

TBC BANK GROUP

**International Financial Reporting Standards
Consolidated and Separate Financial Statements
and Independent Auditor's Report**

For the year ended 31 December 2017

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Independent Auditor's Report

To the Shareholders and Management of TBC Bank JSC

Our opinion

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

What we have audited

The financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- 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 financial statements, which include summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

Management is responsible for the other information. Other information comprises Management Report prepared in accordance with the Law of Georgia on Accounting, Reporting and Auditing (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we are required to express an opinion whether certain parts of 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.

We will issue our updated report where we will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the Management Report based on our knowledge of the reporting entity and its circumstances, which we obtained during our audit. Our updated report will include also our opinion mentioned in the preceding paragraph.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Georgia LLC

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

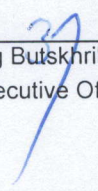
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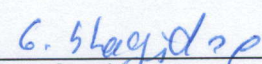
23 April 2018
Tbilisi, Georgia

TBC Bank Group Consolidated and Separate Statements of Financial Position

		31 December 2017		31 December 2016	
In thousands of GEL	Note	Consolidated	Separate	Consolidated	Separate
ASSETS					
Cash and cash equivalents	6	1,428,771	1,417,384	944,767	861,001
Due from other banks	7	37,789	32,519	23,824	26,583
Mandatory cash balances with the National Bank of Georgia	8	1,033,818	1,033,818	990,642	859,508
Loans and advances to customers	9	8,325,353	8,347,548	7,133,702	5,691,868
Investment securities available for sale	10	657,938	656,934	430,703	279,195
Bonds carried at amortised cost	11	449,538	449,722	372,956	373,144
Investments in finance leases	13	143,836	-	95,031	-
Investment properties	16	79,232	78,349	95,615	66,355
Current income tax prepayment		19,084	17,509	7,429	6,597
Deferred income tax asset	33	2,605	-	3,265	-
Other financial assets	12	134,135	110,409	91,895	102,007
Other assets	14	147,792	135,496	170,756	156,218
Premises and equipment	15	366,065	343,988	313,584	236,001
Intangible assets	15	83,072	78,995	60,698	52,305
Goodwill	17	26,892	24,935	26,892	769
Investments in Associates		1,278	32,449	-	382,355
TOTAL ASSETS		12,937,198	12,760,055	10,761,759	9,093,906
LIABILITIES					
Due to credit institutions	18	2,644,714	2,515,633	2,199,976	1,389,020
Customer accounts	19	7,835,323	7,883,369	6,461,582	5,666,661
Other financial liabilities	22	79,774	35,513	50,153	21,351
Current income tax liability		447	-	2,579	-
Debt securities in issue	20	20,695	-	23,508	-
Deferred income tax liability	33	602	602	5,646	1,715
Provisions for liabilities and charges	21	10,306	10,306	15,294	13,797
Other liabilities	23	70,187	66,509	62,851	57,103
Subordinated debt	24	426,788	424,175	368,381	368,381
TOTAL LIABILITIES		11,088,836	10,936,107	9,189,970	7,518,028
EQUITY					
Share capital	25	21,014	21,014	20,617	20,617
Share premium	25	521,190	521,190	504,161	504,161
Retained earnings		1,244,206	1,217,169	960,060	957,316
Share based payment reserve	26	(7,272)	(7,272)	23,327	23,327
Revaluation reserve for premises		70,038	70,038	70,460	70,038
Revaluation reserve for available-for-sale securities		1,809	1,809	(3,681)	419
Cumulative currency translation reserve		(7,358)	-	(7,538)	-
Net assets attributable to owners		1,843,627	1,823,948	1,567,406	1,575,878
Non-controlling interest	38	4,735	-	4,383	-
TOTAL EQUITY		1,848,362	1,823,948	1,571,789	1,575,878
TOTAL LIABILITIES AND EQUITY		12,937,198	12,760,055	10,761,759	9,093,906

The financial statements on pages 1 to 99 were approved by the Supervisory Board on 23 April 2018 and signed on its behalf by:


Vakhtang Butskhrikidze
Chief Executive Officer


Giorgi Shagidze
Chief Financial Officer

TBC Bank Group Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income

<i>In thousands of GEL</i>	Note	2017		2016	
		Consolidated	Separate	Consolidated	Separate
Interest income	28	1,033,709	947,126	766,410	701,276
Interest expense	28	(432,142)	(401,955)	(277,122)	(255,633)
Net interest income		601,567	545,171	489,288	445,643
Fee and commission income	29	192,752	163,504	142,802	120,497
Fee and commission expense	29	(67,951)	(71,935)	(52,110)	(54,650)
Net fee and commission income		124,801	91,569	90,692	65,847
Net gains from trading in foreign currencies		87,099	81,625	70,159	66,221
Net gains/(losses) from foreign exchange translation		4,595	4,489	(2,528)	(6,802)
Net losses from derivative financial instruments		(36)	(36)	(206)	(206)
Net gains from disposal of available for sale investment securities		93	93	9,293	8,795
Other operating income	30	31,511	20,539	23,214	40,966
Share of profit of associates		909	835	-	-
Other operating non-interest income		124,171	107,545	99,932	108,974
Provision for loan impairment	9	(93,823)	(82,841)	(49,202)	(20,674)
Provision for impairment of investments in finance lease	13	(492)	-	(558)	-
(Provision for)/recovery of provision for performance guarantees and credit related commitments	21	390	1,285	(771)	(1,217)
Provision for impairment of other financial assets	12	(12,212)	(9,297)	(2,569)	(1,090)
Impairment of investment securities available for sale		-	-	(11)	(11)
Operating income after provisions for impairment		744,402	653,432	626,801	597,472
Staff costs	31	(196,826)	(173,119)	(171,304)	(149,559)
Depreciation and amortisation	15,16	(36,882)	(31,344)	(27,980)	(23,919)
(Provision for)/recovery of provision for liabilities and charges	21	2,495	2,495	(2,210)	(2,210)
Administrative and other operating expenses	32	(115,746)	(93,792)	(108,201)	(87,643)
Operating expenses		(346,959)	(295,760)	(309,695)	(263,331)
Profit before tax		397,443	357,672	317,106	334,141
Income tax expense	33	(34,662)	(31,116)	(17,421)	(17,590)
Profit for the year		362,781	326,556	299,685	316,551
Other comprehensive income:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Revaluation of available-for-sale investments	10	5,489	6,569	522	2,112
Gains less losses recycled to profit or loss upon disposal		-	-	(11,611)	(8,853)
Exchange differences on translation to presentation currency		181	-	(948)	-
Income tax recorded directly in other comprehensive income	33	-	-	1,649	1,401
<i>Items that will not be reclassified to profit or loss:</i>					
Income tax recorded directly in other comprehensive income	33	(422)	-	10,928	10,506
Other comprehensive income for the year		5,248	6,569	540	5,166
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		368,029	333,125	300,225	321,717
Profit is attributable to:					
- Owners of the Bank		362,429	326,556	302,491	316,551
- Non-controlling interest		352	-	(2,806)	-
Profit for the year		362,781	326,556	299,685	316,551
Total comprehensive income is attributable to:					
- Owners of the Bank		367,677	333,125	303,031	321,717
- Non-controlling interest		352	-	(2,806)	-
Total comprehensive income for the year		368,029	333,125	300,225	321,717

TBC Bank Group Consolidated Statement of Changes in Equity

		Net assets Attributable to owners									
		Share capital	Share pre- mium	Share based payments reserve	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Retained earnings	Total	Non- control- ling interest	Total equity
<i>In thousands of GEL</i>	Note										
Balance as of 1 January 2016		19,587	407,474	12,755	59,532	5,759	(6,590)	712,743	1,211,260	7,189	1,218,449
Profit for the year		-	-	-	-	-	-	302,491	302,491	(2,806)	299,685
Other comprehensive income		-	-	-	10,928	(9,440)	(948)	-	540	-	540
Total comprehensive income for 2016		-	-	-	10,928	(9,440)	(948)	302,491	303,031	(2,806)	300,225
Share issue		1,031	98,969	-	-	-	-	-	100,000	-	100,000
Share based payment	26	-	-	11,783	-	-	-	-	11,783	-	11,783
Increase in share capital from SBP		36	1,175	(1,211)	-	-	-	-	-	-	-
Shares repurchased and cancelled		(37)	(3,457)	-	-	-	-	-	(3,494)	-	(3,494)
Dividends declared		-	-	-	-	-	-	(55,174)	(55,174)	-	(55,174)
Balance as of 31 December 2016		20,617	504,161	23,327	70,460	(3,681)	(7,538)	960,060	1,567,406	4,383	1,571,789
Profit for the year		-	-	-	-	-	-	362,429	362,429	352	362,781
Other comprehensive income		-	-	-	(422)	5,490	180	-	5,248	-	5,248
Total comprehensive income for 2017		-	-	-	(422)	5,490	180	362,429	367,677	352	368,029
Share issue		0	29	-	-	-	-	-	29	-	29
Elimination of unvested share effect		397	17,000	(17,397)	-	-	-	-	-	-	-
Share based payment	26	-	-	10,543	-	-	-	-	10,543	-	10,543
Shares repurchased and cancelled		-	-	(23,745)	-	-	-	-	(23,745)	-	(23,745)
Dividends declared		-	-	-	-	-	-	(78,283)	(78,283)	-	(78,283)
Balance as of 31 December 2017		21,014	521,190	(7,272)	70,038	1,809	(7,358)	1,244,206	1,843,627	4,735	1,848,362

TBC Bank Group Separate Statement of Changes in Equity

		Share capital	Share premium	Share based payments reserve	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Retained earnings	Total equity
<i>In thousands of GEL</i>	Note							
Balance as of 1 January 2016		19,587	407,474	12,755	59,532	5,759	695,325	1,200,432
Profit for the year		-	-	-	-	-	316,551	316,551
Other comprehensive income		-	-	-	10,506	(5,340)	-	5,166
Total comprehensive income for 2016		-	-	-	10,506	(5,340)	316,551	321,717
Share issue		1,031	98,969	-	-	-	-	100,000
Share based payment	26	-	-	11,783	-	-	-	11,783
Increase in share capital from SBP		36	1,175	(1,211)	-	-	-	-
Shares repurchased and cancelled		(37)	(3,457)	-	-	-	-	(3,494)
Dividends declared		-	-	-	-	-	(54,560)	(54,560)
Balance as of 31 December 2016		20,617	504,161	23,327	70,038	419	957,316	1,575,878
Profit for the year		-	-	-	-	-	326,556	326,556
Other comprehensive income		-	-	-	-	6,569	-	6,569
Total comprehensive income for 2017		-	-	-	-	6,569	326,556	333,125
Business combination		-	-	-	-	(5,179)	11,581	6,402
Share issue		0	29	-	-	-	-	29
Elimination of unvested share effect		397	17,000	(17,397)	-	-	-	-
Share based payment	26	-	-	10,543	-	-	-	10,543
Shares repurchased and cancelled		-	-	(23,745)	-	-	-	(23,745)
Dividends declared		-	-	-	-	-	(78,284)	(78,284)
Balance as of 31 December 2017		21,014	521,190	(7,272)	70,038	1,809	1,217,169	1,823,948

TBC Bank Group Consolidated and Separate Statements of Cash Flows

In thousands of GEL	Note	2017		2016	
		Consolidated	Separate	Consolidated	Separate
Cash flows from (used in) operating activities					
Interest received		1,000,042	915,150	735,704	682,698
Interest paid		(425,454)	(397,197)	(274,955)	(255,950)
Fees and commissions received		195,285	166,218	144,247	121,965
Fees and commissions paid		(68,024)	(71,935)	(52,154)	(54,650)
Income received from trading in foreign currencies		87,099	81,625	70,411	66,221
Other operating income received		8,980	9,904	8,411	10,177
Staff costs paid		(182,100)	(157,022)	(147,764)	(123,991)
Administrative and other operating expenses paid		(109,663)	(88,783)	(103,182)	(83,871)
Income tax paid		(53,916)	(49,285)	(34,279)	(29,200)
Cash flows from operating activities before changes in operating assets and liabilities		452,249	408,675	346,439	333,399
Net change in operating assets					
Due from other banks and mandatory cash balances with the National Bank of Georgia		(97,430)	(107,693)	(449,150)	(327,494)
Loans and advances to customers		(1,330,105)	(1,423,237)	(1,221,499)	(995,430)
Investment in finance lease		(49,297)	-	(11,687)	-
Other financial assets		(38,610)	(27,026)	(22,855)	(26,540)
Other assets		74,213	77,167	(741)	(34,167)
Net change in operating liabilities					
Due to other banks		(228,486)	(61,340)	268,078	130,029
Customer accounts		1,339,814	1,493,733	1,156,780	1,089,956
Other financial liabilities		23,541	4,808	5,903	(3,236)
Other liabilities and provision for liabilities and charges		3,617	919	332	(551)
Net cash flows from operating activities		149,506	366,006	71,600	165,966
Cash flows from (used in) investing activities					
Acquisition of investment securities available for sale	10	(560,226)	(649,893)	(143,980)	(138,965)
Proceeds from disposal of investment securities available for sale	10	-	-	11,868	11,868
Proceeds from redemption at maturity of investment securities available for sale	10	345,748	345,748	166,871	163,115
Acquisition of subsidiaries, net of cash acquired		(273)	-	(200,700)	(345,154)
Merger of subsidiaries, net of cash acquired		-	(126,163)	-	-
Acquisition of bonds carried at amortised cost		(307,248)	(307,248)	(304,109)	(304,297)
Proceeds from redemption of bonds carried at amortised cost		242,380	242,380	314,231	314,231
Acquisition of premises, equipment and intangible assets	15	(113,454)	(104,540)	(50,516)	(45,615)
Proceeds from disposal of premises, equipment and intangible assets		1,933	550	1,273	(159)
Proceeds from disposal of investment property		19,082	20,868	7,822	6,207
Net cash flows used in investing activities		(372,058)	(578,298)	(197,240)	(338,769)
Cash flows from (used in) financing activities					
Proceeds from other borrowed funds		1,483,191	1,405,021	905,500	802,883
Redemption of other borrowed funds		(800,333)	(676,337)	(666,156)	(587,649)
Proceeds from subordinated debt		119,859	118,150	136,817	136,891
Redemption of subordinated debt		(59,671)	(59,671)	(90,416)	(90,416)
Proceeds from debt securities in issue		-	-	4,354	-
Redemption of debt securities in issue		(2,123)	-	(4,636)	-
Dividends paid		(78,284)	(78,284)	(54,560)	(54,560)
Dividends received		-	17,125	-	2,241
Recharge paid		(23,745)	(23,745)	-	-
Acquisition of non-controlling interest in subsidiary		-	-	(3,495)	(3,495)
Issue of ordinary shares		29	29	100,000	100,000
Net cash flows from financing activities		638,923	702,288	327,408	305,895

TBC Bank Group Consolidated and Separate Statements of Cash Flows

	Note	2017		2016	
Effect of exchange rate changes on cash and cash equivalents		67,633	66,387	22,652	24,101
Net increase in cash and cash equivalents		484,004	556,383	224,420	157,193
Cash and cash equivalents at the beginning of the year					
	6	944,767	861,001	720,347	703,808
Cash and cash equivalents at the end of the year	6	1,428,771	1,417,384	944,767	861,001

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

On 1 June 2016, TBC Bank Group PLC (“TBCG”), a public limited liability company, incorporated in England and Wales on 26 February 2016, launched the Tender Offer (the “Tender Offer”) to exchange its entire ordinary share capital for an equivalent number of the Bank’s ordinary shares and thus to acquire the entire issued share capital, including those shares represented by Global Depositary Receipts (“GDRs”), of the Bank. Following the successful completion of the Tender Offer on 4 August 2016, as of 31 December 2017 TBCG holds 98.67% (2016: 98.48%) of the share capital of the Bank, thus representing the Bank’s ultimate parent company. TBC Bank Group PLC’s registered legal address is St. Andrew 6, London, United Kingdom EC4A3AE. Registered number of TBC Group PLC is 10029943.

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

Shareholders	Note	% of ownership interest held as of 31 December	
		2017	2016
TBC Bank Group PLC	25	98.67%	98.48%
Other*		1.33%	1.52%
Total		100.00%	100.00%

* Other includes individual as well as corporate shareholders

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

Shareholders	Ownership interest % as of 31 December	
	2017	2016
Mamuka Khazaradze	13.87%	14.08%
Badri Japaridze	6.73%	7.03%
Institutional and retail investors	65.45%	55.32%
IFIs	11.29%	19.26%
Other Shareholders	2.46%	4.31%
Total	100.00%	100.00%

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

2 Summary of Significant Accounting Policies

Basis of preparation. The consolidated and separate financial statements (hereafter the “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

Going Concern. The Board of Directors of TBC Bank Group 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.

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

The consolidated financial statements include the following associates:

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December		Principal place of business or incorporation	Year of incorporation	Industry
	2017	2016			
JSC CreditInfo Georgia	21.07%	-	Tbilisi, Georgia	2005	Financial intermediation
LLC Online Tickets	26.00%	-	Tbilisi, Georgia	2015	Computer and Software Services

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis in case the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with original maturity of more than three months and with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

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

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

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that happened after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group classifies its borrowers as significant and non-significant ones for impairment allowance estimation purposes and assesses for impairment individually or collectively.

