TBC BANK GROUP

International Financial Reporting Standards Condensed Consolidated Interim Financial Information (Unaudited)

31 March 2016

CONTENTS

REVIEW Report

UNAUDITED condensed consolidated interim Financial information

Unaudited Condensed Consolidated Interim Statement of Financial Position 1
Unaudited Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income 2
Unaudited Condensed Consolidated Interim Statement of Changes in Equity 3
Unaudited Condensed Consolidated Interim Statement of Cash Flows 4

Notes to the Unaudited Condensed Consolidated Interim Financial Information

1 Introduction 5
2 Summary of Significant Accounting Policies 6
3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies 7
4 Adoption of New or Revised Standards and Interpretations 8
5 New Accounting Pronouncements 8
6 Cash and Cash Equivalents 11
7 Due from Other Banks 11
8 Mandatory cash balances with the National Bank of Georgia 11
9 Loans and Advances to Customers 11
10 Premises and Equipment 18
11 Due to Credit Institutions 19
12 Customer Accounts 20
13 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges 21
14 Subordinated Debt 22
15 Share Capital 23
16 Share Based Payments 24
17 Earnings per Share 26
18 Segment Information 27
19 Interest Income and Expense 31
20 Fee and Commission Income and Expense 31
21 Other Operating Income 32
22 Administrative and Other Operating Expenses 32
23 Income Taxes 32
24 Contingencies and Commitments 33
25 Financial and Other Risk Management 34
26 Management of Capital 49
27 Fair Value Disclosures 54
28 Related Party Transactions 57

Report on review of interim financial information

To the Shareholders and Management of JSC TBC Bank:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC TBC Bank and its subsidiaries (the 'Group') as of 31 March 2016 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch.

13 May 2016
Tbilisi, Georgia

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In thousands of GEL	Note	31 March 2016 (Unaudited)	31 December 2015 (Audited)
ASSETS			
Cash and cash equivalents	6	688,118	720,347
Due from other banks	7	12,591	11,042
Mandatory cash balances with the National Bank of Georgia	8	452,398	471,490
Loans and advances to customers	9	4,298,291	4,444,886
Investment securities available for sale		224,614	307,310
Bonds carried at amortized cost		367,045	372,092
Investments in finance leases		78,950	75,760
Investment properties		69,461	57,600
Current income tax prepayment		10,671	9,856
Deferred income tax asset		2,301	1,546
Other financial assets		55,380	64,317
Other assets		96,920	103,912
Premises and equipment	10	249,756	247,767
Intangible assets	10	45,129	44,344
Goodwill		2,726	2,726
TOTAL ASSETS		**6,654,351**	**6,934,995**
LIABILITIES			
Due to credit institutions	11	1,002,300	1,113,574
Customer accounts	12	3,931,623	4,177,931
Other financial liabilities		38,563	39,435
Current income tax liability		468	912
Debt securities in issue		21,424	21,714
Deferred income tax liability		35,838	29,244
Provisions for liabilities and charges	13	10,491	9,461
Other liabilities		29,687	40,627
Subordinated debt	14	303,381	283,648
TOTAL LIABILITIES		**5,373,775**	**5,716,546**
EQUITY			
Share capital	15	19,612	19,587
Share premium	15	408,274	407,474
Retained earnings		772,225	712,743
Share based payment reserve	16	14,754	12,755
Revaluation reserve for premises		59,532	59,532
Revaluation reserve for available-for-sale securities		6,390	5,759
Cumulative currency translation reserve		(6,614)	(6,590)
Net assets attributable to the Bank's equity holders		**1,274,173**	**1,211,260**
Non-controlling interest		**6,403**	**7,189**
TOTAL EQUITY		**1,280,576**	**1,218,449**
TOTAL LIABILITIES AND EQUITY		**6,654,351**	**6,934,995**

Approved for issue and signed on behalf of the Management Board on 13 May 2016.

Vakhtang Butskhrikidze Chief Executive Officer	Giorgi Shagidze Chief Financial Officer

The notes set out on pages 5 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

In thousands of GEL	**Note**	**Three months ended 31 March 2016 (Unaudited)**	**Three months ended 31 March 2015 (Unaudited)**
Interest income	19	174,859	146,549
Interest expense	19	(65,976)	(50,878)
Net interest income		**108,883**	**95,671**
Fee and commission income	20	29,547	25,024
Fee and commission expense	20	(11,250)	(8,405)
Net fee and commission income		**18,297**	**16,619**
Gains less losses from trading in foreign currencies		14,619	8,331
Foreign exchange translation gains less losses		8	9,338
Losses less gains from derivative financial instruments		(363)	(438)
Other operating income	21	3,668	4,607
Other operating non-interest income		**17,932**	**21,838**
Provision for loan impairment		(13,067)	(29,385)
Provision for impairment of investments in finance lease		(185)	(103)
(Provision for) / recovery of performance guarantees and credit related commitments	13	(1,030)	820
Provision for impairment of other financial assets		(48)	(339)
Impairment of investment securities available for sale		(11)	-
Operating income after provisions for impairment		**130,771**	**105,121**
Staff costs		(34,172)	(30,853)
Depreciation and amortisation		(6,566)	(6,206)
Administrative and other operating expenses	22	(23,560)	(15,534)
Operating expenses		**(64,298)**	**(52,593)**
Profit before tax		**66,473**	**52,528**
Income tax expense	23	(7,777)	(6,889)
Profit for the period		**58,696**	**45,639**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Revaluation of available-for-sale investments		596	(1,413)
Exchange differences on translation to presentation currency		(24)	(3,240)
Income tax recorded directly in other comprehensive income		35	(177)
Other comprehensive income / (loss) for the period		**607**	**(4,830)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**59,303**	**40,809**
Profit is attributable to:			
- Owners of the Bank		59,482	45,540
- Non-controlling interest		(786)	99
Profit for the period		**58,696**	**45,639**
Total comprehensive income is attributable to:			
- Owners of the Bank		60,089	40,710
- Non-controlling interest		(786)	99
Total comprehensive income for the period		**59,303**	**40,809**
Earnings per share for profit attributable to the owners of the Bank:			
- Basic earnings per share	17	1.20	0.92
- Diluted earnings per share	17	1.19	0.92

