the next three months, we have revised tariff plans to further incentivize our digital channel usage. The multichannel promotion campaigns together with the loan repayment grace period are expected to substantially decrease customer flow in our branch network and reduce the risk of spreading the infection. If needed, this will allow us to further optimize branch network operations and decrease the number of front office staff as well as to introduce different shifts in branches. In terms of our IT infrastructure, we have rigorous measures to ensure adequate capacity and security, and we are closely monitoring the system with all controls active.

We expect the pandemic to have a negative economic effect as long as the number of cases is expanding, but we expect a gradual return of economic strength as the number of cases eases. The government has come up with a number of initiatives to support businesses and the economy.

The group assessed the changes in the environment on its capital and liquidity positions and is comfortable that it can keep solid financial standing. Management will keep monitoring the developments and update its strategy and course of actions as necessary in circumstances.

However, taking into consideration the unprecedented uncertainty triggered by the COVID-19 outbreak, the Board of Directors of the Group's parent company - TBC Bank Group PLC has decided not to recommend a dividend. The decision will be revisited once there is better visibility on the potential economic impact of the outbreak, which we do not expect to occur before the end of May 2020.

FULL LIST OF RELATED UNDERTAKINGS AND THE COUNTRY OF INCORPORATION IS SET OUT BELOW

Company Name	**Country of incorporation**
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Index LLC	8 Tetelashvili,0102,, Tbilisi, Georgia
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
JJSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
LLTD Online Tickets	3 Irakli Abashidze street, 0179, Tbilisi, Georgia

2019

TBC Bank
7 Marjanishvili street
Tbilisi, 0102, Georgia