2 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost (continued). Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed borrowers in order to ensure that loss event is identified as early as possible.

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate that was used to measure the impairment loss.

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, that are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation. The Group's presentation currency is the Georgian Lari. 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.

2 Summary of Significant Accounting Policies (Continued)

Foreign currency translation (continued). Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2017 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 3.5005 (2016: GBP 1 = GEL 3.2579); USD 1 = 2.5922 (2016: USD 1 = GEL 2.6468); EUR 1 = 3.1044 (2016: EUR 1 = GEL 2.7940).

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

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

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

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

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models employ observable market data. However, certain financial instruments are valued on the basis of valuation techniques featuring one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental.

Tax legislation. The Group is subject to corporate income taxes in several jurisdictions and the calculation of the Group's tax charge and provisions for corporate income taxes necessarily involves a degree of estimation and judgement. Refer to Note 33.

4 Adoption of New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy. The new disclosures are included in Note 34 in accordance with Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

5 New Accounting Pronouncements

Minor amendments to IFRSs

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2017 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and the separate financial statements of the Bank.

5 New Accounting Pronouncements (Continued)

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases', which have been endorsed for use.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: (i) those to be measured subsequently at amortised cost, (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI) and (iii) those to be measured subsequently at fair value through profit or loss (FVPL);
- The classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments in line with the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition;
- Investments in equity instruments are always measured at fair value. However, the management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss;
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key difference is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income;
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables;
- Hedge accounting requirements were amended to align more closely the accounting with the risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the Management of the Group estimated the impact of GEL 63,734 thousand on its consolidated financial statements from the adoption of the new standard on 1 January 2018. The Group plans to use modified retrospective approach and anticipated impact of adoption will result in the decrease to shareholders' equity.

IFRS 9 does not have any impact on Bank's regulatory capital and capital adequacy ratios, which are calculated using local regulatory accounting standards.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

5 New Accounting Pronouncements (Continued)

IFRS 9 “Financial Instruments: Classification and Measurement” (continued)

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
	IAS 39	IFRS 9		Remeasurement		Reclassification		
				ECL*	Other	Mandatory	Voluntary	
In thousands of GEL								
Cash and cash equivalents	L&R	AC	1,428,771	491	-	-	-	1,428,280
Mandatory cash balances with the National Bank of Georgia	L&R	AC	1,033,818	-	-	-	-	1,033,818
Investments in debt securities	AFS	FVOCI	656,234	1,051	-	-	-	655,183
Investments in debt securities	L&R	AC	449,538	628	-	-	-	448,910
Total investments in debt securities			1,105,772	1,679	-	-	-	1,104,093
Investments in equity securities	AFS	FVOCI	1,704	-	-	-	-	1,704
Total investments in equity securities			1,704	-	-	-	-	1,704
Due from other banks	L&R	AC	37,789	36	-	-	-	37,753
Loans and advances to customers	L&R	AC	8,325,353	63,731	-	-	-	8,261,622
Total loans and advances to customers			8,325,353	63,731	-	-	-	8,261,622
Investment in Finance Lease	FLR	AC	143,836	739	-	-	-	143,097
Total Investment in Finance Lease			143,836	739	-	-	-	143,097
Other financial assets	L&R	AC	134,135	1,019	-	-	-	133,116
Total other financial assets			134,135	1,019	-	-	-	133,116
Total financial assets			12,211,178	67,695	-	-	-	12,143,483

*Positive figures mean increase in the estimated credit loss, whilst the negative figures stand for decrease in ECL.

The GEL 67.7 million increase was offset by GEL 4.0 million release of provision level for Credit related commitments and performance guarantees resulting in 63.7 million increase in total provision level.

No significant changes are expected for financial liabilities.

5 New Accounting Pronouncements (Continued)

IFRS 9 “Financial Instruments: Classification and Measurement” (continued)

Impairment of financial assets

Per IFRS 9 impairment methodology, the Bank classifies its portfolio into three stages:

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

For stage I exposures the Bank creates 12 months expected credit losses, whereas for stage II and stage III lifetime expected credit losses are created.

The key impact of IFRS 9 comes from Stage II classification and incorporation of forward looking information in allowance calculation.

For the Stage II classification purposes the Bank applies both quantitative and the qualitative criteria including, but not limited to:

- 30 DPD overdue;
- Downgrade of the risk category of the borrower since initial recognition;
- Deterioration of the probability of default parameter above the predefined threshold.

Under IFRS 9 methodology the Bank updated its default definition criteria as well in order to make it consistent with the Bank's internal guidelines. Updated default definition includes criteria such as: (i) 90 DPD overdue and (ii) other criteria indicating the borrower's unlikeliness to repay the liabilities. For Corporate and SME business borrowers the Bank applies borrower based default definition. As for the retail and macro segments facility level default definition is utilized with additional pulling effect criteria being applied.

Another significant driver of IFRS 9 impact on allowance level is incorporation of the forward looking information (FLI). The Bank incorporates forward looking information for both individual and collective assessment. For FLI purposes the Bank defines three scenarios, which are:

- baseline (most likely);
- upside (better than most likely) ;
- downside (worse than most likely);

The Bank derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Bank calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortised over the period when the benefits of the contract are consumed. No material effect is expected on the Group due to introduction of the new standard.

5 New Accounting Pronouncements (continued)

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also to access financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. No material effect is expected on the Group due to introduction of the new standard.

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

6 Cash and Cash Equivalents

<i>In thousands of GEL</i>	2017	2016
Cash on hand	419,602	402,523
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	371,342	135,557
Correspondent accounts and overnight placements with other banks	568,375	405,915
Placements with and receivables from other banks with original maturities of less than three months	69,452	772
Total cash and cash equivalents	1,428,771	944,767

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

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

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

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

<i>In thousands of GEL</i>	2017	2016
A+	271,366	78,324
A	62,281	258,025
A-	213,247	27,997
BBB+	3,235	-
BBB	383	23,174
BBB-	45	464
BB+	300	1,147
BB	217	-
BB-	13,379	2,952
B+	442	-
B	185	1,971
Not rated	3,295	11,861
Total	568,375	405,915

Credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

<i>In thousands of GEL</i>	2017	2016
A	-	772
BBB+	57,031	-
B	-	-
Not rated	12,421	-
Total	69,452	772

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used. As of 31 December 2017 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (31 December 2016: nil).

7 Due from Other Banks

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2017 and 2016.

Credit ratings of placements with other banks with original maturities of more than three months were as follows:

<i>In thousands of GEL</i>	2017	2016
A	8,632	13,210
BBB+	78	79
BBB	-	5,541
BB-	3,727	-
B+	661	-
B	1,520	4,973
Not rated	23,171	21
Total	37,789	23,824

As of 31 December 2017 the Group had one placement with one bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2016: nil). The total aggregated amount of these placement was GEL 23,147 thousand (2016: nil) or 61% of the total amount due to other 2016: nil).

As of 31 December 2017 GEL 13,121 thousand, (2016: GEL 19,511 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 5.0%, 0.6% and (0.4%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in 2017 (2016: 5.0%, 0.0% and (0.4%) in GEL, USD and EUR respectively).

In September 2017 Fitch Ratings re-affirmed Georgia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BB-' with Stable Outlooks. The issue ratings on Georgia's senior unsecured foreign- and local-currency bonds are also affirmed at 'BB-'. The Country Ceiling is affirmed at 'BB' and the Short-term foreign-currency IDR at 'B'.

9 Loans and Advances to Customers

<i>In thousands of GEL</i>	2017	2016
Corporate loans	2,475,392	2,062,229
Consumer loans	2,163,425	1,872,142
Mortgage loans	2,069,728	1,808,434
Loans to micro, small and medium enterprises	1,844,672	1,615,920
Total loans and advances to customers (before impairment)	8,553,217	7,358,725
Less: Provision for loan impairment	(227,864)	(225,023)
Total loans and advances to customers	8,325,353	7,133,702

9 Loans and Advances to Customers (Continued)

As of 31 December 2017 loans and advances to customers carried at GEL 246,267 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2016: GEL 120,093 thousand).

Following the merger of Bank Republic with TBC Bank, the Group has reassessed its definition of segments as disclosed in Note 27. Some of the clients were reallocated to different segments. Relevant changes are applied to all periods presented in this report. Balance sheet amounts as at 31 December 2017 and 2016 are comparable. As per current report, micro and SME loans are combined in one MSME category. Consumer loans include all retail loans, except mortgage loans.

Movements in the provision for loan impairment during 2017 are as follows:

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
<i>In thousands of GEL</i>					
Provision for loan impairment as of 1 January 2017	90,100	73,730	23,602	37,591	225,023
Total provision for impairment during the year:	(11,088)	130,333	384	21,521	141,150
Provision for impairment (credited)/charged to income statement during the year	(27,031)	111,922	(5,343)	14,275	93,823
Recoveries of loans previously written off	15,943	18,411	5,727	7,246	47,327
Amounts written off during the year as uncollectible	(29,386)	(82,601)	(6,507)	(20,265)	(138,759)
Effect of translation to presentation currency	-	76	98	276	450
Provision for loan impairment as of 31 December 2017	49,626	121,538	17,577	39,123	227,864

Loans and advances to customers written off in 2017 included loans to customers in the gross amount of GEL 21,056 thousand issued in 2017, a previously issued performance guarantee of GEL 6 thousand which was transformed into loan in 2017 and GEL 117,697 thousand issued in previous years.

Movements in the provision for loan impairment during 2016 were as follows:

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
<i>In thousands of GEL</i>					
Provision for loan impairment as of 1 January 2016	108,050	42,433	13,135	30,525	194,143
Resegmentation effect	-	10,092	-	(10,092)	-
Total provision for impairment during the year:	(11,841)	71,369	15,108	31,136	105,772
Provision for impairment charged to income statement during the year	(48,948)	60,438	12,572	25,140	49,202
Recoveries of loans previously written off	37,107	10,931	2,536	5,996	56,570
Amounts written off during the year as uncollectible	(6,109)	(50,121)	(4,580)	(13,755)	(74,565)
Effect of translation to presentation currency	-	(43)	(61)	(223)	(327)
Provision for loan impairment as of 31 December 2016	90,100	73,730	23,602	37,591	225,023

Loans and advances to customers written off in 2016 included loans to customers in the gross amount of GEL 9,830 thousand issued in 2016, a previously issued performance guarantee of GEL 0.14 thousand which was transformed into loan in 2016 and GEL 64,735 thousand issued in previous years.

9 Loans and Advances to Customers (Continued)

At year-end 2016 the Bank updated its methodology for loan loss provisioning purposes to include impairment assessment of acquired portfolios. As per the upgraded methodology, an impairment allowance is not created on the initial recognition of purchased portfolio considering that expected losses are reflected in fair value of the portfolio. For the next reporting periods, the impairment allowance is recognised if the incurred losses at the reporting date have increased compared to the level of incurred losses at the moment of acquisition.

The Bank applies updated provisioning methodology since year-end 2015. The updated methodology enables the Bank to assess impairment allowances in an accurate manner, given granular segmentation of the portfolio and the various risk parameters applied.

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

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of GEL</i>	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Individual	4,198,386	49%	3,721,450	51%
Energy & Utilities	719,854	9%	540,116	7%
Food Industry	524,286	7%	301,290	4%
Real Estate	453,415	5%	252,112	3%
Hospitality & Leisure	450,741	5%	319,497	4%
Trade	394,495	5%	447,541	6%
Pawn Shops	279,410	3%	305,031	4%
Agriculture	269,844	3%	212,148	3%
Construction	233,771	3%	210,888	3%
Healthcare	172,255	2%	182,131	3%
Automotive	160,795	2%	144,157	2%
Communication	114,032	1%	45,864	1%
Services	108,186	1%	109,187	1%
Transportation	96,427	1%	89,467	1%
Financial Services	87,501	1%	188,646	3%
Metals and Mining	84,419	1%	62,464	1%
Other	205,400	2%	226,736	3%
Total loans and advances to customers (before impairment)	8,553,217	100%	7,358,725	100%

As of 31 December 2017 the Group had 142 borrowers (2016: 112 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 2,437,750 thousand (2016: GEL 1,900,916 thousand) or 28.5% of the gross loan portfolio (2016: 25.8%).

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding as of 31 December 2017 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
<i>In thousands of GEL</i>					
<i>Neither past due nor impaired</i>					
- Borrowers with credit history over two years	1,679,029	1,556,495	1,679,495	1,134,503	6,049,522
- New borrowers	708,038	479,433	338,456	619,528	2,145,455
Total neither past due nor impaired	2,387,067	2,035,928	2,017,951	1,754,031	8,194,977
<i>Past due but not impaired</i>					
- 1 to 30 days overdue	-	41,088	15,089	31,598	87,775
- 31 to 90 days overdue	-	26,433	10,620	13,395	50,448
- 91 to 180 days overdue	23,029	165	-	-	23,194
- 181 to 360 days overdue	-	116	-	-	116
- More than 360 days overdue	-	48	-	-	48
Total past due but not impaired	23,029	67,850	25,709	44,993	161,581
<i>Individually assessed impaired loans</i>					
- Not overdue	39,443	-	-	2,420	41,863
- 1 to 30 days overdue	10,351	-	-	-	10,351
- 31 to 90 days overdue	4,455	-	-	-	4,455
- 91 to 180 days overdue	48	-	-	-	48
- 181 to 360 days overdue	-	-	-	-	-
- More than 360 days overdue	8,740	-	-	-	8,740
Total individually assessed impaired loans	63,037	-	-	2,420	65,457
<i>Collectively assessed impaired loans</i>					
- Not overdue	1,266	6,669	5,912	6,744	20,591
- 1 to 30 days overdue	668	2,605	5,097	2,897	11,267
- 31 to 90 days overdue	-	4,078	5,595	3,542	13,215
- 91 to 180 days overdue	-	28,609	2,561	10,009	41,179
- 181 to 360 days overdue	-	10,246	4,335	8,969	23,550
- More than 360 days overdue	325	7,440	2,568	11,067	21,400
Total collectively assessed impaired loans	2,259	59,647	26,068	43,228	131,202
Total loans and advances to customers (before impairment)	2,475,392	2,163,425	2,069,728	1,844,672	8,553,217
Total provision	(49,626)	(121,538)	(17,577)	(39,123)	(227,864)
Total loans and advances to customers	2,425,766	2,041,887	2,052,151	1,805,549	8,325,353

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding as of 31 December 2016 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
<i>In thousands of GEL</i>					
<i>Neither past due nor impaired</i>					
- Borrowers with credit history over two years	1,279,999	1,030,204	1,203,461	836,773	4,350,437
- New borrowers	647,613	738,255	557,777	689,106	2,632,751
Total neither past due nor impaired	1,927,612	1,768,459	1,761,238	1,525,879	6,983,188
<i>Past due but not impaired</i>					
- 1 to 30 days overdue	10,369	38,214	7,565	31,904	88,052
- 31 to 90 days overdue	1,714	21,205	8,241	14,269	45,429
- 91 to 180 days overdue	-	146	-	227	373
- 181 to 360 days overdue	-	91	-	-	91
- More than 360 days overdue	2,864	28	-	-	2,892
Total past due but not impaired	14,947	59,684	15,806	46,400	136,837
<i>Individually assessed impaired loans</i>					
- Not overdue	101,273	-	195	2,832	104,300
- 1 to 30 days overdue	1,059	-	-	-	1,059
- 31 to 90 days overdue	7,966	-	-	-	7,966
- 91 to 180 days overdue	-	-	-	88	88
- 181 to 360 days overdue	2,455	-	34	436	2,925
- More than 360 days overdue	4,000	-	167	-	4,167
Total individually assessed impaired loans	116,753	-	396	3,356	120,505
<i>Collectively assessed impaired loans</i>					
- not overdue	776	5,493	7,129	5,301	18,699
- 1 to 30 days overdue	-	1,488	2,316	1,316	5,120
- 31 to 90 days overdue	908	2,622	2,443	5,223	11,196
- 91 to 180 days overdue	-	21,779	6,569	10,074	38,422
- 181 to 360 days overdue	1,233	7,660	8,371	11,291	28,555
- More than 360 days overdue	-	4,957	4,166	7,080	16,203
Total collectively assessed impaired loans	2,917	43,999	30,994	40,285	118,195
Total loans and advances to customers (before impairment)	2,062,229	1,872,142	1,808,434	1,615,920	7,358,725
Total provision	(90,100)	(73,730)	(23,602)	(37,591)	(225,023)
Total loans and advances to customers	1,972,129	1,798,412	1,784,832	1,578,329	7,133,702

The retail segment in Note 27 includes the following classes from the above tables: consumer and mortgage.