In thousands of GEL	Note	Net assets Attributable to owners: Share capital	Share premium	Share based payments reserve	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015		**19,576**	**405,658**	**4,624**	**35,096**	**8,675**	**5,484**	**532,992**	**1,012,105**	**7,371**	**1,019,476**
Profit for the three months ended 31 March 2015		**-**	**-**	**-**	**-**	-	-	45,540	**45,540**	99	**45,639**
Other comprehensive loss for three months ended 31 March 2015		-	-	-	-	(1,590)	(3,240)	**-**	**(4,830)**	**-**	**(4,830)**
Total comprehensive income for three months ended 31 March 2015		**-**	-	**-**	**-**	**(1,590)**	**(3,240)**	**45,540**	**40,710**	99	**40,809**
Share based payment	16	-	-	624	-	-	-	-	**624**	**-**	**624**
Balance at 31 March 2015 (Unaudited)		**19,576**	**405,658**	**5,248**	**35,096**	**7,085**	**2,244**	**578,532**	**1,053,439**	**7,470**	**1,060,909**
Balance at 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 three months ended 31 March 2016		-	-	-	-	-	-	59,482	**59,482**	(786)	**58,696**
Other comprehensive loss for three months ended 31 March 2016		-	-	-	-	631	(24)	-	**607**	-	**607**
Total comprehensive income for three months ended 31 March 2016		-	-	-	-	**631**	**(24)**	**59,482**	**60,089**	**(786)**	**59,303**
Share based payment	16	-	-	2,824	-	-	-	-	**2,824**	**-**	**2,824**
Increase in share capital arising from share based payment		25	800	(825)	-	-	-	-	**-**	-	**-**
Balance at 31 March 2016 (Unaudited)		**19,612**	**408,274**	**14,754**	**59,532**	**6,390**	**(6,614)**	**772,225**	**1,274,173**	**6,403**	**1,280,576**

The notes set out on pages 5 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

In thousands of GEL	Note	Three months ended 31 March 2016 (Unaudited)	Three months ended 31 March 2015 (Unaudited)
Cash flows from operating activities			
Interest received		168,488	137,280
Interest paid		(58,755)	(42,225)
Fees and commissions received		29,769	24,744
Fees and commissions paid		(11,440)	(8,494)
Income received from trading in foreign currencies		14,619	8,331
Other operating income received		2,775	4,189
Staff costs paid		(39,780)	(39,178)
Administrative and other operating expenses paid		(22,174)	(18,131)
Income tax paid		(3,033)	(22,316)
Cash flows from operating activities before changes in operating assets and liabilities		**80,469**	**44,200**
Changes in operating assets and liabilities			
Net decrease / (increase) in due from other banks and mandatory cash balances with the National Bank of Georgia		21,473	(43,479)
Net decrease / (increase) in loans and advances to customers		102,208	(52,796)
Net decrease / (increase) in investment in finance lease		(3,196)	1,262
Net decrease / (increase) in other financial assets		9,065	(6,230)
Net increase in other assets		(1,479)	(2,339)
Net increase / (decrease) in due to other banks		72,799	(20,206)
Net (decrease) / increase in customer accounts		(226,629)	7,898
Net (decrease) / increase in other financial liabilities		(5,341)	5,054
Net increase in other liabilities and provision for liabilities and charges		454	462
Net cash from / (used in) operating activities		**49,823**	**(66,174)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(12,390)	(300,858)
Proceeds from redemption at maturity of investment securities available for sale		97,500	187,040
Acquisition of bonds carried at amortised cost		(92,060)	-
Proceeds from redemption of bonds carried at amortised cost		96,799	-
Acquisition of premises, equipment and intangible assets		(9,530)	(11,680)
Disposal of premises, equipment and intangible assets		244	10
Proceeds from disposal of investment property		993	1,030
Net cash from / (used in) investing activities		**81,556**	**(124,458)**
Cash flows from financing activities			
Proceeds from other borrowed funds		227,700	258,007
Redemption of other borrowed funds		(410,680)	(215,152)
Proceeds from subordinated debt		18,131	-
Net cash (used in) / from financing activities		**(164,849)**	**42,855**
Effect of exchange rate changes on cash and cash equivalents		**1,241**	**45,872**
Net decrease in cash and cash equivalents		**(32,229)**	**(101,905)**
Cash and cash equivalents at the beginning of the period	6	720,347	532,119
Cash and cash equivalents at the end of the period	6	**688,118**	**430,214**

1 Introduction

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" for the three months ended 31 March 2016 for JSC TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

This condensed consolidated interim financial information has been reviewed, not audited.

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.

As at 31 March 2016 and 31 December 2015 the Group did not have an ultimate controlling party. The shareholder structure by ownership interest is as follows:

Shareholders	Note	31 March 2016 Ownership interest	31 December 2015 Ownership interest
Bank of New York (Nominees), Limited	15	70%	71%
TBC Holdings LTD		16%	16%
Individuals		9%	8%
Liquid Crystal International N.V. LLC		5%	5%
Total		**100%**	**100%**

As at 31 March 2016 and 31 December 2015, the shareholder structure by beneficiary ownership interest is as follows:

Shareholders	31 March 2016 Ownership interest	31 December 2015 Ownership interest
Mamuka Khazaradze	14.7%	14.8%
Badri Japaridze	7.3%	7.4%
GDR holders - excluding IFIs	47.0%	47.6%
GDR holders – IFIs	22.9%	23.0%
Other Shareholders	8.1%	7.2%
Total	**100%**	**100%**

GDR holders own their interest through Bank of New York, Limited. Individually the beneficiary owners might have higher ownership interest than the individuals separately disclosed in the table above. None of the GDR holders own a controlling stake.