9 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and it created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The tables above provide an analysis of the loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired', 'past due but not impaired', 'individually assessed impaired loans' and 'collectively assessed impaired loans'. The pool of 'neither past due nor impaired loans' includes exposures that are not overdue and are not classified as impaired. 'Past due but not impaired' loans include overdue performing loans but with no objective evidence of impairment identified. The classification includes as well triggered loans that are not impaired because the current value of the expected cash and collateral recoveries are sufficient for full repayment. 'Individually assessed impaired loans' include exposures which were assessed for impairment on an individual basis, and an ad-hoc impairment allowance was created. 'Collectively assessed impaired loans' include exposures for which objective evidence of impairment was identified and the respective collective impairment allowance was created. The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate
- Movable property including fixed assets, inventory and precious metals
- Financial assets including deposits, stocks, and third party guarantees

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The effect of collateral as of 31 December 2017:

<i>In thousands of GEL</i>	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	2,129,927	5,194,598	345,465	97,386
Consumer loans	908,387	2,132,566	1,255,038	25,781
Mortgage loans	2,042,001	4,429,201	27,727	17,189
Loans to micro, small and medium enterprises	1,688,438	3,970,931	156,234	146,949
Total	6,768,753	15,727,296	1,784,464	287,305

The effect of collateral as of 31 December 2016:

<i>In thousands of GEL</i>	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	1,849,202	5,683,279	213,027	109,076
Consumer loans	1,040,644	2,761,580	831,498	28,102
Mortgage loans	1,780,553	4,694,003	27,881	16,360
Loans to micro, small and medium enterprises	1,479,200	4,959,947	136,720	131,967
Total	6,149,599	18,098,809	1,209,126	285,505

9 Loans and Advances to Customers (Continued)

The effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collaterals such as movable assets and precious metals.

Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan's carrying value. The values of third-party guarantees in the tables above amounted to GEL 527,498 thousand and GEL 608,058 thousand as of 31 December 2017 and 2016 respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 41 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 43.

10 Investment Securities Available for Sale

<i>In thousands of GEL</i>	2017	2016
Corporate bonds	328,761	150,073
Ministry of Finance of Georgia Treasury Bills	319,745	241,810
Certificates of Deposit of the National Bank of Georgia	7,728	36,002
Georgian Government notes	-	1,016
Total debt securities	656,234	428,901
Corporate shares – quoted (VISA Inc)	-	-
Corporate shares – unquoted	1,704	1,802
Total investment securities available for sale	657,938	430,703

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 assigned by international rating agencies in September 2017). 67.6% of corporate bonds are issued by triple A rated international financial institutions, 14.8% of corporate bonds are issued by A- rated international financial institutions, 15.5% and 0.9% of corporate bonds are issued by B+ and B rated corporations respectively, whereas 1.3% is issued by two non-rated corporations. The management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 1,704 thousand (2016: GEL 1,802 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

10 Investment Securities Available for Sale (Continued)

As of 31 December 2017 investment securities available for sale carried at GEL 424,892 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2016: GEL 205,216 thousand). Refer to Note 18.

None of the debt securities available for sale are overdue or impaired.

As of 31 December 2017 the principal equity investment securities available for sale are as follows:

Name <i>In thousands of GEL</i>	Nature of business	Country of registration	Carrying value as of 31 December	
			2017	2016
Visa Inc.	Card Processing	USA	-	-
LTD Caucasus Online	Telecommunication	Georgia	-	-
JSC GRDC	Property development	Netherlands Antilles	365	365
Georgian Stock Exchange	Stock exchange	Georgia	1,004	1,004
Other			335	433
Total			1,704	1,802

The movements in investment securities available for sale are as follows:

<i>In thousands of GEL</i>	Note	2017	2016
Carrying amount as of 1 January		430,703	307,310
Business Combination		-	153,004
Purchases		560,226	143,783
Disposals		-	(14,679)
Reclassified to Bonds carried at amortised cost		-	-
Redemption at maturity		(345,748)	(167,115)
Revaluation		5,489	522
Interest income accrued	28	43,735	25,707
Interest income received		(36,214)	(17,900)
Impairment related to investment in equity security		-	(11)
Effect of translation to presentation currency		(158)	82
Transfer to investment in associate		(95)	-
Carrying amount as of 31 December		657,938	430,703

11 Bonds Carried at Amortised Cost

<i>In thousands of GEL</i>	2017	2016
Ministry of Finance Treasury Bills	424,876	323,478
Certificates of Deposit of the National Bank of Georgia	24,662	43,408
Georgian Government notes	-	6,070
Total Bonds carried at amortised cost	449,538	372,956

All debt securities except for corporate bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as per international rating agencies in September 2017).

The movements in bonds carried at amortised cost are as follows:

<i>In thousands of GEL</i>	Note	2017	2016
Gross amount as of 1 January		372,956	372,092
Reclassified from available-for-sale securities	10	-	-
Purchases		307,248	304,109
Redemption at maturity		(242,380)	(314,231)
Interest income accrual		32,328	30,714
Interest income received		(20,601)	(19,740)
Effect of translation to presentation currency		(13)	12
Gross amount as of 31 December		449,538	372,956

11 Bonds Carried at Amortised Cost (Continued)

For the disclosure of bonds' fair value carried at amortised cost refer to Note 41. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 35.

As of 31 December 2017 bonds carried at amortised cost of GEL 223,860 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2016: GEL 273,311 thousand). Refer to Note 18.

None of the bonds carried at amortised cost as of 31 December 2017 and 31 December 2016 were either overdue or impaired.

During 2015 the Group reclassified investment securities available for sale to bonds carried at amortised cost with carrying amount of GEL 372,063 thousand.

At the end of the reporting period, the carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

	31 December 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
<i>In thousands of GEL</i>				
Certificates of Deposit of National Bank of Georgia	-	-	-	-
Ministry of Finance Treasury Bills	101,876	106,837	160,619	164,313
Government notes	-	-	6,070	6,094
Total	101,876	106,837	166,689	170,407

The income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

	Certificates of Deposit of National Bank of Georgia		Ministry of Finance Treasury Bills		Government notes	
	Income after reclassification	Gain/ (loss) without reclassification	Income after reclassification	Gain/ (loss) without reclassification	Income after reclassification	Gain/ (loss) without reclassification
<i>In thousands of GEL</i>						
Year						
2016	-	-	17,575	-	797	-
2017	-	-	12,668	-	142	-

In addition, for assets reclassified from available for sale category, income or loss recognised in other comprehensive income would have been as follows:

	Certificates of Deposit of National Bank of Georgia	Ministry of Finance Treasury Bills	Government notes
<i>In thousands of GEL</i>			
Year			
2016	-	3,694	24
2017	-	4,961	-

12 Other Financial Assets

<i>In thousands of GEL</i>	2017		2016	
	Consolidated	Separate	Consolidated	Separate
Receivables on credit card services and money transfers	26,703	26,241	24,801	24,151
Prepayments for purchase of leasing assets	25,478	-	10,628	-
Receivables on guarantees	18,042	18,042	18,215	18,088
Receivables on guarantees / letters of credit	2,941	2,941	-	-
Receivable on terminated leases	8,961	-	7,832	-
Factored receivables	6,182	6,182	900	900
Bank assurance income receivable	15,944	15,944	4,549	4,549
Rental income receivables	4,414	4,414	3,816	3,816
Receivables on repossessed assets disposed	6,618	6,618	10,603	10,603
Trade receivable	13,862	-	2,232	-
Other	23,010	40,207	14,979	40,199
	(18,020)	(10,180)	(6,660)	(299)
Less: Provision for impairment				
Total other financial assets	134,135	110,409	91,895	102,007

Movements in the provision for impairment of other financial assets during 2017 for the Group were as follows:

<i>In thousands of GEL</i>	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2017	4,666	1,994	6,660
Provision for impairment during the year	1,568	10,644	12,212
Amounts written off during the year as uncollectible	-	(1,010)	(1,010)
Recovery of amounts previously written off	-	189	189
Foreign exchange translation gains less losses	-	(31)	(31)
Provision for impairment as of 31 December 2017	6,234	11,786	18,020

Movements in the provision for impairment of other financial assets during 2016 for the Group were as follows:

<i>In thousands of GEL</i>	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2016	3,561	2,331	5,892
Business Combination	-	357	357
Provision for impairment during the year	1,105	1,464	2,569
Amounts written off during the year as uncollectible	-	(2,370)	(2,370)
Recovery of amounts previously written off	-	212	212
Provision for impairment as of 31 December 2016	4,666	1,994	6,660

Movements in the provision for impairment of other financial assets during 2017 for the Bank were as follows:

<i>In thousands of GEL</i>	Total
Provision for impairment as of 1 January 2017	299
Business Combination	876
Provision for impairment during the year	9,297
Amounts written off during the year as uncollectible	(452)
Recovery of amounts previously written off	189
Foreign exchange translation gains less losses	(29)
Provision for impairment as of 31 December 2017	10,180

12 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2016 for the Bank were as follows:

<i>In thousands of GEL</i>	Total
Provision for impairment as of 1 January 2016	1,368
Provision for impairment during the year	1,090
Amounts written off during the year as uncollectible	(2,371)
Recovery of amounts previously written off	212
Provision for impairment as of 31 December 2016	299

The table below illustrates the credit quality of other financial receivables:

<i>In thousands of GEL</i>	2017		2016	
	Consolidated	Separate	Consolidated	Separate
<i>Neither past due nor impaired</i>				
- Receivables on credit card services and money transfers	26,703	26,241	24,801	24,151
- Prepayments for purchase of leasing assets	25,478	-	10,628	-
- Factored receivables	6,182	6,182	900	900
- Bank assurance income receivable	15,944	15,944	4,549	4,549
- Rental income receivables	4,414	4,414	3,816	3,816
- Receivables on repossessed assets disposed	6,480	6,480	5,700	5,700
- Receivables on guarantees / letters of credit	2,989	2,989	1,089	962
- Trade receivable	13,862	-	2,232	-
- Other	17,833	35,030	9,014	34,233
Total neither past due nor impaired	119,885	97,280	62,729	74,311
<i>Past due but not impaired</i>				
- Receivables on guarantees				
- More than 90 days overdue	16,773	16,773	17,126	17,126
Total past due but not impaired	16,773	16,773	17,126	17,126
<i>Receivables individually determined to be impaired (gross)</i>				
- Receivables on terminated leases	8,961	-	7,832	-
- Less than 90 days overdue	-	-	-	-
- More than 90 days overdue	8,961	-	7,832	-
- Receivables on guarantees and letters of credit	1,221	1,221	-	-
- Less than 90 days overdue	-	-	-	-
- More than 90 days overdue	1,221	1,221	-	-
- Receivables on repossessed assets disposed	138	138	4,903	4,903
- Less than 90 days overdue	-	-	-	-
- More than 90 days overdue	138	138	4,903	4,903
- Other receivables	5,177	5,177	5,965	5,966
- Less than 90 days overdue	-	-	-	-
- More than 90 days overdue	5,177	5,177	5,965	5,966
Total individually impaired (gross)	15,497	6,536	18,700	10,869
Less impairment provision	(18,020)	(10,180)	(6,660)	(299)
Total other financial assets	134,135	110,409	91,895	102,007

12 Other Financial Assets (Continued)

Credit rating of other financial assets neither past due nor impaired is as follows:

<i>In thousands of GEL</i>	2017		2016	
	Consolidated	Separate	Consolidated	Separate
A+	13,003	13,003	2,508	2,508
A	4,116	4,116	14,086	14,086
BBB+	6,265	1,132	845	660
BB	217	-	-	-
BB-	7	-	-	-
B+	4,332	3,784	1,007	860
B	726	-	2,645	2,437
Not rated	91,219	75,245	41,638	53,760
Total	119,885	97,280	62,729	74,311

Impaired receivables include receivables on terminated leases and other receivables for which impairment provision was assessed individually. A receivable's overdue status is a primary factor for the Group to consider a receivable as impaired. Receivables on terminated leases individually determined to be impaired are under-collateralised and their estimated fair value of collateral amounts to GEL 1,206 thousand (2016: GEL 2,039 thousand). The remaining assets are not collateralized.

13 Investments in Finance Lease

As of 31 December 2017 investments in finance lease of GEL 143,836 thousand (2016: GEL 95,031 thousand) are represented by leases of fixed assets excluding land and buildings.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

<i>In thousands of GEL</i>	Due in 1 year	Due between 1 and 5 years	Total
Finance lease payments receivable as of 31 December 2017	86,186	105,595	191,781
Unearned finance income	(23,720)	(22,727)	(46,447)
Impairment loss provision	(765)	(733)	(1,498)
Present value of lease payments receivable as of 31 December 2017	61,701	82,135	143,836
Finance lease payments receivable as of 31 December 2016	65,265	56,672	121,937
Unearned finance income	(15,302)	(10,462)	(25,764)
Impairment loss provision	(678)	(464)	(1,142)
Present value of lease payments receivable as of 31 December 2016	49,285	45,746	95,031

For fair values refer to Note 41.

The table below illustrates the movements in the provision for impairment of net investment in finance lease:

<i>In thousands of GEL</i>	31 December 2017	31 December 2016
Provision for impairment at the beginning of the year	1,142	738
Provision for impairment during the year	492	558
Amounts written off during the year as uncollectible	(136)	(154)
Provision for impairment at the end of the year	1,498	1,142

13 Investments in Finance Lease (Continued)

Credit quality of net investment in finance lease is analysed below:

<i>In thousands of GEL</i>	31 December 2017	31 December 2016
<i>Neither past due nor impaired</i>		
- Customers with more than two year experience	22,705	28,084
- New customers	90,668	45,404
Total neither past due nor impaired	113,373	73,488
<i>Past due but not impaired</i>		
- Less than 30 days overdue	19,047	15,357
- 31 to 90 days overdue	9,310	5,101
Total past due but not impaired	28,357	20,458
<i>impaired leases</i>		
- Not overdue	-	-
- 1 to 30 days overdue	-	-
- 31 days to 90 days overdue	343	-
- From 91 to 180 days	2,204	1,079
- From 181 to 360 days	339	966
- More than 360 days	718	182
Total impaired gross*	3,604	2,227
Total investment in finance lease-	145,334	96,173
Impairment loss provision	(1,498)	(1,142)
Total net investment in finance lease	143,836	95,031

*Total impaired leases include both collectively and individually impaired leases

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors taken into account to consider whether or not a lease is impaired are the deterioration of the lessee's financial position, its overdue status, and liquidity of the leased asset.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment)
- Down payment
- Real estate properties,
- Third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralized assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralized assets").

13 Investments in Finance Lease (Continued)

The effect of collateral as of 31 December 2017:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	96,015	153,813	49,319	9,710
Total	96,015	153,813	49,319	9,710

The effect of collateral as of 31 December 2016:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	75,364	112,917	20,809	16,817
Total	75,364	112,917	20,809	16,817

14 Other Assets

<i>In thousands of GEL</i>	2017	2016
Current other assets		
Inventories of repossessed collateral	116,809	90,873
Other inventories	4,135	3,963
Prepayments for other assets	9,605	28,575
Prepaid taxes other than income tax	5,788	3,326
Other debtor	-	35,497
Total current other assets	136,337	162,234
Non-current other assets		
Assets repossessed from terminated leases	3,210	2,673
Prepayments for construction in progress	2,745	2,445
Assets purchased for leasing purposes	2,733	286
Prepaid insurance of leasing assets	1,884	937
Other	883	2,181
Total non-current other assets	11,455	8,522
Total other assets	147,792	170,756

Included in Other Debtors is receivable from one corporate client, in respect of settlement of previously written-off loan.

Inventories of repossessed collateral represent real estate assets and equipment acquired by the Group in settlement of impaired loans, other than those classified as investment property or premises and equipment. The Group expects to dispose these assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value. In 2017, collateral repossessed for settlement of impaired loans amounted to GEL 53 million (2016: GEL 39 million).

With regards to certain inventories of repossessed collaterals, the Group has granted previous owners a right to repurchase the inventories at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 18 months from the date of repossession, during this time the Group is obliged not to dispose of the repossessed collateral to third parties. As of 31 December 2017, the carrying value of the inventories of repossessed collateral subjected to the repurchase agreement was GEL 11,170 thousand (2016: GEL 20,342 thousand).