Other Shareholders include individuals who have beneficiary ownership of less than 2% each (2015: less than 2%).

Principal activity. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank has operated under a general banking license issued by the National Bank of the Georgia ("NBG") since 20 January 1993.

The Bank has 123 (31 December 2015: 128) branches within Georgia. At 31 March 2016, the Bank had 4,674 employees (31 December 2015: 4,763).

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia, Azerbaijan and Israel, primary business activities include providing banking, leasing, brokerage card processing services to corporate and individual customers. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

1 Introduction (Continued)

The condensed consolidated interim financial information includes the following principal subsidiaries:

Subsidiary	31 March 2016 Ownership interest,%	31 December 2015 Ownership interest,%	Country	Date of incorpo-ration or acquisition	Industry
United Financial Corporation JSC	98.67%	98.67%	Georgia	1997	Card processing
TBC Capital LLC	100%	100%	Georgia	1999	Brokerage
TBC Leasing JSC	99.57%	99.57%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	Azerbaijan	2008	Non-banking credit institution
Banking System Service Company LLC	100%	100%	Georgia	2009	Information services
TBC Pay LLC	100%	100%	Georgia	2009	Processing
Real Estate Management Fund JSC	100%	100%	Georgia	2010	Real estate management
TBC Invest LLC	100%	100%	Israel	2011	PR and marketing
Mali LLC	100%	100%	Georgia	2011	Real estate management

On 21 January 2015 the Group has completed the legal and operational process of merging JSC Bank Constanta with TBC Bank.

Registered address and place of business. The Bank's registered address and place of business is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

Presentation currency. This condensed consolidated interim financial information is presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

2 Summary of Significant Accounting Policies

Basis of preparation. This condensed consolidated interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this condensed consolidated interim financial information as used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015.

Interim period tax measurement*.* Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Foreign currency translation*.* At 31 March 2016 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.3679 (31 December 2015: USD 1 = GEL 2.3949); EUR 1 = GEL 2.6795 (31 December 2015: EUR 1 = GEL 2.6169).

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Estimates and judgements that have the most significant effect on the amounts recognised in the interim financial information are:

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 makes judgements as to whether there is any observable data indicating that there is 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. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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 9,771 thousand (31 March 2015: GEL 8,709 thousand) and additional charge for impairment of finance lease receivables of GEL 44.8 thousand (31 March 2015: GEL 13.1 thousand).

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 3,377 thousand (31 March 2015: GEL 3,062 thousand).

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 33.6 thousand (31 March 2015: GEL 0.8 thousand).

***Fair value disclosure of investment properties*.** Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group, who hold a recognised and relevant professional qualification. In determining the fair values of investment properties, three market comparatives are identified. As comparatives are usually somewhat different from the appraised properties, the quoted prices of the comparatives are further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the investment property. At 31 March 2016, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 116,949 thousand (31 December 2015: GEL 105,972 thousand).

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 23.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 28.

4 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments" (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: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- 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 that meet 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, 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 change 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.

5 New Accounting Pronouncements (Continued)

- 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). Where there has been 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 accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 16 "Leases" (issued in 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 obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

5 New Accounting Pronouncements (Continued)

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

6 Cash and Cash Equivalents

In thousands of GEL	31 March 2016	31 December 2015
Cash on hand	321,751	320,363
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	67,142	121,494
Correspondent accounts and overnight placements with other banks	226,252	219,275
Placements with and receivables from other banks with original maturities of less than three months	72,973	59,215
Total cash and cash equivalents	**688,118**	**720,347**

92% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions as at 31 March 2016 (31 December 2015: 91%).

As at 31 March 2016 GEL 72,973 thousand was placed on interbank time deposits with three non-OECD banks (31 December 2015: 59,215 thousand with five non-OECD banks).

As at 31 March 2016, investment securities amounting to GEL 21,000 thousand (31 December 2015: GEL 50,200 thousand) were held as collateral against placements with other banks under reverse repo agreements.

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 31 March 2016 and 31 December 2015. As of 31 March 2016 GEL 8,620 thousand (31 December 2015: GEL 8,711 thousand) were kept on deposits as restricted cash.

Refer to Note 27 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 25.

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 4% annual interest on the mandatory reserve with the NBG in the three months ended 31 March 2016 and up to 2% annual interest in the three months ended 31 March 2015.

In 2015, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".

9 Loans and Advances to Customers

In thousands of GEL	31 March 2016	31 December 2015
Corporate loans	1,347,213	1,500,104
Consumer loans	896,242	871,996
Mortgage loans	894,240	905,274
Loans to small and medium enterprises	610,353	625,628
Micro loans	494,839	493,328
Others	250,832	242,699
Total loans and advances to customers (before impairment)	**4,493,719**	**4,639,029**
Less: Provision for loan impairment	(195,428)	(194,143)
Total loans and advances to customers	**4,298,291**	**4,444,886**

Included in the consumer loans are consumer loans, card loans, overdrafts, express and fast loans and other loans.

At 31 March 2016 loans and advances to customers carried at GEL 27,628 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (31 December 2015: GEL 34,012 thousand).