15 Premises, Equipment and Intangible Assets

	Note	Land, Premises and leasehold improvements	Office and Other equipment *	Construct- ion in progress	Total premises and equipment	Intangible Assets	Total
<i>In thousands of GEL</i>							
Cost or valuation as of 1 January 2016		162,126	152,662	50,033	364,821	67,344	432,165
Accumulated depreciation/amortisation including accumulated impairment loss		(29,545)	(87,509)	-	(117,054)	(23,000)	(140,054)
Carrying amount as of 1 January 2016		132,581	65,153	50,033	247,767	44,344	292,111
Additions		5,512	19,173	6,206	30,891	18,868	49,759
Business combination		49,928	7,975	36	57,939	6,534	64,473
Transfers within premises and equipment		3,042	-	(3,042)	-	-	-
Transfers to Investment Property		(298)	-	-	(298)	-	(298)
Disposals		(2,571)	(3,836)	(69)	(6,476)	(4)	(6,480)
Effect of translation to presentation currency							
Cost		(31)	(45)	-	(76)	(12)	(88)
Impairment charge to profit and loss		(574)	(675)	-	(1,249)	(2,043)	(3,292)
Depreciation/amortisation charge		(3,185)	(16,783)	-	(19,968)	(6,977)	(26,945)
Elimination of accumulated depreciation/amortisation on disposals		2,439	2,555	-	4,994	-	4,994
Effect of translation to presentation currency							
Accumulated depreciation		28	32	-	60	(12)	48
Carrying amount as of 31 December 2016		186,871	73,549	53,164	313,584	60,698	374,282
Cost or valuation as of 31 December 2016		217,134	175,254	53,164	445,552	90,687	536,239
Accumulated depreciation/amortisation including accumulated impairment loss		(30,263)	(101,705)	-	(131,968)	(29,989)	(161,957)
Carrying amount as of 31 December 2016		186,871	73,549	53,164	313,584	60,698	374,282
Additions		5,298	25,894	48,664	79,856	34,559	114,415
Transfers within premises and equipment		11,326	-	(11,326)	-	-	-
Transfer from investment property		1,114	-	-	1,114	-	1,114
Disposals		(2,334)	(9,576)	-	(11,910)	(88)	(11,998)
Revaluation		-	261	-	261	-	261
Effect of translation to presentation currency							
Cost		25	54	-	79	11	90
Impairment charge to profit and loss		(6)	(730)	(46)	(782)	(1,916)	(2,698)
Depreciation/amortisation charge		(5,455)	(19,982)	-	(25,437)	(10,279)	(35,716)
Elimination of accumulated depreciation/amortisation on disposals		747	8,628	-	9,375	30	9,405
Effect of translation to presentation currency							
Accumulated depreciation		(25)	(50)	-	(75)	57	(18)
Carrying amount as of 31 December 2017		197,561	78,048	90,456	366,065	83,072	449,137
Cost or valuation as of 31 December 2017		232,557	191,157	90,456	514,170	123,253	637,423
Accumulated depreciation/amortisation including accumulated impairment loss		(34,996)	(113,109)	-	(148,105)	(40,181)	(188,286)
Carrying amount as of 31 December 2017		197,561	78,048	90,456	366,065	83,072	449,137

*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 2017 94% of premises and equipment and 95% of intangible assets were attributable to the Bank (2016: 75% and 86%). In year 2017, in additions of construction in progress is included property repossessed from debtor in the amount of GEL 39 million.

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

Premises were revalued to market value on 30 September 2015. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation. At acquisition date valuation of Bank Republic's assets has been performed. Fair value of respective assets is disclosure below.

The management considers that the fair value has not changed significantly between 30 September 2015 and 31 December 2017.

<i>In thousands of GEL (except for range of inputs)</i>	Fair value as of 20 October 2016 (acquisition date)	Fair value as of 30 September 2015 (valuation date)	Valuation technique	Other key information	Unobservable inputs	Range of unobservable inputs (weighted average)
Office buildings	30,753	51,115	Sales comparison approach	Land Buildings	Price per square meter	472 - 3,432 (797) 601 – 6,598 (1,781)
Branches	18,645	124,069	Sales comparison approach	Land Buildings	Price per square meter	2 – 3,427 (280) 452 – 11,514 (2,360)

As of 31 December 2017 the carrying amount of premises would have been GEL 144,778 thousand (2016: GEL 134,352 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2017 the carrying amount of construction in progress would have been GEL 67,033 thousand (2016: GEL 30,394 thousand) had the assets been carried at cost less impairment losses.

16 Investment Properties

<i>In thousands of GEL</i>	Note	2017	2016
Gross book value as of 1 January		99,347	60,648
Accumulated depreciation as of 1 January		(3,732)	(3,048)
Carrying amount as of 1 January		95,615	57,600
Transfer to premises and equipment	15	(1,143)	-
Transfer from inventories of repossessed collateral		752	15,935
Transfer to Repossessed Collateral		(590)	-
Addition from foreclosure		943	6,820
Disposals at cost		(15,438)	(6,892)
Elimination of depreciation on disposal		259	253
Depreciation charge		(1,166)	(937)
Acquisition through business combination		-	22,836
Effect of translation to presentation currency		-	-
Gross book value as of 1 January		83,871	99,347
Accumulated depreciation as of 1 January		(4,639)	(3,732)
Carrying amount as of 31 December		79,232	95,615

As of 31 December 2017, investment properties comprised of 102 lots (2016: 62 lots) of land and 144 buildings (2016: 141 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 85,012 thousand (2016: GEL 123,852 thousand).

For disclosure purposes a fair valuation exercise was carried out for Investment Properties as of 31 December 2017. The valuation was carried out by internal valuers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

<i>In thousands of GEL (except for range of inputs)</i>	Fair value as of 20 October 2016 (acquisition date)	Fair value as of 31 December 2017 (valuation date)	Valuation technique	Unobservable inputs	Range of unobservable inputs (weighted average)
Land	3,398	29,611	Sales comparison approach	Price per square meter	0.05 – 1,512 (97)
Buildings	19,438	55,401	Sales comparison approach	Price per square meter	11 – 2,446 (798)

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

<i>In thousands of GEL</i>	2017	2016
Not later than 1 year	177	463
Later than 1 year and not later than 5 years	-	805
Total operating lease payments receivable	177	1,268

17 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	2017	2016
Carrying amount as of 1 January	26,892	2,726
Acquisition of subsidiaries	-	24,166
Carrying amount as of 31 December	26,892	26,892

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

<i>In thousands of GEL</i>	2017	2016
JSC Bank Republic	24,166	24,166
<i>Bank Republic Retail</i>	<i>11,088</i>	-
<i>Bank Republic Corporate</i>	<i>7,491</i>	-
<i>Bank Republic MSME</i>	<i>4,791</i>	-
<i>Bank Republic Other</i>	<i>796</i>	-
CGU Micro	769	769
JSC United Financial Corporation	695	695
LLC TBC Kredit	1,262	1,262
Total carrying amount of goodwill	26,892	26,892

*Due to Bank Republic merger in 2017, carrying amount of goodwill was allocated across multiple CGU's of the Bank, that also equal to the operating and reporting segments.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2017	2016
JSC Bank Republic**		
Growth rate beyond five years of Free Cash Flow to equity	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	18.71% p.a.	21.72% p.a.
CGU SME / JSC Bank Constanta		
Growth rate beyond five years of Free Cash Flow to equity	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	12.01% p.a.	14.39% p.a.
JSC United Financial Corporation		
Growth rate beyond five years of Free Cash Flow to equity	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	18.16% p.a.	19.18% p.a.
LLC TBC Kredit		
Growth rate beyond five years of Free Cash Flow to equity	1.3% p.a.	4.00% p.a.
Pre-tax discount rate	31.35% p.a.	28.10% 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 either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 781,330 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 29.92% p.a.

17 Goodwill (Continued)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 402,679 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 27.97% p.a.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 246,759 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 27.11% p.a.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC Bank Republic as of 31 December 2016 had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of JSC Bank Republic CGU exceeds its carrying amount by GEL 1,295,196, thousand. The CGU's carrying amount would equal its value in use at a discount rate of 71.58% 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 (2016: nil). Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 440,075 thousand (2016: GEL 284,402 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 34.60% p.a. (2016: 30.74% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2017: nil and nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 17,866 thousand (2016: GEL 13,073 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 39.27% p.a. (2016: 46.36% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill (2016:nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 36,420 thousand (2016: GEL 20,505 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 119.51% of p.a.(2016: 68.64% p.a.).

18 Due to Credit Institutions

<i>In thousands of GEL</i>	2017	2016
Due to other banks		
Correspondent accounts and overnight placements	21,777	23,271
Deposits from banks	64,441	176,443
Short-term loans from banks	-	117,592
Total due to other banks	86,218	317,306
Other borrowed funds		
Borrowings from foreign banks and financial institutions	1,591,778	1,412,095
Borrowings from local banks and financial institutions	908,271	439,234
Borrowings from Ministry of Finance	2,914	4,203
Borrowings from other financial institutions	55,533	27,138
Total other borrowed funds	2,558,496	1,882,670
Total amounts due to credit institutions	2,644,714	2,199,976

As of 31 December 2017 95% of due to credit institutions were attributable to the Bank (2016: 63%).

As of 31 December 2017 for the purposes of maturity analysis of financial liabilities (Note 35) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

19 Customer Accounts

<i>In thousands of GEL</i>	2017	2016
State and public organisations		
- Current/settlement accounts	810,783	240,743
- Term deposits	209,641	78,990
Other legal entities		
- Current/settlement accounts	2,211,502	2,145,028
- Term deposits	225,132	248,670
Individuals		
- Current/demand accounts	1,973,685	1,618,434
- Term deposits	2,404,580	2,129,717
Total customer accounts	7,835,323	6,461,582

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of GEL</i>	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Individual	4,378,265	56%	3,748,151	58%
Energy & Utilities	429,722	5%	283,497	4%
Financial Services	398,278	5%	501,591	8%
Construction	377,944	5%	222,372	3%
Transportation	376,333	5%	188,388	3%
Government sector	330,356	4%	140,852	2%
Services	236,128	3%	274,138	4%
Trade	209,339	3%	305,022	5%
Food Industry	175,676	2%	82,984	1%
Hotels and Leisure	174,777	2%	104,066	2%
Real Estate	119,507	2%	82,893	1%
Healthcare	106,439	1%	64,493	1%
Automotive	71,628	1%	53,865	1%
Communication	50,059	1%	56,787	1%
Agriculture	29,199	0%	37,850	1%
Metals and Mining	16,976	0%	22,817	0%
Other	354,697	5%	291,816	5%
Total customer accounts	7,835,323	100%	6,461,582	100%

19 Customer Accounts (Continued)

As of 31 December 2017 the Group had 261 customers (2016: 222 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 3,439,673 thousand (2016: GEL 2,539,513 thousand) or 44% of total customer accounts (2016: 39%).

As of 31 December 2017 included in customer accounts are deposits of GEL 11,040 thousand and GEL 120,406 thousand (2016: GEL 13,355 thousand and GEL 119,146 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 37. As of 31 December 2017, deposits held as collateral for loans to customers amounted to GEL 224,899 thousand (2016: GEL 342,365 thousand).

Refer to Note 41 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 43.

20 Debt Securities in Issue

<i>In thousands of GEL</i>	Currency	Carrying amount in GEL as of 31 December 2017	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	7,637	22-Jul-19	7.3%	8.1%
Bonds issued on Georgian market	USD	5,224	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,834	15-Aug-18	7.8%	8.6%
Total debt securities in issue		20,695			

<i>In thousands of GEL</i>	Currency	Carrying amount in GEL as of 31 December 2016	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	5,312	3-Sep-17	8.4%	9.2%
Bonds issued on Georgian market	USD	5,237	15-Aug-18	7.8%	8.6%
Bonds issued on Georgian market	USD	5,198	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,761	22-Jul-19	7.3%	8.1%
Total debt securities in issue		23,508			

Refer to Note 41 for the disclosure of the fair value of debt securities in issue.

21 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges

Movements in provisions for performance guarantees, credit related commitment and liabilities and charges are as follows:

<i>In thousands of GEL</i>	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2016	1,472	5,589	2,400	9,461
Charges less releases recorded in profit or loss	(452)	1,223	2,210	2,981
Assuming guarantees following asset purchase	909	-	-	909
Additions through Business Combinations	706	1,237	-	1,943
Carrying amount as of 31 December 2016	2,635	8,049	4,610	15,294
Charges less releases recorded in profit or loss	(579)	190	(2,495)	(2,884)
Utilization of provision	-	-	(2,115)	(2,115)
Effect of translation to presentation currency	11	-	-	11
Carrying amount as of 31 December 2017	2,067	8,239	-	10,306

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

For letter of credits and guarantees allowance estimation purposes the Bank classifies borrowers as significant and non-significant ones. Triggered significant guarantees and letter of credits are assessed for impairment on an individual basis, whereas for not triggered significant and all non-significant ones the Bank estimates allowances applying statistical risk parameters, such as credit conversion factor and loss given default.

Undrawn credit lines are classified as committed and uncommitted exposures, with impairment allowance created for committed ones. The undrawn part of the credit lines is multiplied by the respective credit conversion factor and provisioned in the similar manner as corresponding on balance sheet exposures.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the year-end.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of GEL</i>	Note	2017		2016	
		Consolidated	Separate	Consolidated	Separate
Trade payables		31,497	7,711	16,612	3,705
Security deposits for finance lease		20,647	-	8,241	-
Debit or credit card payables		10,567	11,383	12,066	12,155
Derivative financial liabilities	40	575	575	1,298	1,298
Other accrued liabilities		16,488	15,844	11,936	4,193
Total other financial liabilities		79,774	35,513	50,153	21,351

Refer to Note 41 for disclosure of the fair value of other financial liabilities.

23 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of GEL</i>	2017	2016
Accrued employee benefit costs	42,500	38,317
Taxes payable other than on income	14,145	16,723
Advances received	10,350	6,256
Other	3,192	1,555
Total other liabilities	70,187	62,851

All of the above liabilities are expected to be settled within twelve months after the year-end.

24 Subordinated Debt

As of 31 December 2017, subordinated debt comprised of:

<i>In thousands of GEL</i>	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,467	27,134
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,496	19,430
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,577	92,222
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,161	6,161
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,259	39,554
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,640	19,805
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,639	19,802
Asian Development Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,467	130,822
Private lenders	30-Jun-17	30-Jun-23	USD	24,114	62,508
THALES	5-Nov-14	5-Dec-18	USD	1,008	2,613
Total subordinated debt					426,788

As of 31 December 2016, subordinated debt comprised of:

<i>In thousands of GEL</i>	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,446	27,649
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,480	19,799
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,474	93,891
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,239	40,335
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,631	20,197
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,629	20,194
Asian Development Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,407	133,417
Total subordinated debt					368,381

The debt ranks after all other creditors in case of liquidation.

Refer to Note 41 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 43.

25 Share Capital

As of 31 December 2017 the total authorised number of ordinary shares was 52,539,769 shares (31 December 2016: 52,539,015 shares). Each share has a nominal value of GEL 0.4 (31 December 2016: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

<i>In thousands of GEL except for number of shares</i>	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2016	49,529,463	19,811	413,645	433,456
Registering shares in the name of employees under share based payment arrangement	525,456	210	12,004	12,214
Shares repurchased and cancelled	(94,553)	(38)	(3,457)	(3,495)
New shares issued	2,578,649	1,031	98,969	100,000
At 31 December 2016	52,539,015	21,014	521,161	542,175
New shares issued	754	0	29	29
At 31 December 2017	52,539,769	21,014	521,190	542,204

On 4 March 2014, Shareholders of the Bank approved the split of the ordinary shares 250-for-1 and authorised the issue of additional 10,445,387 shares.

In June 2014, 19,684,322 shares of the Bank were sold in the form of Global Depositary Receipts (“GDRs”) on the London Stock Exchange (the “LSE”) pursuant to an initial public offering to institutional investors. 7,692,308 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Bank of New York (“BNY”) acted as a depositary of these shares. Each GDR represented 1 ordinary share of the Bank. On 4 August 2016, the Group completed the Tender Offer under which 49,159,880 of the Bank’s shares then outstanding or 98.21%, were converted into 49,159,880 shares of TBC Bank Group PLC (note 1).

On 7 June 2017, at the annual general meeting JSC TBC Bank’s shareholders agreed on a dividend of GEL 1.49 per share, based on the 2016 audited financial statements. The dividend was recorded on 12 June 2017 and on 14 June 2017 shareholders received the payment of the total GEL 78,284 thousand dividends.

On 25 April 2016, at the annual general meeting JSC TBC Bank’s shareholders agreed on a dividend of GEL 1.09 per share, based on the 2015 audited financial statements. The dividend was recorded on 3 May 2016 and on 11 May 2016 shareholders received the payment of the total GEL 54,560 thousand dividends.

26 Share Based Payments

June 2013 arrangement:

In June 2013, the Bank’s Supervisory Board approved a new management compensation scheme for the years 2013 – 2015 and authorised a maximum of 4,150 new shares to be issued in accordance with the scheme. The authorized number of new shares has increased to 1,037,500 in order to reflect the share split 250-for-1 approved by the shareholders on 4 March 2014. According to the scheme, each year, (subject to predefined performance conditions) a certain number of shares were awarded to the top management and some of the middle managers of the Group.

The performance evaluation is divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded (legally transferred) depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the award date. The team goals primarily focus on meeting the target for growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achieving the team goals. Individual performance indicators are defined on an individual basis and are used to calculate the number of shares to be awarded to each employee out of the total bonus pool. Once awarded, these shares carry service conditions and, before those conditions are met, are eligible to dividends. However, they do not carry voting rights and cannot be sold or transferred to third parties. Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2013, 2014 and 2015 tranche gradually ran over on the second, third, and fourth year following the performance appraisal. Eighty per cent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to June 2019.

26 Share Based Payments (Continued)

Under the new management compensation scheme, both shareholders and Supervisory Board hold put options on the shares to be awarded. In addition, they both hold put options on all bonus shares awarded under the previous share-based payment arrangements. All the put-options became null and void upon the listing on the LSE in June 2014. At no point of the operation of the share-based payment scheme did the management expect the put-options to be exercised. Consequently, the scheme was accounted for as equity-settled scheme and no obligation was recognized for the put-options.