Movements in the provision for loan impairment during the three months ended 31 March 2016 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro Loans	Other	Total
Provision for loan impairment at 1 January 2016	**108,050**	**40,408**	**13,135**	**12,506**	**18,019**	**2,025**	**194,143**
Total provision for impairment during the period:	(8,191)	10,285	3,771	4,176	6,677	(757)	**15,961**
Provision for / (release of) impairment charged to income statement during the period	(8,220)	9,046	3,331	3,884	5,783	(757)	**13,067**
Recoveries of loans previously written off	29	1,239	440	292	894	-	**2,894**
Amounts written off during the period as uncollectible	**-**	(7,611)	(1,658)	(1,483)	(3,861)	-	**(14,613)**
Effect of translation to presentation currency	**-**	(7)	(11)	(45)	-	-	**(63)**
Provision for loan impairment at 31 March 2016	**99,859**	**43,075**	**15,237**	**15,154**	**20,835**	**1,268**	**195,428**

Movements in the provision for loan impairment during the three months ended 31 March 2015 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro Loans	Total
Provision for loan impairment at 1 January 2015	**91,226**	**36,753**	**8,889**	**5,288**	**7,608**	**149,764**
Post-merger reclassification effect	-	(2,373)	(245)	25	2,593	**-**
Total provision for impairment during the period:	10,162	10,587	3,811	3,458	5,094	**33,112**
Provision for / (release of) impairment charged to income statement during the period	10,135	8,853	3,395	2,629	4,373	**29,385**
Recoveries of loans previously written off	27	1,734	416	829	721	**3,727**
Amounts written off during the period as uncollectible	-	(5,175)	(170)	(1,066)	(1,989)	**(8,400)**
Effect of translation to presentation currency	**-**	(52)	(50)	(197)	-	**(299)**
Provision for loan impairment at 31 March 2015	**101,388**	**39,740**	**12,235**	**7,508**	**13,306**	**174,177**

Following the merger of Constanta Bank with TBC Bank, the Group has reassessed definition of segments as disclosed in Note 18. Some of the clients were reallocated to different segments and relevant changes in provision groups are presented in the table above under caption Post-merger reclassification effect.

9 Loans and Advances to Customers (Continued)

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

	31 March 2016		31 December 2015	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individual	2,044,220	46%	2,039,612	44%
Energy & Utilities	301,548	7%	333,172	7%
Pawn Shops	268,313	6%	260,373	6%
Hospitality & Leisure	263,388	6%	266,917	6%
Food Industry	244,107	5%	255,795	6%
Real Estate	211,492	5%	222,235	5%
Trade	202,750	5%	232,599	5%
Agriculture	156,780	4%	157,193	3%
Communication	110,246	2%	114,401	2%
Automotive	107,409	2%	109,556	2%
Construction	106,943	2%	100,680	2%
Healthcare	83,644	2%	131,276	3%
Services	79,101	2%	78,365	2%
Financial Services	76,068	2%	67,901	1%
Metals and Mining	70,777	1%	75,785	2%
Transportation	56,999	1%	61,432	1%
Other	109,934	2%	131,737	3%
Total loans and advances to customers (before impairment)	**4,493,719**	**100%**	**4,639,029**	**100%**

In 2016, the Group has re-assessed allocation of the loans into the economic sectors. The Group has revised the sector split for 2015 in order to make it consistent with 2016.

At 31 March 2016 the Group had 85 borrowers (31 December 2015: 84 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 1,250,771 thousand (31 December 2015: GEL 1,378,892 thousand) or 27.8% of the gross loan portfolio (31 December 2015: 29.7%).