In 2013 the Group considered 20 June as the grant date. Based on the management's expectation of performance and service conditions, 732,000 shares have been granted and will be gradually awarded to the members of the described scheme. An external evaluator assessed the fair value per share at the grant date at GEL 13.93 adjusted for the effect of 250-for-1 share split. Income and market approaches were applied for the evaluation. The market approach involved an estimate of the market capitalization to book value of equity multiple and deal price to book value of equity multiple for comparable banks. When selecting comparable banks, the appraiser chose lenders operating in the Black Sea region and Central and Eastern Europe with a portfolio mix and growth priorities similar to TBC Bank. The income approach involved discounting free cash flows to equity estimated over a 10-year horizon. When developing the projections, the following major assumptions were made:

- Over the 2013-2023 periods, the compound annual growth rate was assumed at 15.2% for loans and at 15.1% for customer accounts.
- The spread on the Bank's customer business was assumed to gradually decline from an estimated 10.2% in 2013 to stabilize at 5.8% by 2021.
- Over 2013-2023 period, non-interest income was forecast to average 1.8% of customer volume (i.e. gross loans and deposits).
- Year-on-year growth in various components of employee's compensation was assumed at 37.6%-56.0% in 2014, 2.4%-9.8% in 2015 and was then assumed to gradually decline to 2.1%-3.6% in 2023. Year-on-year growth in administrative expenses was assumed at 38.3% in 2014, 10.4% in 2015 and to gradually decline to 3.3% in 2023.
- The Bank's terminal value was estimated using the Gordon growth model, applying US long-term inflation forecast (2.1%) as the Bank's terminal cash flows growth rate.
- Bank's cost of equity was estimated at 15.10%.

The final valuation was based on the income approach and the market one was used to check the results obtained by the former. The calculated value of Bank's equity was then divided by the number of ordinary shares issued as of date and further reduced with the discount for lack of control.

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved new management compensation scheme for the top and middle management and it accordingly authorised the issue of a maximum 3,115,890 new shares. The new system will be enforced from 2015 through 2018, replacing the system introduced in June 2013 -- the performance evaluation as well as the respective compensation for 2015 year-end results will be paid under the new system. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares will be awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Supervisory Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management will also receive the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they do not carry voting rights and cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted. The shares will be gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

26 Share Based Payments (Continued)

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme was updated, and TBC Bank Group PLC distributes its shares to the scheme's participants. The shares' value is recharged to the JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries, which is accounted as cash settled part. Tabular information on both of the schemes is given below:

In GEL except for number of shares	31 December 2017	31 December 2016
Number of unvested shares at the beginning of the period	2,622,707	2,756,605
Number of shares granted	-	-
Change in estimate of number of shares expected to vest based on performance conditions	(13,100)	(11,904)
Forfeited during the period	-	(35,146)
Number of shares vested	(324,834)	(86,848)
Number of unvested shares at the end of the period	2,284,773	2,622,707
Value at grant date per share (GEL) old remuneration system	13.93	13.93
Value at grant date per share (GEL) new remuneration system	24.64	24.64
Expense on equity-settled part (GEL thousand)	10,543	12,599
Decrease in equity due to utilisation of cash compensation alternative (GEL thousand)	-	(817)
Expense on cash-settled part (GEL thousand)	5,119	10,271
Expense recognised as staff cost during the period (GEL thousand)	15,662	22,053

Liability in respect of the cash-settled part of the award amounted to GEL 12,675 thousand as of 31 December 2017 (2016: GEL 13,725 thousand).

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.

27On 31 December 2017 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system and decreased estimated number of shares to vest by 13,100 (31 December 2016: 11,904 shares).

27 Segment Analysis

The Management Board (the “Board”) is the chief operating decision maker and it reviews the Group’s internal reporting in order to assess the performance and to allocate resources. Following the merger of Bank Republic with TBC Bank, the Group has reassessed its definition of segments as disclosed in this note. Some of the clients were reallocated to different segments. As per current report, micro and SME loans are combined in one MSME category. Consumer loans include all retail loans, except mortgage loans. Comparative information as of 31 December 2016 has been updated respectively.

The operating segments according to the new definition are now determined as follows:

- Corporate – all business customers with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other business customers may also be assigned to the Corporate segment on a discretionary basis;
- Micro, small and medium enterprises – all business customers who are not included in Corporate segment; Some other customers may also be assigned to the MSME segment on a discretionary basis;
- Retail – all individual customers not included in the other categories.
- Corporate Centre and Other Operations – comprises of the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

Statement of financial position amounts as at 31 December 2017 and 2016 are comparable.

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 2017 or 2016.

The vast majority of the entity’s revenues are attributable to Georgia. A geographic analysis of origination of the Group’s assets and liabilities is given in note 35.

A summary of the Group’s reportable segments for the years ended 31 December 2017 and 2016 is provided below:

27 Segment Analysis (Continued)

	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
<i>In thousands of GEL</i>					
31 December 2017					
- Interest income	203,082	535,851	184,008	110,768	1,033,709
- interest expense	(104,792)	(118,516)	(11,661)	(197,173)	(432,142)
- Inter-segment interest income(expense)	22,489	(73,141)	(51,488)	102,140	-
- Net interest income	120,779	344,194	120,859	15,735	601,567
- Fee and commission income	30,426	140,582	20,335	1,409	192,752
- Fee and commission expense	(6,910)	(51,199)	(8,949)	(893)	(67,951)
- Net Fee and commission income	23,516	89,383	11,386	516	124,801
- Net gains from trading in foreign currencies	38,885	22,597	26,885	(1,268)	87,099
- Net losses from foreign exchange translation	-	-	-	4,595	4,595
- Net losses from derivative financial instruments	-	-	-	(36)	(36)
- Net gains from disposal of available for sale investment securities	-	-	-	93	93
- Other operating income	13,465	12,670	1,726	3,650	31,511
Share of profit of associates	-	-	-	909	909
- Other operating non-interest income	52,350	35,267	28,611	7,943	124,171
- Provision for loan impairment	27,031	(106,579)	(14,275)	-	(93,823)
- Provision for performance guarantees and credit related commitments	184	(261)	467	-	390
- Provision for impairment of investments in finance lease	-	-	-	(492)	(492)
- Provision for impairment of other financial assets	(7,666)	(17)	(64)	(4,465)	(12,212)
- Profit before administrative and other expenses and income taxes	216,194	361,987	146,984	19,237	744,402
- Staff costs	(25,989)	(128,331)	(31,225)	(11,281)	(196,826)
- Depreciation and amortisation	(1,438)	(29,813)	(4,972)	(659)	(36,882)
- Provision for liabilities and charges	-	-	-	2,495	2,495
- Administrative and other operating expenses	(7,457)	(81,356)	(15,118)	(11,815)	(115,746)
- Operating expenses	(34,884)	(239,500)	(51,315)	(21,260)	(346,959)
- Profit before tax	181,310	122,487	95,669	(2,023)	397,443
- Income tax expense	(27,738)	(15,527)	(13,820)	22,423	(34,662)
- Profit for the year	153,572	106,960	81,849	20,400	362,781
Total gross loans and advances to customers reported	2,475,392	4,233,153	1,844,672	-	8,553,217
Total customer accounts reported	2,429,368	4,378,265	1,027,690	-	7,835,323
Total credit related commitments and performance guarantees	1,160,531	229,178	199,662	-	1,589,371

27 Segment Analysis (Continued)

	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
<i>In thousands of GEL</i>					
31 December 2016					
- Interest income	161,030	386,193	141,533	77,654	766,410
- interest expense	(45,205)	(101,521)	(8,114)	(122,282)	(277,122)
- Inter-segment interest income(expense)	(22,186)	(34,056)	(36,752)	92,994	-
- Net interest income	93,639	250,616	96,667	48,366	489,288
- Fee and commission income	21,884	100,637	16,331	3,950	142,802
- Fee and commission expense	(3,977)	(42,905)	(4,689)	(539)	(52,110)
- Net Fee and commission income	17,907	57,732	11,642	3,411	90,692
- Net gains from trading in foreign currencies	23,945	17,817	26,271	2,126	70,159
- Net losses from foreign exchange translation	-	-	-	(2,528)	(2,528)
- Net losses from derivative financial instruments	-	-	-	(206)	(206)
- Net gains from disposal of available for sale investment securities	-	-	-	9,293	9,293
- Other operating income	9,837	5,772	1,076	6,529	23,214
- Other operating non-interest income	33,782	23,589	27,347	15,214	99,932
- Provision for loan impairment	48,948	(73,010)	(25,140)	-	(49,202)
- Provision for performance guarantees and credit related commitments	(388)	(902)	519	-	(771)
- Provision for impairment of investments in finance lease	-	-	-	(558)	(558)
- Provision for impairment of other financial assets	(863)	(207)	(38)	(1,461)	(2,569)
- Impairment of investment securities available for sale	-	-	(11)	-	(11)
- Profit before administrative and other expenses and income taxes	193,025	257,818	110,986	64,972	626,801
- Staff costs	(23,068)	(100,888)	(28,188)	(19,160)	(171,304)
- Depreciation and amortisation	(1,062)	(21,560)	(3,507)	(1,851)	(27,980)
- Provision for liabilities and charges	-	-	-	(2,210)	(2,210)
- Administrative and other operating expenses	(5,944)	(59,365)	(12,793)	(30,099)	(108,201)
- Operating expenses	(30,074)	(181,813)	(44,488)	(53,320)	(309,695)
- Profit before tax	162,951	76,005	66,498	11,652	317,106
- Income tax expense	(24,513)	(7,406)	(10,325)	24,823	(17,421)
- Profit for the year	138,438	68,599	56,173	36,475	299,685
Total gross loans and advances to customers reported	2,062,229	3,680,576	1,615,920	-	7,358,725
Total customer accounts reported	1,882,210	3,747,774	831,598	-	6,461,582
Total credit related commitments and performance guarantees	802,971	188,574	155,275	-	1,146,820

27 Segment Analysis (Continued)

Reportable segments' assets were reconciled to total assets as follows:

<i>In thousands of GEL</i>	31 December 2017	31 December 2016
Total segment assets (gross loans and advances to customers)	8,553,217	7,358,725
Provision for loan impairment	(227,864)	(225,023)
Cash and cash equivalents	1,428,771	944,767
Mandatory cash balances with National Bank of Georgia	1,033,818	990,642
Due from other banks	37,789	23,824
Investment securities available for sale	657,938	430,703
Bonds carried at amortised cost	449,538	372,956
Current income tax prepayment	19,084	7,429
Deferred income tax asset	2,605	3,265
Other financial assets	134,135	91,895
Investments in finance leases	143,836	95,031
Other assets	147,792	170,756
Premises and equipment	366,065	313,584
Intangible assets	83,072	60,698
Investment properties	79,232	95,615
Goodwill	26,892	26,892
Investments in Subsidiaries and Associates	1,278	-
Total assets per statement of financial position	12,937,198	10,761,759

Reportable segments' liabilities are reconciled to total liabilities as follows:

<i>In thousands of GEL</i>	31 December 2017	31 December 2016
Total segment liabilities (customer accounts)	7,835,323	6,461,582
Due to Credit institutions	2,644,714	2,199,976
Debt securities in issue	20,695	23,508
Current income tax liability	447	2,579
Deferred income tax liability	602	5,646
Provisions for liabilities and charges	10,306	15,294
Other financial liabilities	79,774	50,153
Other liabilities	70,187	62,851
Subordinated debt	426,788	368,381
Total liabilities per statement of financial position	11,088,836	9,189,970

28 Interest Income and Expense

<i>In thousands of GEL</i>	2017	2016
Interest income		
Loans and advances to customers	919,796	688,756
Bonds carried at amortised cost	32,328	30,714
Investment securities available for sale (Note10)	43,735	25,707
Investments in leases	23,273	16,566
Due from other banks	14,577	4,502
Other	-	165
Total interest income	1,033,709	766,410
Interest expense		
Customer accounts	234,969	154,840
Due to credit institutions	158,255	86,179
Subordinated debt	36,975	34,325
Debt securities in issue	1,943	1,778
Other	-	-
Total interest expense	432,142	277,122
Net interest income	601,567	489,288

As of 31 December 2017 92% of interest income and 93% of interest expense were attributable to the Bank (2016: 92% and 92%).

In the year ended 31 December 2017 the interest accrued on impaired loans amounted to GEL 16,332 thousand (2016: 23,825 thousand).

29 Fee and Commission Income and Expense

<i>In thousands of GEL</i>	2017		2016	
	Consolidated	Separate	Consolidated	Separate
Fee and commission income				
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>				
- Card operations	82,525	78,690	61,115	57,553
- Settlement transactions	59,730	34,620	43,436	24,691
- Cash transactions	17,424	18,615	13,013	14,108
- Guarantees issued	15,121	14,188	11,699	10,982
- Issuance of letters of credit	5,735	5,556	6,215	6,113
- Foreign exchange operations	1,339	1,324	1,277	1,230
- Other	10,878	10,511	6,047	5,820
Total fee and commission income	192,752	163,504	142,802	120,497
Fee and commission expense				
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss:</i>				
- Card operations	46,360	51,848	34,906	41,399
- Settlement transactions	7,400	7,193	5,795	5,652
- Guarantees received	2,873	2,765	2,420	2,292
- Cash transactions	4,393	9,958	2,633	4,904
- Self-service and POS terminal transactions	6,436	-	4,692	-
- Other	489	171	1,664	403
Total fee and commission expense	67,951	71,935	52,110	54,650
Net fee and commission income	124,801	91,569	90,692	65,847

30 Other Operating Income

<i>In thousands of GEL</i>	2017	2016
Revenues from operational leasing	6,559	5,772
Gain from sale of investment properties	4,353	2,623
Gain from sale of receivables	4,090	58
Reimbursement of taxes	2,486	349
Gain from sale of inventories of repossessed collateral	2,383	2,382
Gain from marketing promotional services	2,077	-
Revenues from non-credit related fines	1,333	644
Revenues from sale of cash-in terminals	1,093	1,100
Gain on disposal of premises and equipment	1,017	208
Dividend Income	-	823
Recovery from repayment of purchased impaired loans	-	4,995
Administrative fee income from international financial institutions	-	644
Other	6,120	3,616
Total other operating income	31,511	23,214

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the inventories of repossessed collateral disposed in the year ended 31 December 2017 was GEL 24,284 thousand for the Group and the Bank (2016: GEL 26,972 thousand).

31 Staff Costs

<i>In thousands of GEL</i>	2017		2016	
	Consolidated	Separate	Consolidated	Separate
Salaries and bonuses	176,510	153,575	145,926	125,033
Share based compensation	15,662	15,662	22,053	22,053
Other compensation cost	4,654	3,882	3,325	2,473
Salaries and other employee benefits	196,826	173,119	171,304	149,559

In 2017 the average monthly total number of persons employed by the Group and by the Bank was 6,883 and 5,958 people respectively (2016: 5,520 and 4,788).

32 Administrative and Other Operating Expenses

<i>In thousands of GEL</i>	2017		2016	
	Consolidated	Separate	Consolidated	Separate
Rent	22,700	17,462	18,233	14,128
Advertising and marketing services	18,021	17,468	13,784	13,060
Professional services	12,162	10,368	29,030	27,543
Intangible asset enhancement	10,304	8,630	7,446	5,939
Utility services	6,057	5,610	5,104	4,772
Taxes other than on income	5,607	3,406	4,699	2,957
Premises and equipment maintenance	5,253	5,868	3,880	4,423
Stationery and other office expenses	4,737	4,348	3,429	3,092
Communications and supply	4,063	3,500	4,183	2,600
Insurance	3,270	989	2,686	933
Business trip expenses	1,897	1,753	1,880	1,699
Security services	1,965	1,803	1,883	1,687
Impairment of intangible assets	1,916	1,916	2,043	-
Transportation and vehicle maintenance	1,637	898	1,386	751
Personnel training and recruitment	1,444	1,074	1,272	1,111
Loss on disposal of inventories	1,239	1,020	1,690	1,243
Charity	1,045	989	884	790
Loss on disposal of premises and equipment	492	276	423	365
Reversal of previously written-down current assets to fair value less costs to sell	(538)	(540)	(4,424)	(4,819)
Other	12,475	6,954	8,690	5,369
Total administrative and other operating expenses	115,746	93,792	108,201	87,643

Included in professional services, in the year ended 31 December 2016, are transaction costs related to the acquisition of Bank Republic, comprising GEL 8,000 thousands.

34 Administrative and Other Operating Expenses (Continued)

Auditors' remuneration is included within professional services expenses above and comprises:

<i>In thousands of GEL</i>	Audit	Audit Related	Other Services	Total
2017				
Audit of TBC Bank Group and subsidiaries annual financial statements	924	-	-	924
Review of TBC Bank Group and subsidiaries interim financial statements	-	251	-	251
Other assurance services	-	-	173	173
Total auditor's remuneration	924	251	173	1,348
2016				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,588	-	-	1,588
Review of TBC Bank Group and subsidiaries interim financial statements	-	360	-	360
Other assurance services	-	5	5,432	5,437
Total auditor's remuneration	1,588	365	5,432	7,385

Included in Other assurance services as of 31 December 2016, GEL 3,797 thousands is attributable to reporting accountant fees related to listing of TBCG shared on LSE.