9 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	743,566	543,183	624,596	315,548	174,697	176,410	**2,578,000**
- New borrowers	377,666	294,964	231,306	235,447	284,884	65,260	**1,489,527**
Total neither past due nor impaired	**1,121,232**	**838,147**	**855,902**	**550,995**	**459,581**	**241,670**	**4,067,527**
Past due but not impaired							
- 1 to 30 days overdue	18,655	21,047	9,330	18,402	11,349	1,362	**80,145**
- 31 to 90 days overdue	3,006	13,174	9,163	13,562	9,133	5,350	**53,388**
- 91 to 180 days overdue	2,352	92	78	252	28	34	**2,836**
- 181 to 360 days overdue	2,893	0	-	-	11	23	**2,927**
- more than 360 days overdue	-	19	-	-	-	16	**35**
Total past due but not impaired	**26,906**	**34,332**	**18,571**	**32,216**	**20,521**	**6,785**	**139,331**
Individually assessed impaired loans (gross)							
- not overdue	183,215	-	-	2,546	-	-	**185,761**
- 1 to 30 days overdue	6,848	-	-	-	-	-	**6,848**
- 91 to 180 days overdue	4,398	-	-	-	-	-	**4,398**
- 181 to 360 days overdue	63	-	-	-	-	-	**63**
Total individually assessed impaired loans	**194,524**	**-**	**-**	**2,546**	**-**	**-**	**197,070**
Collectively assessed impaired loans (gross)							
- not overdue	274	4,450	7,608	729	432	-	**13,493**
- 1 to 30 days overdue	-	366	544	715	157	-	**1,782**
- 31 to 90 days overdue	60	1,552	2,776	3,684	572	-	**8,644**
- 91 to 180 days overdue	1,142	10,606	6,180	13,629	11,008	1,305	**43,870**
- 181 to 360 days overdue	2,653	4,815	2,659	4,802	2,539	803	**18,271**
- more than 360 days overdue	422	1,974	0	1,037	29	269	**3,731**
Total collectively assessed impaired loans	**4,551**	**23,763**	**19,767**	**24,596**	**14,737**	**2,377**	**89,791**
Total loans and advances to customers (before impairment)	**1,347,213**	**896,242**	**894,240**	**610,353**	**494,839**	**250,832**	**4,493,719**
Total provision	**(99,859)**	**(43,075)**	**(15,237)**	**(15,154)**	**(20,835)**	**(1,268)**	**(195,428)**
Total loans and advances to customers	**1,247,354**	**853,167**	**879,003**	**595,199**	**474,004**	**249,564**	**4,298,291**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	888,642	532,152	626,293	315,062	171,222	190,261	**2,723,632**
- New borrowers	399,615	290,060	246,968	250,921	291,916	48,305	**1,527,785**
Total neither past due nor impaired	**1,288,257**	**822,212**	**873,261**	**565,983**	**463,138**	**238,566**	**4,251,417**
Past due but not impaired							
- 1 to 30 days overdue	66	15,916	5,077	22,636	11,829	1,217	**56,741**
- 31 to 90 days overdue	3,718	9,487	9,803	8,682	8,991	1,397	**42,078**
- 91 to 180 days overdue	2,829	14	-	-	33	38	**2,914**
- 181 to 360 days overdue	-	16	-	-	19	18	**53**
- more than 360 days overdue	-	3	-	-	1	18	**22**
Total past due but not impaired	**6,613**	**25,436**	**14,880**	**31,318**	**20,873**	**2,688**	**101,808**
Individually assessed impaired loans (gross)							
- not overdue	187,802	-	-	2,747	-	-	**190,549**
- 1 to 30 days overdue	10,491	-	-	5,203	-	-	**15,694**
- 31 to 90 days overdue	5,109	-	-	-	-	-	**5,109**
- 91 to 180 days overdue	940	-	-	-	-	-	**940**
- 181 to 360 days overdue	214	-	-	-	-	-	**214**
- more than 360 days overdue	350	-	-	-	-	-	**350**
Total individually assessed impaired loans	**204,906**	**-**	**-**	**7,950**	**-**	**-**	**212,856**
Collectively assessed impaired loans (gross)							
- not overdue	228	5,613	9,524	3,635	738	-	**19,738**
- 1 to 30 days overdue	100	725	858	3,532	118	-	**5,333**
- 31 to 90 days overdue	-	1,792	1,078	1,806	365	-	**5,041**
- 91 to 180 days overdue	-	9,683	2,901	4,409	6,262	951	**24,206**
- 181 to 360 days overdue	-	5,150	2,692	6,555	1,833	409	**16,639**
- more than 360 days overdue	-	1,385	80	440	1	85	**1,991**
Total collectively assessed impaired loans	**328**	**24,348**	**17,133**	**20,377**	**9,317**	**1,445**	**72,948**
Total loans and advances to customers (before impairment)	**1,500,104**	**871,996**	**905,274**	**625,628**	**493,328**	**242,699**	**4,639,029**
Total provision	**(108,050)**	**(40,408)**	**(13,135)**	**(12,506)**	**(18,019)**	**(2,025)**	**(194,143)**
Total loans and advances to customers	**1,392,054**	**831,588**	**892,139**	**613,122**	**475,309**	**240,674**	**4,444,886**

The retail segment in Note 18 includes the following classes from above tables: consumer, mortgage and other. Included in other are primarily pawn-shop loans secured with precious metals.

9 Loans and Advances to Customers (Continued)

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 loan by the end of reporting period.

The tables above show analysis of 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 which are not in overdue and are not classified as impaired. 'Past due but not impaired' loans include performing loans which are in overdue, however no objective evidence of impairment was identified; and loans which were triggered but are not impaired considering that present value of expected cash and collateral recoveries are sufficient for full repayment of exposure. 'Individually assessed impaired loans' include exposures which were assessed for impairment on an individual basis and corresponding impairment allowance was created. 'Collectively assessed impaired loans' include exposures for which objective evidence of impairment was identified and 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 depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- 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 collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 March 2016:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	1,147,641	2,576,548	199,572	110,747
Consumer loans	542,647	1,344,826	353,595	14,473
Mortgage loans	882,327	2,196,861	11,913	2,845
Loans to small and medium enterprises	601,628	1,758,549	8,725	5,348
Micro loans	475,211	940,993	19,628	8,584
Others	139,611	178,417	111,221	110,542
Total	**3,789,065**	**8,996,194**	**704,654**	**252,539**

The effect of collateral at 31 December 2015:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	1,312,561	2,810,880	187,543	64,905
Consumer loans	550,890	1,355,264	321,106	19,108
Mortgage loans	891,639	2,241,109	13,635	3,935
Loans to small and medium enterprises	620,094	1,773,481	5,534	2,644
Micro loans	458,372	915,594	34,956	8,176
Others	159,081	196,058	83,618	83,257
Total	**3,992,637**	**9,292,386**	**646,392**	**182,025**

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

9 Loans and Advances to Customers (Continued)

The centralized unit for collateral management is in place in order to have central view and strategy on collateral management and ensure that collaterals serve as an adequate mitigation for credit risk management purposes. Collateral provided in respect of loans is appraised, in accordance with TBC Bank's internal policies, by the Internal Appraisal Group (other than loans to related parties, for which external appraisers are used). The Internal Appraisal Group belongs to collateral management unit and is independent from the loan granting process in order to ensure that adequate appraisals are obtained and proper appraisal procedures are followed. 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.

Included in the value of collateral are contractual value of third party guarantees, which are capped at carrying value of loan due to their nature. The value of third party guarantees in the tables above amount to GEL 312,324 thousand as at 31 March 2016. (31 December 2015: GEL 358,907 thousand). These third party guarantees are not taken into consideration when assessing the impairment allowance.

Refer to Note 27 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 25. Information on related party balances is disclosed in Note 28.

10 Premises and Equipment

In thousands of GEL	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2015	142,724	130,543	35,267	**308,534**	55,231	**363,765**
Accumulated depreciation/amortisation	(26,622)	(73,220)	-	**(99,842)**	(17,475)	**(117,317)**
Carrying amount at 1 January 2015	**116,102**	**57,323**	**35,267**	**208,692**	**37,756**	**246,448**
Additions	312	7,180	595	**8,087**	3,593	**11,680**
Transfers	44	-	(44)	**-**	-	**0**
Disposals	(119)	(600)	-	**(719)**	(196)	**(915)**
(Impairment charge)/reversal of impairment to profit or loss	-	451	-	**451**	(326)	**125**
Depreciation/amortisation charge	(823)	(4,122)	-	**(4,945)**	(907)	**(5,852)**
Elimination of accumulated depreciation/amortisation on disposals	119	597	-	**716**	197	**913**
Carrying amount at 31 March 2015	**115,635**	**60,829**	**35,818**	**212,282**	**40,117**	**252,399**
Cost or valuation at 31 March 2015	142,961	137,574	35,818	**316,353**	58,302	**374,655**
Accumulated depreciation/amortisation including accumulated impairment loss	(27,326)	(76,745)	-	**(104,071)**	(18,185)	**(122,256)**
Cost or valuation at 1 January 2016	162,126	152,662	50,033	**364,821**	67,344	**432,165**
Accumulated depreciation/amortisation	(29,545)	(87,509)	-	**(117,054)**	(23,000)	**(140,054)**
Carrying amount at 1 January 2016	**132,581**	**65,153**	**50,033**	**247,767**	**44,344**	**292,111**
Additions	535	4,805	1,853	**7,193**	2,339	**9,532**
Disposals	(835)	(612)	-	**(1,447)**	-	**(1,447)**
Transfer	591	-	(591)	**-**	-	**-**
Effect of translation to presentation currency Cost	(4)	(8)	-	**(12)**	-	**(12)**
(Impairment charge)/reversal of impairment to profit or loss	(126)	(52)	-	**(178)**	(19)	**(197)**
Depreciation/amortisation charge	(999)	(3,803)	-	**(4,802)**	(1,536)	**(6,338)**
Elimination of accumulated depreciation/amortisation on disposals	742	485	-	**1,227**	-	**1,227**
Effect of translation to presentation currency Accumulated depreciation	3	5	-	**8**	1	**9**
Carrying amount at 31 March 2016	**132,488**	**65,973**	**51,295**	**249,756**	**45,129**	**294,885**
Cost or valuation at 31 March 2016	162,287	156,795	51,295	**370,377**	69,664	**440,041**
Accumulated depreciation/amortisation including accumulated impairment loss	(29,799)	(90,822)	-	**(120,621)**	(24,535)	**(145,156)**

10 Premises and Equipment (Continued)

Depreciation and amortisation charge presented on the face of the condensed consolidated interim 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 a new headquarter of the Bank. Upon completion, assets are transferred to premises.

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

In thousands of GEL (except for range of inputs)	**Fair value as of 30 September 2015 (valuation date)**	**Carrying value at 31 December 2015**	**Carrying value at 31 March 2016**	**Valuation technique**	**Other key information**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	51,115	51,115	51,012	Sales comparison approach	Land	Price per square meter	472 - 1643 (666)
					Buildings		601 – 4,357 (1,300)
Branches and service centers	124,069	124,069	125,206	Sales comparison approach	Land	Price per square meter	2 – 1,994 (196)
					Buildings		374 – 11,514 (2,387)

11 Due to Credit Institutions

In thousands of GEL	**31 March 2016**	**31 December 2015**
Due to other banks		
Correspondent accounts and overnight placements	86,656	47,342
Deposits from banks	60,164	25,936
Total due to other banks	**146,820**	**73,278**
Other borrowed funds		
Borrowings from foreign banks and financial institutions	624,602	678,946
Borrowings from local banks and financial institutions	225,028	355,664
Borrowings from Ministry of Finance	5,850	5,686
Total other borrowed funds	**855,480**	**1,040,296**
Total amounts due to credit institutions	**1,002,300**	**1,113,574**

As at 31 March 2016, TBC Kredit had breached certain covenants under loan agreements with a number of foreign financial institutions. The carrying amount of the affected loans was GEL 35,661 thousand. TBC Kredit had obtained the waivers for the borrowings with carrying amount of GEL 3,680 thousand before 31 March 2016 and for the borrowings with carrying amount of GEL 5,400 thousand during April 2016. The waivers for the remaining borrowings amounting to GEL 26,581 thousand were negotiated in May 2016, with the official waiver letters expected to be formalized till June 2016. These breaches have been waived till 31 March 2016. TBC Kredit was also in breach of certain covenants as at 31 December 2015 part of which were waived as at 31 December 2015 with the remainder waived in the first quarter of 2016.

As at 31 March 2016 for the purposes of maturity analysis of financial liabilities (Note 25) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

12 Customer Accounts

In thousands of GEL	31 March 2016	31 December 2015
State and public organisations		
- Current/settlement accounts	100,320	152,438
- Term deposits	73,743	86,828
Other legal entities		
- Current/settlement accounts	1,070,621	1,276,141
- Term deposits	93,525	126,042
Individuals		
- Current/demand accounts	981,660	944,215
- Term deposits	1,611,754	1,592,267
Total customer accounts	**3,931,623**	**4,177,931**

State and public organisations include government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	31 March 2016		31 December 2015	
In thousands of GEL	Amount	%	Amount	%
Individual	2,593,414	66%	2,536,482	61%
Financial Services	187,470	5%	219,888	5%
Transportation	157,803	4%	135,356	3%
Services	122,657	3%	115,563	3%
Energy and Utilities	109,225	3%	152,636	4%
Construction	103,492	3%	118,035	3%
Trade	92,830	2%	161,417	4%
Government sector	87,550	2%	172,185	4%
Real Estate	68,564	2%	66,773	2%
Hotels and Leisure	68,177	2%	73,071	2%
Food Industry	49,474	1%	52,363	1%
Communication	48,334	1%	48,669	1%
Healthcare	43,882	1%	95,280	2%
Automotive	24,986	1%	40,058	1%
Metals and Mining	19,794	1%	16,537	0%
Agriculture	13,712	0%	10,906	0%
Other	140,259	3%	162,712	4%
Total customer accounts	**3,931,623**	**100%**	**4,177,931**	**100%**

In 2016, the Group has re-assessed allocation of the loans into the economic sectors. The Group has revised the sector split for 2015 in order to make it consistent with 2016.