33 Income Taxes

Income tax expenses comprises of the following:

<i>In thousands of GEL</i>	2017	2016
Current tax charge	39,225	36,601
Deferred tax (credit)/charge	(4,563)	(19,180)
Income tax expense for the year	34,662	17,421

The income tax rate applicable to the majority of the Group's income was 15% (2016: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2016: 15% - 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of GEL</i>	2017	2016
Profit before tax	397,443	317,106
Theoretical tax charge at statutory rate (2017: 15%; 2016: 15%)	59,718	46,917
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(13,645)	(9,638)
- Non-deductible expenses and other differences	(117)	3,492
- Effect of change in tax legislation	(11,794)	(24,204)
- Other differences	500	854
Income tax expense for the year	34,662	17,421

33 Income Taxes (Continued)

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% (2016: 15%) for Georgia and 20% for Azerbaijan (2016: 20%).

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2019 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

As of 31 December 2017, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2018 to 31 December 2018.

	31 December 2016	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2017
<i>In thousands of GEL</i>				
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(5,323)	648	377	(4,298)
Loan impairment provision	(91)	2,401	-	2,401
Fair valuation of investment securities available for sale	165	483	(648)	-
Other financial assets	2,122	(107)	-	2,015
Other assets	39	(10)	-	29
Investment in leases	-	-	-	-
Investment property	(982)	640	-	(342)
Due to credit institutions	(1,295)	479	-	(816)
Subordinated debt	(85)	62	-	(23)
Other financial liabilities	197	(269)	-	(72)
Other liabilities	2,225	(573)	-	1,652
Share based payment	676	810	-	1,486
Tax loss carry forwards	(29)	-	-	(29)
Net deferred tax asset/(liability)	(2,381)	4,564	(271)	2,003
Recognised deferred tax asset	3,265	(660)	-	2,605
Recognised deferred tax liability	(5,646)	5,315	(271)	(602)
Net deferred tax asset/(liability)	(2,381)	4,655	(271)	2,003

33 Income Taxes (Continued)

	1 January 2016	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	Changes due to the business combination	31 December 2016
<i>In thousands of GEL</i>					
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards					
Premises and equipment	(25,802)	11,112	11,011	(1,644)	(5,323)
Loan impairment provision	(9,167)	11,729	-	(2,574)	(92)
Fair valuation of investment securities available for sale	(1,595)	461	1,565	(266)	165
Other financial assets	5,952	(3,830)	-	-	2,122
Other assets	6,407	(5,734)	-	(634)	39
Investment in leases	(556)	556	-	-	-
Investment property	(4,247)	4,275	-	(1,010)	(982)
Due to credit institutions	(475)	(820)	-	-	(1,295)
Subordinated debt	(327)	242	-	-	(85)
Other financial liabilities	60	137	-	-	197
Other liabilities	1,311	1,146	-	(231)	2,226
Share based payment	741	(65)	-	-	676
Tax loss carry forwards	-	(29)	-	-	(29)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,359)	(2,381)
Recognised deferred tax asset	1,546	1,719	-	-	3,265
Recognised deferred tax liability	(29,244)	17,461	12,576	(6,361)	(5,646)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,361)	(2,381)

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

34 Net Debt Reconciliation

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities			
	Other borrowed funds	Debt Securities in Issue	Subordinated debt	Total
<i>In thousands of GEL</i>				
Net debt at 1 January 2017	1,882,670	23,508	368,381	2,274,559
Cash flows	541,289	(3,251)	22,837	560,875
Foreign exchange adjustments	(14,398)	(1,505)	(766)	(16,669)
Other non-cash movements	148,935	1,943	36,336	187,214
Net debt at 31 December 2017	2,558,496	20,695	426,788	3,005,979

Due to the amendments being issued one year before the effective date, the Group need not provide comparative information as it applied the amendment for the first time.

35 Financial and Other Risk Management

TBC Bank Group's strong risk governance reflects the importance placed by the Board and the Group's Risks, Ethics and Compliance Committee on shaping the risk strategy and managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organization structure: enterprise risk management; credit, financial and non-financial risks management; risk reporting & supporting IT infrastructure; cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensures sustainability and resiliency of the business model and positioning of risk management as Group's competitive advantage and strategic enabler.

The TBC Bank Group's governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. The Risks, Ethics and Compliance Committee is responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the Board. Namely, the committee carries out following duties: 1) Review and assessment of the Group's risk management strategy, risk appetite and tolerance, risk management system and risk policies; 2) Review and monitoring of the processes for compliance with laws, regulations and ethical codes of practice; 3) monitoring of the remediation of internal control deficiencies identified by internal and external auditors around compliance, ethics and risk management functions; 4) Annual self-assessment of the committee's performance and reporting of the results to the Board; 5) Review of the key risk management framework and other policy documents and make recommendations to the Board for their approval.

On the Bank level, risk management is the duty of the Supervisory Board, which has the overall responsibility to set the tone at the top and monitor compliance with established objectives. At the same time, Management Board governs and directs Groups' daily activities.

Both the Supervisory Board and the management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Bank's Risk Appetite, supervises risk profile and risk governance practice within the Bank while Audit Committee is responsible for implementation of key accounting policies and facilitation of activities of internal and external auditors. Management Board Risk Committee is established to guide group-wide risk management activities and monitor major risk trends to make sure risk profile complies with the established Risk Appetite of the Group. Operational Risk Committee makes decisions related to operational risk governance while Asset-Liability Management Committee ("ALCO") is responsible for implementation of ALM policies.

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.

35 Financial and Other Risk Management (Continued)

Such control arrangements guarantee that the Bank takes informed risk-taking decisions that are adequately priced, avoiding taking risks that are beyond the Group's established threshold. Within the Risk Organization the below teams manage the credit, liquidity, market, operational and other non-financial risks:

- Enterprise Risk Management (ERM);
- Credit Risk Management;
- Underwriting (Credit sanctioning);
- Restructuring and Collections;
- Financial Risk Management;
- Operational Risk Management.

The strong and independent structure enables fulfillment of all the required risk management functions within the second line of defense by highly skilled professionals with a balanced mix of credentials in banking and real sectors both on the local and international markets.

In addition to the above-mentioned risk teams, the Compliance Department (reporting directly to CEO) is specifically in charge of AML and compliance risk management. As the third line of defense, the Internal Audit Department provides an independent and objective assurance and recommendations to Group that facilitates further improvement of operations and risk management.

For the management of each significant risk, the Bank puts in place specific policies and procedures, governance tools and techniques, methodologies for risk identification, assessment and quantification. Sound risk reporting systems and IT infrastructure are important tools for efficient risk management of TBC Bank. Thus, significant emphasis and investments are made by the Bank to constantly drive the development of required solutions. Comprehensive reporting framework is in place for the Management Board and the Supervisory Board that enables intense oversight over risk developments and taking early remedial actions upon necessity.

Beyond the described risk governance components, compensation system features one of the most significant tools for introducing incentives for staff, aligned with the Bank's long term interests to generate sustainable risk-adjusted returns. The risk Key Performance Indicators ("KPIs") are incorporated into both the business line and the risk staff remunerations. The performance management framework differentiates risk staff incentives to safeguard the independence from business areas that they supervise and at the same time enable attraction and maintenance of qualified professionals. For that purpose, the Bank overweighs risk KPIs for risk and control staff and caps the share of variable remuneration.

35 Financial and Other Risk Management (Continued)

Credit risk. The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values. For maximum exposure on off-balance sheet commitments refer to note 37.

Credit risks include: risks arising from transactions with individual counterparties, concentration risk, currency-induced credit risks and residual risks.

- Risks arising from transactions with individual counterparties are the loss risk related to default or non-fulfillment of contracts due to deterioration in the counterparty's credit quality
- Concentration risk is the risk related to the quality deterioration due to large exposures provided to single borrowers or a group of connected borrowers, or loan concentration in certain economic industries
- Currency-induced credit risks relate to risks arising from foreign currency-denominated loans in the Group's portfolio
- Residual risks result from applying credit risk-mitigation techniques, which could not satisfy expectation in relation to received collateral

Comprehensive risk management methods and processes are established as part of the Group's risk management framework to manage credit risk effectively. The main principles for Group's credit risk management are: establish a prudent credit risk environment; operate under a sound credit-granting process; and maintain efficient processes for credit risk identification, measurement, control and monitoring. Respective policies and procedures establish a framework for lending decisions reflecting the Group's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

Credit Approval: The Group strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. The concept of three lines of defense is embedded in the credit risk assessment framework, with a clear segregation of duties among the parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting the different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis with thorough analysis of the borrower's creditworthiness and structure of the loan; whereas smaller retail and micro loans are mostly assessed in an automated way applying respective scoring models for the loan approval. Lending guidelines for business borrowers have been tailored to individual economic sectors, outlining key lending criteria and target ratios within each industry.

The Loan Approval Committees are responsible to review the credit applications and approve the credit products. Different Loan Approval Committees with clearly defined delegation authority are in place for the approval of credit exposures to Corporate, SME, Retail and Micro customers (except those products which are assessed applying scorecards). The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of respective Loan Approval Committees) ensure that the borrower and the proposed credit exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers or exceeding 5% of the Bank's regulatory capital requires the review and the approval of the Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties resulting in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

35 Financial and Other Risk Management (Continued)

Credit Risk Monitoring: The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react timely to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as they encompass individual credit exposures, overall portfolio performance and external trends that may impact the portfolio's risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

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

Credit Risk Mitigation: Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, the Group uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The reliance that can be placed on these mitigation factors is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor.

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

Credit Risk Restructuring and Collection: A comprehensive portfolio supervision system is in place to identify weakened or problem credit exposures in a timely manner and to take prompt remedial actions. Dedicated restructuring units manage weakened borrowers across all business segments. The primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category. The sophistication and complexity of rehabilitation process differs based on the type and size of exposure.

A centralised monitoring team monitors retail borrowers in delinquency, which coupled with branches' efforts, are aimed at maximizing collection. The specialised software is applied for early collection processes management. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile.

Dedicated recovery units manage loans with higher risk profile. Corporate and SME borrowers are transferred to a recovery unit in case of a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Retail and micro loans are generally transferred to the recovery unit or external collection agencies (in the case of unsecured loans) at 90 days overdue, although they may be transferred earlier if it is evident that the borrower is unable to repay the loan.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

35 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as of 31 December 2017 is set out below:

<i>In thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	818,094	608,575	2,102	1,428,771
Due from other banks	25,329	8,733	3,727	37,789
Mandatory cash balances with National Bank of Georgia	1,033,818	-	-	1,033,818
Loans and advances to customers	7,960,107	67,805	297,441	8,325,353
Investment securities available for sale	657,068	-	870	657,938
Bonds carried at amortised cost	449,538	-	-	449,538
Investments in leases	143,836	-	-	143,836
Other financial assets	133,789	141	205	134,135
Total financial assets	11,221,579	685,254	304,345	12,211,178
Non-financial assets	721,274	55	4,691	726,020
Total assets	11,942,853	685,309	309,036	12,937,198
Liabilities				
Due to credit institutions	1,069,211	1,559,644	15,859	2,644,714
Customer accounts	6,517,641	694,820	622,862	7,835,323
Debt securities in issue	7,821	-	12,874	20,695
Other financial liabilities	78,670	474	630	79,774
Subordinated debt	62,508	232,263	132,017	426,788
Total financial liabilities	7,735,851	2,487,201	784,242	11,007,294
Non-financial liabilities	79,612	1,084	846	81,542
Total liabilities	7,815,463	2,488,285	785,088	11,088,836
Net balance sheet position	4,127,390	(1,802,976)	(476,052)	1,848,362
Performance guarantees	387,904	151,502	72,905	612,311
Credit related commitments	968,019	2,996	6,045	977,060

35 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as of 31 December 2016 is set out below:

<i>In thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	548,866	389,223	6,678	944,767
Due from other banks	4,973	18,851	-	23,824
Mandatory cash balances with National Bank of Georgia	990,642	-	-	990,642
Loans and advances to customers	6,923,037	88,616	122,049	7,133,702
Investment securities available for sale	429,985	-	718	430,703
Bonds carried at amortised cost	372,956	-	-	372,956
Investments in leases	95,031	-	-	95,031
Other financial assets	91,666	229	-	91,895
Total financial assets	9,457,156	496,919	129,445	10,083,520
Non-financial assets	673,438	29	4,772	678,239
Total assets	10,130,594	496,948	134,217	10,761,759
Liabilities				
Due to credit institutions	719,098	1,410,693	70,185	2,199,976
Customer accounts	5,426,095	532,690	502,797	6,461,582
Debt securities in issue	13,261	-	10,247	23,508
Other financial liabilities	48,248	1,285	620	50,153
Subordinated debt	-	233,657	134,724	368,381
Total financial liabilities	6,206,702	2,178,325	718,573	9,103,600
Non-financial liabilities	84,678	1,100	592	86,370
Total liabilities	6,291,380	2,179,425	719,165	9,189,970
Net balance sheet position	3,839,214	(1,682,477)	(584,948)	1,571,789
Performance guarantees	274,614	56,406	95,588	426,608
Credit related commitments	706,646	10,175	3,391	720,212

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As of 31 December 2017, the Bank maintained an aggregate open currency position of 1.5% of regulatory capital (2016: 3.2%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

35 Financial and Other Risk Management (Continued)

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. Under the ICAAP framework the Bank developed methodology for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers all provisions to be denominated in the local currency. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented:

<i>In thousands of GEL</i>	As of 31 December 2017			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Lari	4,812,558	3,809,208	164,521	1,167,871
US Dollars	6,460,892	6,288,939	(153,449)	18,504
Euros	816,277	805,172	(9,315)	1,790
Other	121,432	103,975	(899)	16,558
Total	12,211,159	11,007,294	858	1,204,723

<i>In thousands of GEL</i>	As of 31 December 2016			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Lari	3,483,389	2,485,281	9,394	1,007,502
US Dollars	5,819,504	5,850,217	(8,905)	(39,618)
Euros	690,667	697,520	(13)	(6,866)
Other	89,960	70,582	(288)	19,090
Total	10,083,520	9,103,600	188	980,108

To assess the currency risk the Bank performs a value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Group's income determined by possible worst movement of currency rates against the Georgian Lari, with all other variables held constant. To identify the maximum expected losses resulting from currency fluctuations, a 99% confidence level is defined based on the monthly variations in exchange rates over 3 year look-back period. During the years ended 31 December 2017 and 2016, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

<i>In thousands of GEL</i>	As of 31 December 2017	As of 31 December 2016
Maximum loss (VAR, 99% confidence level)	(1,807)	(1,184)
Maximum loss (VAR, 95% confidence level)	(1,197)	(868)

Interest rate risk. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

35 Financial and Other Risk Management (Continued)

The Bank's deposits and the most loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Currency and interest rate swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables. The tables consider both reserves placed with NBG and Interest bearing Nostro accounts. Income on NBG reserves and Nostros are calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates are considered in case of USD and EUR respectively. Therefore, they have impact on the TBC's Net interest income in case of both upward and downward shift of interest rates.

<i>In thousands of GEL</i>	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2017					
Total financial assets	3,419,809	2,440,185	1,065,644	5,306,276	12,231,914
Total financial liabilities	4,098,666	2,628,473	1,046,629	3,254,239	11,028,007
Net interest sensitivity gap as of 31 December 2017	(678,857)	(188,288)	19,015	2,052,037	1,203,907
31 December 2016					
Total financial assets	2,707,541	1,796,745	1,011,420	4,606,985	10,122,691
Total financial liabilities	3,603,901	2,011,224	1,024,058	2,503,590	9,142,773
Net interest sensitivity gap as of 31 December 2016	(896,360)	(214,479)	(12,638)	2,103,395	979,918

As of 31 December 2017, if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 7.6 million higher (2016: GEL 9.5 million), mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 6,131 thousand higher (2016: GEL 1,516 thousand), as a result of an increase in the fair value of fixed rate financial assets classified as available for sale and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 7.6 million lower (2016: GEL 9.5 million), mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,861 thousand lower (2016: GEL 2,118 thousand), as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

With the assistance of Ernst & Young LLC the Bank has developed an advanced model to manage the interest rate risk on a standalone basis. The interest rate risk analysis is performed monthly by the Financial Risk Management Department.

35 Financial and Other Risk Management (Continued)

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes.

In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Ethics and Compliance Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank internally developed Liquidity Coverage ratio and a Net Stable Funding ratio models, both under Basel III, guidelines. In addition the Bank performs stress tests and "what-if" scenario analysis and minimum liquidity ratio defined by the NBG.. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches were applied to Mandatory Reserves' weighting and to the deposits' withdrawal rates depending on the clients group's concentration. From 1st of September, 2017 the Bank also monitors compliance with NBG LCR limits.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis. TBC Bank also stress tests the results of liquidity through large shock scenarios provided by the NBG.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with NBG's accounting rules.

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

The loan to deposit ratio (defined as total value of net loans divided by total value of deposits) stood at 106.3% and 110.5%, at the 31 December 2017 and 2016 respectively.

35 Financial and Other Risk Management (Continued)

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

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

The Bank calculates its liquidity ratios on a daily basis in accordance with the NBG's requirements.

The Liquidity Ratio: The limit is set by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months.

NBG LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows defined as per NBG guidelines. The limit is set by the NBG as per total LCR also by currency (GEL, FX). To promote larization in the country of Georgia, NBG defines lower limit for GEL LCR than that for FX LCR. In addition, NBG mandatory Regulatory reserves in FX currency is only considered at 75% per LCR calculation purposes. NBG guidelines apply higher withdrawal rates to the deposits and off-balance instruments depending on the clients group's concentration than those rates defined per Basel III requirements.