At 31 March 2016 the Group had 133 customers (31 December 2015: 140 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 1,204,065 thousand (31 December 2015: GEL 1,432,724 thousand) or 31% (31 December 2015: 34%) of total customer accounts.

At 31 March 2016 included in customer accounts are deposits of GEL 2,517 thousand and GEL 64,342 thousand (31 December 2015: GEL 999 thousand and GEL 77,304 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 24.

Refer to Note 27 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 28.

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

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

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount at 1 January 2015	**4,912**	**3,266**	**3,720**	**11,898**
Additions less releases recorded in profit or loss	498	(1,318)	-	**(820)**
Utilisation of provision	-	-	(403)	**(403)**
Carrying amount at 31 March 2015	**5,410**	**1,948**	**3,317**	**10,675**
Carrying amount at 1 January 2016	**1,472**	**5,589**	**2,400**	**9,461**
Additions less releases recorded in profit or loss	723	307	-	**1,030**
Carrying amount at 31 March 2016	**2,195**	**5,896**	**2,400**	**10,491**

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) letters of credit 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 period-end.

14 Subordinated Debt

At 31 March 2016, subordinated debt comprised:

In thousands of GEL	**Grant Date**	**Maturity Date**	**Currency**	**Outstanding amount in original currency**	**Outstanding amount in GEL**
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	USD	19,331	45,775
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,167	24,075
International Financial Corporation	23-Apr-09	12-Nov-18	USD	19,320	45,747
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,658	18,132
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	14,907	35,298
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,455	17,653
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,454	17,650
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	36,276	85,899
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,282	6,282
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,870	6,870
Total subordinated debt					**303,381**

At 31 December 2015, subordinated debt comprised:

In thousands of GEL	**Grant Date**	**Maturity Date**	**Currency**	**Outstanding amount in original currency**	**Outstanding amount in GEL**
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	USD	18,729	44,855
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,427	24,971
International Financial Corporation	23-Apr-09	12-Nov-18	USD	18,716	44,823
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,466	17,880
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	14,892	35,666
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,448	17,837
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,373	84,715
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,739	6,739
Total subordinated debt					**283,648**

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

Refer to Note 27 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 28.

15 Share Capital

In thousands of GEL except for number of shares	**Number of vested shares**	**Share capital**	**Share premium**	**Total**
At 1 January 2015	**48,939,058**	**19,576**	**405,658**	**425,234**
Increase in share capital arising from share based payment	30,710	12	416	**428**
Treasury shares returned	(1,405)	(1)	(19)	**(20)**
Transaction costs recognized directly in equity	-	-	1,419	**1,419**
At 31 December 2015	**48,968,363**	**19,587**	**407,474**	**427,061**
Increase in share capital arising from share based payment	62,569	25	800	**825**
At 31 March 2016	**49,030,932**	**19,612**	**408,274**	**427,886**

The total authorised number of ordinary shares amounted to 56,206,527 as at 31 March 2016 (31 December 2015: 56,206,527 shares), with a nominal value of GEL 0.4 per share (31 December 2015: GEL 0.4 per share). All issued ordinary shares are fully paid.

In accordance with Georgian legislation, the number of issued ordinary shares and relevant amounts of share capital and share premium differ from presentation above due to accounting for share based payment transactions described in note 16.

In thousands of GEL except for number of shares	**Number of outstanding shares**	**Share capital**	**Share premium**	**Total**
At 1 January 2015	**49,246,308**	**19,699**	**409,814**	**429,513**
Registering shares in the name of employees under share based payment arrangement	284,560	113	3,850	**3,963**
Treasury shares returned	(1,405)	(1)	(19)	**(20)**
At 31 December 2015	**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**
At 31 March 2016	**50,054,919**	**20,021**	**425,649**	**445,670**

All ordinary shares rank equally except for 1,023,987 unvested shares (31 December 2015: 561,100 unvested shares) that were registered in the name of the management under share based payment arrangement and which do not have voting rights before service conditions are met (see Note 16). These unvested shares are still included in number of outstanding shares per NBG accounting rules. All other shares carry one vote.

At the reporting date the Bank has 2,590,434 authorised shares reserved for issuance under share based payment arrangement (31 December 2015: 3,115,890 shares). For description of share based payment scheme refer to Note 16. Per management's estimate, the total number of shares that the Bank will eventually issue under the share based payment arrangement schemes for years 2013 - 2018 approximates 2,740,265 (31 December 2015: 2,787,313).

Included in transaction costs are fees paid to investment bankers, lawyers, underwriters and other professional advisers involved in the initial public offering.

16 Share Based Payments

June 2013 arrangement:

In June 2013, Supervisory Board of the Bank approved a new management compensation scheme for the years 2013 – 2015 and authorised 4,150 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. Authorized numbers of new shares have increased to 1,037,500 new shares 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, certain number of the shares will be awarded to the top management and some of the middle managers of the Group. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded 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 date of the award. The team goals primarily relate to achieving 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 achievement of team goals. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them out of the total bonus pool. After awards, these shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2013, 2014 and 2015 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to June 2019.

The shareholders and Supervisory Board have granted put options on the shares to be awarded under the new management compensation scheme. In addition, the shareholders and the Supervisory Board have granted put options on all bonus shares awarded under the previous share based payment arrangements. All of the put options became null and void upon the listing of the Bank's shares on 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.