As of 31 December the ratios were well above the prudential limit set by the NBG as follows:

	2017	2016
Average Liquidity Ratio	32.5%	30.8%
Total Liquidity Coverage Ratio	112.72%	-
GEL Liquidity Coverage Ratio	95.62%	-
FX Liquidity Coverage Ratio	122.88%	-

According to daily cash flow forecasts and the surplus in liquidity standing, the Treasury Department places funds in short-term liquid assets, largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2017. Subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The maturity analysis of financial liabilities as of 31 December 2017 is as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	1,142,865	418,613	1,167,970	151,417	2,880,865
Customer accounts – individuals	2,532,039	1,378,835	522,104	40,727	4,473,705
Customer accounts – other	3,068,027	192,852	133,236	80,976	3,475,091
Other financial liabilities	75,081	4,433	260	-	79,774
Subordinated debt	5,060	74,191	198,042	346,703	623,996
Debt securities in issue	504	8,814	13,687	-	23,005
Gross settled forwards	176,822	5,509	-	-	182,331
Performance guarantees	55,928	241,460	306,788	8,135	612,311
Financial guarantees	52,256	122,014	74,457	155	248,882
Other credit related commitments	728,178	-	-	-	728,178
Total potential future payments for financial obligations	7,836,760	2,446,721	2,416,544	628,113	13,328,138

35 Financial and Other Risk Management (Continued)

The maturity analysis of financial liabilities as of 31 December 2016 is as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	837,189	310,447	1,103,959	168,271	2,419,866
Customer accounts – individuals	2,147,014	1,284,067	360,609	39,578	3,831,268
Customer accounts – other	2,287,043	238,551	134,293	74,180	2,734,067
Other financial liabilities	46,464	2,545	1,144	-	50,153
Subordinated debt	4,853	29,510	238,224	360,551	633,138
Debt securities in issue	616	6,584	22,745	-	29,945
Gross settled forwards	16,084	3,641	369	-	20,094
Performance guarantees	60,552	154,616	210,595	845	426,608
Financial guarantees	117,994	102,311	50,657	140	271,102
Other credit related commitments	449,110	-	-	-	449,110
Total potential future payments for financial obligations	5,966,919	2,132,272	2,122,595	643,565	10,865,351

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

35 Financial and Other Risk Management (Continued)

As of 31 December 2017 the analysis by expected maturities may be as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,428,771	-	-	-	1,428,771
Due from other banks	32,541	1,521	3,727	-	37,789
Mandatory cash balances with National Bank of Georgia	1,033,818	-	-	-	1,033,818
Loans and advances to customers	1,031,608	1,767,797	3,438,180	2,087,768	8,325,353
Investment securities available for sale	657,938	-	-	-	657,938
Bonds carried at amortised cost	81,859	105,956	216,177	45,546	449,538
Finance lease receivables	22,896	38,526	82,414	-	143,836
Other financial assets	104,537	16,265	13,333	-	134,135
Total financial assets	4,393,968	1,930,065	3,753,831	2,133,314	12,211,178
Liabilities					
Due to Credit institutions	1,137,076	351,381	1,014,480	141,777	2,644,714
Customer accounts	846,121	137,146	-	6,852,056	7,835,323
Debt securities in issue	47	7,778	12,870	-	20,695
Other financial liabilities	75,081	4,433	260	-	79,774
Subordinated debt	3,471	49,694	97,372	276,251	426,788
Total financial liabilities	2,061,796	550,432	1,124,982	7,270,084	11,007,294
Credit related commitments and performance guarantees					
Performance guarantees	2,067	-	-	-	2,067
Financial guarantees	8,239	-	-	-	8,239
Other credit related commitments	105,268	-	-	-	105,268
Credit related commitments and performance guarantees	115,574	-	-	-	115,574
Net liquidity gap as of 31 December 2017	2,216,598	1,379,633	2,628,849	(5,136,770)	1,088,310
Cumulative gap as of 31 December 2017	2,216,598	3,596,231	6,225,080	1,088,310	

The management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

35 Financial and Other Risk Management (Continued)

As of 31 December 2016 the analysis by expected maturities may be as follows:

	Less than 3 months	From 3 to 12 month s	From 1 to 5 Years	Over 5 years	Total
<i>In thousands of GEL</i>					
Assets					
Cash and cash equivalents	944,767	-	-	-	944,767
Due from other banks	4,416	4,312	5,541	9,555	23,824
Mandatory cash balances with National Bank of Georgia	990,642	-	-	-	990,642
Loans and advances to customers	1,119,128	1,481,095	2,949,227	1,584,252	7,133,702
Investment securities available for sale	430,703	-	-	-	430,703
Bonds carried at amortised cost	123,763	94,250	128,201	26,742	372,956
Finance lease receivables	18,770	30,600	45,661	-	95,031
Other financial assets	63,484	8,709	19,702	-	91,895
Total financial assets	3,695,673	1,618,966	3,148,332	1,620,549	10,083,520
Liabilities					
Due to Credit institutions	796,547	260,046	988,857	154,526	2,199,976
Customer accounts	724,083	154,672	-	5,582,827	6,461,582
Debt securities in issue	145	5,277	18,086	-	23,508
Other financial liabilities	46,464	2,545	1,144	-	50,153
Subordinated debt	3,333	4,893	125,174	234,981	368,381
Total financial liabilities	1,570,572	427,433	1,133,261	5,972,334	9,103,600
Credit related commitments and performance guarantees					
Performance guarantees	2,635	-	-	-	2,635
Financial guarantees	8,049	-	-	-	8,049
Other credit related commitments	45,854	-	-	-	45,854
Credit related commitments and performance guarantees	56,538	-	-	-	56,538
Net liquidity gap as of 31 December 2016	2,068,563	1,191,533	2,015,071	(4,351,785)	923,382
Cumulative gap as of 31 December 2016	2,068,563	3,260,096	5,275,167	923,382	

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

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

35 Financial and Other Risk Management (Continued)

Operating environment. Most of the Group's business is based in Georgia. Emerging economies, such as Georgia's, are subject to rapid change and are vulnerable to global market conditions and economic downturns. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has embarked in a number of civil, criminal, tax, administrative and commercial reforms that have positively affected the overall investment climate of the country. Today Georgia has an international reputation as a country with a favourable investment environment. Georgia continued to progress in the report "Doing Business 2018" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 9th easiest country in the world to do business (out of 190), up by 7 steps compared to the previous year rankings. The country improved its ranking in almost all categories, confirming its position as regional leader and outperforming most of the EU economies. Georgia also boasts low corruption levels, a low tax burden, and high transparency of its institutions according to the number of surveys by international institutions.

The domestic economic environment remains stable and the banking sector continues to grow, supported by broader macroeconomic stability and attractive business climate.

GDP growth stood at 4.8% YoY growth in 2017, per initial estimates of Geostat. Growth was broad based across different sectors of the economy and was mostly driven by Construction, Trade and Repairs, Real estate, transport and communications sectors.

Economic recovery in almost all trading partner countries of Georgia continues to underpin growth in export, tourism and remittances inflows. Exports of goods went up by 29.1% YoY in 2017, growth was diversified across different regions. Exports increased most to CIS countries (+60.0% YoY), exports continued to grow to EU (+13.0% YoY) as well as to other countries (+12.2% YoY). Imports of goods also went up by 9.4%, making the balance of trade in goods to worsen slightly by 1.4% YoY in 2017.

Tourism inflows went up by an estimated 28.0% YoY with the total number of visitors exceeding 7.5 mln. Sharp growth in tourism revenues have sizeable positive impact on Georgia's Current Account balance.

Remittance inflows increased by 19.8% YoY in 2017, with remittances up by 15.1% YoY from EU and 15.6% YoY from CIS countries. Growth of remittances from other countries stood at 31.3% YoY. In the latter group of countries Israel and Turkey had highest contribution to growth as remittances from these countries went up by 96.1% YoY and 25.6% YoY, respectively.

Given the positive trend in external inflows, CA balance improved markedly, in the first 9 months of 2017 CA deficit as a % of GDP stood at 7.1% compared to the 11.2% over the same period last year.

Annual CPI inflation peaked in June, 2017 at 7.1% and declined slightly to 6.7% by the end of 2017. Increased excise taxes in the beginning of 2017, higher oil prices and depreciation of the nominal effective exchange rate of GEL were among the factors that kept inflation close to 7% by the end of the year. To address above target inflation, NBG increased policy rate by 0.25 PP from 7% to 7.25% in December, 2017. Overall, in 2017 NBG raised policy rate by 0.75 PP, from 6.5% in the beginning of 2017 to 7.25% by the end of 2017.

Fiscal deficit narrowed from 3.9% in 2016 to an estimated 3.8% in 2017, in line with the government's strategy to gradually bring down budget deficit below 3% over the medium term. Reduction in budget deficit mostly reflected better than expected growth of tax revenues as well as more prudent approach towards the current spending. Budget project for 2018 envisages further reduction of budget deficit to c. 3% of GDP, which should further strengthen the fiscal position of the country.

36 Management of Capital

The Group's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. Additionally, the Group's capital management objectives entail ensuring that the Bank complies with the capital requirements set by the Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the reports outlining their calculation and are reviewed and signed by the Bank's CFO and Deputy CFO.

The Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2016 and 2017.

In December 2017, the NBG has introduced updated capital framework that is more compliant with Basel III guidelines. Under updated capital framework capital requirements are divided into Pillar 1 and Pillar 2 buffers. Details regarding the capital buffers are outlined below:

- The capital conservation buffer (which was incorporated in minimum capital requirements) is separated and set at 2.5%;
- A systemic risk buffer will be introduced for systematically important banks over the 4 years period
- A countercyclical capital buffer is currently set at 0%;
- A currency induced credit risk (CICR) buffer replaced conservative weighting for un-hedged FX loans denominated in foreign currencies;
- Concentration buffer for sectoral and single borrower exposure will be introduced;
- A net stress buffer will be introduced based on stress testing results provided by the Group;
- A General Risk-assessment Programme (GRAPE) buffer defined by the regulator will be applied based on the Bank's specific risks.

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

NBG Basel I Capital adequacy ratio

Under the NBG Basel I capital requirements set by the NBG in 2017 banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the minimum level of 9.6% and a ratio of Tier 1 capital to risk weighted assets above the minimum level of 6.4%. No additional add-ons are in place. In mid-2015, the NBG removed previously established 3% capital add-on. 2017 is the last phase for Basel I and will be ruled out fully from January 2018.

The regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

<i>In thousands of GEL</i>	2017
Share capital	575,140
Retained earnings and other disclosed reserves	937,041
General loan loss provisions (up to 1.25 % of risk – weighted assets)	171,791
Less intangible assets	(103,072)
Less Investments into subsidiary companies and capital of other banks	(55,138)
Less Investments in the capital of the resident banks	-
Subordinated debt (included in regulatory capital)	375,813
Total regulatory capital	1,901,575
Risk-weighted Exposures	
Credit risk weighted assets (including off-balance obligations)	10,191,259
Currency Induced Credit Risk	3,638,814
minus general and special reserves	-217,643
Risk-weighted assets	13,612,430
Tier 1 Capital adequacy ratio	8.2%
Total Capital adequacy ratio	14.0%

36 Management of Capital (Continued)

The breakdown of the Bank's assets into the carrying amounts based on the NBG accounting rules and relevant risk-weighted exposures as of the end of 2017 are given in the tables below:

<i>In thousands of GEL</i> <i>Risk weighted Exposures</i>	2017	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Deposits and Securities	3,547,937	259,870
Gross Loans and accrued interests	8,609,951	11,979,513
Reposessed Assets	58,530	58,530
Fixed Assets and intangible assets	486,160	383,087
Other assets	271,091	251,573
Total	12,973,669	12,932,573
Total Off-balance sheet	1,820,064	897,500
minus general and special reserves	(217,643)	(217,643)
Total Amount	14,576,090	13,612,430

Under the previous capital requirements set by the NBG banks had to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the minimum level of 10.8% and a ratio of Tier 1 capital to risk weighted assets above the minimum level of 7.2%. No additional add-ons are in place. In mid-2015, the NBG removed previously established 3% capital add-on. The regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

<i>In thousands of GEL</i>	2016
Share capital	567,089
Retained earnings and other disclosed reserves	770,345
General loan loss provisions (up to 1.25 % of risk – weighted assets)	115,559
Less intangible assets	(53,074)
Less Investments into subsidiary companies and capital of other banks	(61,855)
Less Investments in the capital of the resident banks	(351,040)
Subordinated debt (included in regulatory capital)	342,653
Total regulatory capital	1,329,677
Risk-weighted Exposures	
Credit risk weighted assets (including off-balance obligations)	6,750,917
Currency Induced Credit Risk	2,855,296
minus general and special reserves	(205,968)
Risk-weighted assets	9,400,245
Tier 1 Capital adequacy ratio	10.9%
Total Capital adequacy ratio	14.1%

The breakdown of the Bank's assets into the carrying amounts based on the NBG accounting rules and relevant risk-weighted exposures as of the end of 2016 is given in the table below:

<i>In thousands of GEL</i> <i>Risk weighted Exposures</i>	2016	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Deposits and Securities	2,372,263	163,294
Gross Loans and accrued interests	5,979,125	8,427,081
Reposessed Assets	46,441	46,441
Fixed Assets and intangible assets	328,184	275,110
Other assets	620,428	278,394
Total	9,346,441	9,190,320
Total Off-balance sheet	875,585	415,893
minus general and special reserves	(205,968)	(205,968)
Total Amount	10,016,058	9,400,245

36 Management of Capital (Continued)

NBG Basel II Capital adequacy ratio

By the end of 2017 both, Tier 1 and Total capital adequacy ratios are calculated based on the Basel III methodology introduced by NBG. The details are described on page 81.

The table below presents the capital adequacy ratios as well as minimum requirements set by the NBG.

<i>In thousands of GEL</i>	2017
Tier 1 Capital	1,437,218
Tier 2 Capital	448,069
Regulatory capital	1,885,287
Risk-weighted Exposures	
Credit Risk Weighted Exposures	9,754,146
Risk Weighted Exposures for Market Risk	28,802
Risk Weighted Exposures for Operational Risk	970,241
Total Risk-weighted Exposures	10,753,189
Minimum Tier 1 ratio	10.3%
Tier 1 Capital adequacy ratio	13.4%
Minimum total capital adequacy ratio	12.9%
Total Capital adequacy ratio	17.5%

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December 2017 are given in the tables below:

<i>In thousands of GEL</i>	2017	
	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
Reposessed Assets	58,530	58,530
Fixed Assets and intangible assets	437,878	264,768
Other assets	553,176	713,096
<i>minus general provision, penalty and interest provision</i>	(30,862)	(30,862)
Total	12,762,614	9,079,013
Total Off-balance	1,919,565	675,133
Market Risk	28,802	28,802
Operational Risk	517,462	970,241
Total Amount	15,228,443	10,753,189

For year ended 31 December 2016 under the NBG Basel II/III requirements, the Bank calculated its capital requirements and risk weighted assets separately for Pillar 1. The NBG provided detailed instructions of Pillar 1 calculations. The reporting started at the end of 2013. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

<i>In thousands of GEL</i>	2016
Tier 1 Capital	1,041,270
Tier 2 Capital	380,751
Regulatory capital	1,422,021
Risk-weighted Exposures	
Credit Risk Weighted Exposures	9,399,140
Risk Weighted Exposures for Market Risk	45,689
Risk Weighted Exposures for Operational Risk	576,628
Total Risk-weighted Exposures	10,021,457
Minimum Tier 1 ratio	8.5%
Tier 1 Capital adequacy ratio	10.4%
Minimum total capital adequacy ratio	10.5%
Total Capital adequacy ratio	14.2%

36 Management of Capital (Continued)

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December 2016 is given in the table below:

<i>In thousands of GEL</i>	2016	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Exposures and Securities	2,397,259	1,086,262
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	5,771,369	7,149,145
Reposessed Assets	46,441	46,441
Fixed Assets and intangible assets	328,184	273,176
Other assets	647,261	536,747
<i>minus general provision, penalty and interest provision</i>	(45,534)	(45,534)
Total	9,144,980	9,046,237
Total Off-balance	978,221	352,903
Market Risk	45,689	45,689
Operational Risk	403,640	576,628
Total Amount	10,572,530	10,021,457

Capital adequacy ratio under Basel Capital Accord 1988

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

<i>In thousands of GEL</i>	2017	2016
Tier 1 capital		
Share capital	524,807	524,778
Retained earnings and disclosed reserves	1,254,331	983,387
Less: Goodwill	(26,892)	(26,892)
Non-controlling interest	4,735	4,383
Total tier 1 capital	1,756,981	1,485,656
Tier 2 capital		
Revaluation reserves	64,489	59,240
General Reserve	109,372	88,300
Subordinated debt (included in tier 2 capital)	355,944	323,087
Total tier 2 capital	529,805	470,627
Total capital	2,286,786	1,956,283
Credit risk weighted assets (including off-balance obligations)	8,749,752	7,064,035
Less: General Reserve	-118,492	(136,721)
Market Risk	40,803	46,484
Total Risk-weighted assets	8,672,063	6,973,798
Minimum Tier 1 ratio	4.0%	4.0%
Tier 1 Capital adequacy ratio	20.3%	21.3%
Minimum total capital adequacy ratio	8.0%	8.0%
Total Capital adequacy ratio	26.4%	28.1%

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

- IFRS provisions created on loans without impairment trigger event
- 2% of loans without impairment trigger event
- 1.25% of total RWA (Risk Weighted Assets)

36 Management of Capital (Continued)

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2017 and 2016 are provided in the tables below:

In thousands of GEL

Risk weighted Exposures

	2017	
	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	3,609,132	214,353
Gross loans and accrued interests	8,553,217	6,885,960
Reposessed 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
<i>Less: Loan loss provision minus General Reserve</i>	<i>(118,492)</i>	<i>(118,492)</i>
Market Risk	40,803	40,803
Total Amount	14,994,829	8,672,063

In thousands of GEL

Risk weighted Exposures

	2016	
	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	2,762,892	133,527
Gross loans and accrued interests	7,358,725	5,609,312
Reposessed assets	90,873	90,873
Fixed assets and intangible assets	401,174	374,282
Other assets	373,118	373,118
Total	10,986,782	6,581,112
Total Off-balance	1,290,813	482,923
<i>Less: Loan loss provision minus General Reserve</i>	<i>(136,721)</i>	<i>(136,721)</i>
Market Risk	46,484	46,484
Total Amount	12,187,358	6,973,798

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 2017 and 2016 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as of 31 December 2017, the future minimum lease payments under non-cancellable operating leases over the next year amounted to GEL 6,465 thousand (31 December 2016: 5,016 thousand).

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. In April 2017, the group had breached one of the covenants with a foreign financial institution lender. The group has obtained the waiver from the financial institution in June 2017, whereby the breach was retrospectively waived. As of 31 December 2016, TBC Kredit had breached certain borrowing covenants agreed with foreign financial institution lenders. The major reason for the breach was drastic devaluation of Azerbaijani Manat in February and December 2015. The Group was in compliance with all other covenants as of 31 December 2017 and 31 December 2016.

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

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.

37 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

<i>In thousands of GEL</i>	2017	2016
Performance guarantees issued	612,311	426,608
Financial guarantees issued	141,963	116,260
Undrawn credit lines	728,178	449,110
Letters of credit issued	106,919	154,842
Total credit related commitments and performance guarantees (before provision)	1,589,371	1,146,820
Provision for performance guarantees	(2,067)	(2,635)
Provision for credit related commitments and financial guarantees	(8,239)	(8,049)
Total credit related commitments and performance guarantees	1,579,065	1,136,136

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2017 were GEL 389,148 thousand (2016: GEL 169,831 thousand).

Fair value of credit related commitments and financial guarantees were GEL 8,239 thousand as of 31 December 2017 (2016: GEL 8,049 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

<i>In thousands of GEL</i>	2017	2016
Georgian Lari	618,558	409,498
US Dollars	734,970	545,621
Euro	166,304	101,892
Other	69,539	89,809
Total	1,589,371	1,146,820

Capital expenditure commitments. As of 31 December 2017, the Group has contractual capital expenditure commitments amounting to GEL 7,816 thousand (2016: 5,665 thousand).

38 Non-Controlling Interest

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2017:

	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
<i>In thousands of GEL</i>				
TBC Leasing JSC	0.39%	14	70	-
TBC Kredit LLC	25%	275	4,165	-
United Financial Corporation JSC	1.34%	63	500	-

The summarised financial information of these subsidiaries was as follows as of 31 December 2017:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
<i>In thousands of GEL</i>								
TBC Leasing JSC	111,169	87,928	95,988	85,262	15,236	3,436	3,436	2,450
TBC Kredit LLC	19,771	20,319	11,858	20,636	5,172	1,098	1,098	(3,631)
United Financial Corporation JSC	6,353	5,136	1,255	45	12,708	4,733	4,733	40

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2016:

	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
<i>In thousands of GEL</i>				
TBC Leasing JSC	0.39%	9	56	-
TBC Kredit LLC	25%	(2,865)	3,890	-
United Financial Corporation JSC	1.34%	50	436	-

The summarised financial information of these subsidiaries was as follows as of 31 December 2016:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
<i>In thousands of GEL</i>								
TBC Leasing JSC	71,484	49,140	54,930	51,283	11,566	2,316	2,316	(5,425)
TBC Kredit LLC	20,649	19,458	16,034	17,867	8,367	(11,461)	(11,461)	(4,291)
United Financial Corporation JSC	9,271	5,800	9,114	45	11,979	3,737	3,737	(1,243)

39 Offsetting Financial Assets and Financial Liabilities

As of 31 December 2017, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	Financial instru- ments (d)	Cash collateral received (e)	(c) - (d) - (e)
<i>In thousands of GEL</i>						
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	29,308	2,605	26,703	-	-	26,703
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	29,308	2,605	26,703	-	-	26,703
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	12,964	2,605	10,359	-	-	10,359
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	12,964	2,605	10,359	-	-	10,359

39 Offsetting Financial Assets and Financial Liabilities (Continued)

As of 31 December 2016, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
<i>In thousands of GEL</i>	(a)	(b)	(c) = (a) - (b)			
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	26,959	2,158	24,801	-	-	24,801
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	26,959	2,158	24,801	-	-	24,801
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	14,563	2,158	12,405	-	-	12,405
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	14,563	2,158	12,405	-	-	12,405

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

40 Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

<i>In thousands of GEL</i>	2017	2016
Fair value of gross settled currency swaps, included in other financial assets or due from banks	1,767	508
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(909)	(320)
Fair value of Interest rate swaps, included in other financial liabilities	(267)	(1,055)
Total	591	(867)

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Group entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term by their nature.

<i>In thousands of GEL</i>	2017		2016	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of				
- USD payable on settlement (-)	-	(166,326)	-	(13,125)
- USD receivable on settlement (+)	12,877	-	4,220	-
- GEL payable on settlement (-)	-	(1,360)	-	(1,604)
- GEL receivable on settlement (+)	165,881	-	10,998	-
- EUR payable on settlement (-)	-	(9,315)	-	(3,214)
- EUR receivable on settlement (+)	-	-	3,201	-
- Other payable on settlement (-)	-	(2,247)	-	(2,150)
- Other receivable on settlement (+)	1,348	-	1,862	-
Fair value of foreign exchange forwards and gross settled currency swaps	180,106	(179,248)	20,281	(20,093)
Net fair value of foreign exchange forwards and gross settled currency swaps	858		188	

Interest rate swaps. In March 2010 TBC Bank entered into an interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers the payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expires in November 2018. At the reporting date the fair value of interest rate swaps was estimated to be negative GEL 267 thousand (2016: negative GEL 1,055 thousand).

Information on related party balances is disclosed in Note 43.

41 Fair Value Disclosures

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

<i>In thousands of GEL</i>	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
<i>Investment securities available for sale</i>								
- Government notes	-	-	-	-	-	1,016	-	1,016
- Certificates of Deposits of National Bank of Georgia	-	7,728	-	7,728	-	36,002	-	36,002
- Corporate bonds	-	328,761	-	328,761	-	150,073	-	150,073
- Ministry of Finance Treasury Bills	-	319,745	-	319,745	-	241,810	-	241,810
- Corporate shares (Visa Inc)	-	-	-	-	-	-	-	-
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	1,747	-	1,747	-	508	-	508
NON-FINANCIAL ASSETS								
- Premises and leasehold improvements	-	-	283,905	283,905	-	-	229,549	229,549
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	657,981	283,905	941,886	-	429,409	229,549	658,958
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
- Interest rate swaps included in other financial liabilities	-	267	-	267	-	1,055	-	1,055
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	909	-	909	-	320	-	320
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	1,176	-	1,176	-	1,375	-	1,375

There were no transfers between levels 1 and 2 during the year ended 31 December 2017 (2016: none).

41 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements (continued)

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

In thousands of GEL	Fair value at 31 December		Valuation technique	Inputs used
	2017	2016		
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	656,234	428,901	Discounted cash flows (“DCF”) Forward pricing using present value calculations	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	1,747	508		Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS				
	657,981	429,409		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Interest rate swaps included in other financial liabilities	267	1,055	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	909	320	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2				
	1,176	1,375		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2017 (2016: none).

For details the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 15. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

41 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
<i>In thousands of GEL</i>								
FINANCIAL ASSETS								
Cash and cash equivalents	1,428,771	-	-	1,428,771	944,767	-	-	944,767
Due from other banks	-	37,789	-	37,789	-	23,824	-	23,824
Mandatory cash balances with the NBG	-	1,033,818	-	1,033,818	-	990,642	-	990,642
Loans and advances to customers:								
- Corporate loans	-	-	3,292,352	2,425,766	-	-	2,085,249	1,972,129
- Consumer loans	-	-	2,125,733	2,041,887	-	-	1,877,490	1,798,412
- Mortgage loans	-	-	2,058,468	2,052,151	-	-	1,840,981	1,784,832
- Loans to micro, small and medium enterprises	-	-	1,891,528	1,805,549	-	-	1,606,448	1,578,329
Bonds carried at amortised cost	-	458,950	-	449,538	-	377,749	-	372,956
Investments in leases	-	-	145,877	143,836	-	-	95,907	95,031
Other financial assets	-	-	132,368	132,388	-	-	91,387	91,387
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	85,012	79,232	-	-	123,852	95,615
TOTAL ASSETS	1,428,771	1,530,557	9,731,338	11,630,725	944,767	1,392,215	7,721,314	9,747,924
FINANCIAL LIABILITIES								
Due to credit institutions	-	2,650,156	-	2,644,714	-	2,199,415	-	2,199,976
Customer accounts	-	4,995,970	2,951,983	7,835,323	-	4,004,205	2,468,481	6,461,582
Debt securities in issue	-	20,695	-	20,695	-	23,508	-	23,508
Other financial liabilities	-	78,598	-	78,598	-	48,778	-	48,778
Subordinated debt	-	425,808	-	426,788	-	369,320	-	368,381
TOTAL LIABILITIES	-	8,171,227	2,951,983	11,006,118	-	6,645,226	2,468,481	9,102,225

The fair values in the level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 3).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount.

There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2017 (2016: none).

42 Presentation of Financial Instruments by Measurement Category

For the measurement purposes, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2017:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	1,428,771	-	-	-	1,428,771
Due from other banks	37,789	-	-	-	37,789
Mandatory cash balances with the National Bank of Georgia	1,033,818	-	-	-	1,033,818
Loans and advances to customers	8,325,353	-	-	-	8,325,353
Investment securities available for sale	-	657,938	-	-	657,938
Bonds carried at amortised cost	449,538	-	-	-	449,538
Investments in leases	-	-	143,836	-	143,836
Other financial assets:					
- Other financial receivables	132,368	-	-	1,767	134,135
TOTAL FINANCIAL ASSETS	11,407,637	657,938	143,836	1,767	12,211,178
NON-FINANCIAL ASSETS	-	-	-	-	726,020
TOTAL ASSETS	-	-	-	-	12,937,198

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2016:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	944,767	-	-	-	944,767
Due from other banks	23,824	-	-	-	23,824
Mandatory cash balances with the National Bank of Georgia	990,642	-	-	-	990,642
Loans and advances to customers	7,133,702	-	-	-	7,133,702
Investment securities available for sale	-	430,703	-	-	430,703
Bonds carried at amortised cost	372,956	-	-	-	372,956
Investments in leases	-	-	95,031	-	95,031
Other financial assets:					
- Other financial receivables	91,387	-	-	508	91,895
TOTAL FINANCIAL ASSETS	9,557,278	430,703	95,031	508	10,083,520
NON-FINANCIAL ASSETS	-	-	-	-	678,239
TOTAL ASSETS	-	-	-	-	10,761,759

As of 31 December 2017 and 2016, all of the Group’s financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets held for trading measurement category.

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.

As of 31 December 2017, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>		Immediate parent	Significant shareholders	Key management personnel	Companies under common control
	Note				
Gross amount of loans and advances to customers (contractual interest rate: 0.4 - 36%)		-	154	7,112	-
Impairment provisions for loans and advances to customers		-	-	11	-
Customer accounts (contractual interest rate: 0 – 11.8 %)		11,621	40,100	11,190	6,874
Guarantees		-	9,901	512	14
Other borrowed funds		24,000	-	-	-
Provision on guarantees		-	30	2	-

The income and expense items with related parties except from key management compensation for the year 2017 were as follows:

<i>In thousands of GEL</i>		Immediate parent	Significant shareholders	Key management personnel	Companies under common control
	Note				
Interest income - loans and advances to customers		-	20	444	-
Interest income - available securities for sale		-	747	-	-
Interest expense		1,807	928	449	398
Gains less losses from trading in foreign currencies		-	189	56	15
Foreign exchange translation gains less losses		-	(46)	(36)	-
Fee and commission income		9	122	94	8
Fee and commission expense		-	104	-	-
Administrative and other operating expenses (excluding staff costs)		-	58	239	-
Net loss on derivative financial instruments		-	46	-	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2017 were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	573	3,012	-
Amounts repaid by related parties during the year	(1,293)	(3,920)	-

43 Related Party Transactions (Continued)

During the year 2017, 13 related parties were removed from the insider list. If they had remained in the list, guarantees with related parties as of 31 December 2017 would have been GEL 1,139 thousand higher, net assets with related parties as of 31 December 2017 would have been GEL 214,767 thousand lower.

As of 31 December 2017, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

<i>In thousands of GEL</i>	Balance as of 31 December 2017
Gross amount of loans and advances granted to subsidiaries	46,546
Customer accounts of subsidiaries	48,046
Bonds Carried at Amortised Cost	184
Other Financial Assets	18,957
Other Assets	495
Other Financial Liabilities	2,065
Investment in subsidiaries	32,796

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

<i>In thousands of GEL</i>	2017
Interest income	3,345
Interest expense	2,593
Fee and commission income	297
Fee and commission expense	15,276
Other operating income	588
Administrative and other operating expense	3,353

As of 31 December 2016, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>	Note	Immediate parent	Significant shareholder s	Key management personnel	Companies under common control
Gross amount of loans and advances to customers (contractual interest rate: 6.3 - 20%)		-	900	7,612	-
Impairment provisions for loans and advances to customers		-	2	26	-
Derivative financial liability	40	-	1,055	-	-
Due to credit institutions (contractual interest rate: 5.7 – 9.7 %)		-	257,415	-	-
Customer accounts (contractual interest rate: 0 – 13.5 %)		2,719	38,998	14,548	4,314
Other borrowed funds		2,000	-	-	-
Guarantees		-	28,509	-	-
Provision on guarantees		-	192	-	-

43 Related Party Transactions (Continued)

The income and expense items with related parties except from key management compensation for the year 2016 were as follows:

<i>In thousands of GEL</i>	Note	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Interest income		32	160	399	-
Interest expense		1,181	16,254	503	41
Gains less losses from trading in foreign currencies		-	115	18	-
Foreign exchange translation gains less losses		-	191	465	-
Fee and commission income		1	70	13	-
Fee and commission expense		-	580	-	-
Administrative and other operating expenses (excluding staff costs)		-	1	155	-
Net loss on derivative financial instruments	40	-	206	-	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2016 were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	7,264	10,568	-
Amounts repaid by related parties during the year	(9,596)	(5,722)	-

As of 31 December 2016, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

<i>In thousands of GEL</i>	Balance as of 31 December 2016
Gross amount of loans and advances granted to subsidiaries	24,359
Cash and cash equivalents	132,875
Due from other banks	17,029
Bonds Carried at Amortised Cost	188
Other Financial Assets	29,898
Other Assets	443
Investment in subsidiaries	383,124
Customer accounts of subsidiaries	18,905
Due to other banks	33,672
Other Financial Liabilities	1,742

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

<i>In thousands of GEL</i>	2016
Interest income	2,464
Interest expense	1,506
Fee and commission income	1,649
Fee and commission expense	10,044
Other operating income	27,425
Administrative and other operating expense	2,648

43 Related Party Transactions (Continued)

Compensation of the key management personnel and supervisory board members is presented below:

<i>In thousands of GEL</i>	2017		2016	
	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	11,013	-	12,076	-
Cash settled bonuses related to share-based compensation	3,905	9,772	7,336	10,715
Equity-settled share-based compensation	8,469	-	9,923	-
Total	23,387	9,772	29,335	10,715

ⁱ A full list of related undertakings and the country of incorporation is set out below.

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	8 Bulachauri Street, 0160, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Real Estate Management Fund JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Mali LLC	23 Chkheidze Street, 0102, Tbilisi, Georgia
JSC TBC Insurance	24B, Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
UFC International Ltd	HARNEYS FIDUCIARY, Craigmuir Chambers, PO Box 71, Road Town, Tortola VG1110, British Virgin Islands
TBC Capital B.V	202 Oudegracht, 1811, CR Alkmaar Netherlands
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128, Tbilisi, Georgia
Ltd Georgian Mill Company	2 Abashidze street, 0179, Tbilisi Georgia
JSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
LTD Online Tickets	3 Irakli Abashidze street, 0179, Tbilisi, Georgia