The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 732,000 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date, as adjusted for the effect of 250-for-1 share split, is evaluated at GEL 13,93 per share and the valuation was carried out by an external valuator. The valuation was performed by applying the income and market approaches. The market approach involved estimating 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 banks that operated in the Black Sea region and Central and Eastern Europe and had similar portfolio mix and growth priorities as TBC Bank. Income approach involved discounting free cash flows to equity estimated over 10-year horizon. When developing the projections, the following major assumptions were made:

- Over 2013-2023 period, 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 estimated 10.2% in 2013 till it would stabilize at 5.8% in 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 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 was then assumed to gradually decline to 3.3% in 2023.
- The Bank's terminal value was estimated using 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 income approach, with market approach serving as a reasonableness check on the result obtained by the income approach. The value of Bank's equity so calculated was then divided by the number of ordinary shares issued as of valuation date and further reduced with the discount for lack of control.

16 Share Based Payments (Continued)

June 2015 arrangement:

In June 2015, Supervisory Board of the Bank approved new management compensation for top and middle management and authorised 3,115,890 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. The new system will be used for the years 2015 through 2018 and it will replace the system introduced in June 2013 meaning that performance evaluation as well as 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, certain number of the shares will be awarded to the top management and most of the middle managers of the Group. The performance conditions are divided into (i) corporate and (ii) individual key performance indicators (KPIs). 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 in respect of customer experience and employee engagement. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them. According to the scheme, members of top management will also receive the fixed number of shares. After awards, all the shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2015, 2016, 2017 and 2018 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to March 2022.

The Group considers 17 June 2015 as the grant date. As of 31 March 2016 based on management's best estimate of achievement of targets 1,886,218 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date equalled to GEL 24.64 per share as quoted on London Stock Exchange.

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 March 2016	31 March 2015
Number of unvested shares at the beginning of the period	**2,756,605**	**803,336**
Change in estimate of number of shares expected to vest based on performance conditions	(8,497)	8,300
Number of shares forfeited during the period	(35,146)	-
Number of shares vested	(62,569)	-
Number of unvested shares at the end of the period	**2,650,393**	**811,636**
Value at grant date per share according to June 2013 scheme (GEL)	13.93	13.93
Value at grant date per share according to June 2015 scheme (GEL)	24.64	-
Expense on equity-settled part (GEL thousand)	3,641	624
Decrease in equity due to utilisation of cash compensation alternative (GEL thousand)	(817)	-
Expense on cash-settled part (GEL thousand)	1,391	275
Expense recognised as staff cost during the period (GEL thousand)	**4,215**	**899**

Liability in respect of the cash-settled part of the award amounted to GEL 4,919 thousand as at 31 March 2016 (31 December 2015: GEL 6,560 thousand).

Staff costs related to equity settled part of the share based payment schemes are recognized in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity. On 31 March 2016 based on level of achievement of key performance indicators management has reassessed the number of shares that will have to be issued to the participants of share based payment system and decreased estimated number of shares to vest by 8,497 (31 March 2015: increased by 8,300). As at 31 March 2016, 35,146 share rights were forfeited as a result of utilisation of cash compensation alternative by some of the employees (31 March 2015: nil).

17 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the period.

In thousands of GEL except for number of shares	**31 March 2016**	**31 March 2015**
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 16)	58,880	44,995
Weighted average number of ordinary shares in issue	48,988,990	48,939,058
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**1.20**	**0.92**

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the period:

In thousands of GEL except for number of shares	**31 March 2016**	**31 March 2015**
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 16)	59,365	45,386
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	49,840,046	49,505,603
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**1.19**	**0.92**

18 Segment Information

The chief operating decision maker which is the Management Board reviews the Group's internal reporting in order to assess performance and allocate resources. The operating segments as at 31 March 2016, 31 December 2015 and 31 March 2015 were determined as follows:

- Corporate – all business customers that have annual revenue of GEL 8.0 million or more or 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;
- SME – all business customers that are not included in either Corporate or Micro segments; Some other legal entity customers may also be assigned to the SME segment on a discretionary basis;
- Micro – all business customers with loans below USD 70 thousand, as well as pawn loans, credit cards and cash cover loans granted in TBC Bank Constanta branches, and/or have deposits up to USD 20 thousand in urban areas and up to USD 100 thousand in rural areas of the customers of TBC Bank Constanta branches. Some other customers may also be assigned to the Micro segment on a discretionary basis;
- Retail – all individual customers that are not included in the other categories.
- Corporate Centre and Other Operations – comprise the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The 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.

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 25.

18 Segment Information (Continued)

Segment information for the reportable segments of the Group for the three month period ended 31 March 2016 is set out below:

In thousands of GEL	Corporate	Retail	SME	Micro	Corporate centre and other operations	Total
Three months ended 31 March 2016						
- Interest income	35,366	74,574	17,380	27,146	20,393	**174,859**
- interest expense	(8,410)	(24,850)	(2,033)	(485)	(30,198)	**(65,976)**
- Inter-segment interest income/(expense)	(10,031)	(4,551)	(1,205)	(8,993)	24,780	**-**
- **Net interest income**	**16,925**	**45,173**	**14,142**	**17,668**	**14,975**	**108,883**
- Fee and commission income	4,685	19,760	3,134	1,217	751	**29,547**
- Fee and commission expense	(826)	(8,628)	(1,117)	(407)	(272)	**(11,250)**
- **Net fee and commission income**	**3,859**	**11,132**	**2,017**	**810**	**479**	**18,297**
- Gains less losses from trading in foreign currencies	4,968	3,556	5,252	393	450	**14,619**
- Foreign exchange translation losses less gains	-	-	-	-	8	**8**
- Net gain from derivative financial instruments	-	-	-	-	(363)	**(363)**
- Other operating income	2,134	574	235	44	681	**3,668**
- **Other operating non-interest income**	**7,102**	**4,130**	**5,487**	**437**	**776**	**17,932**
- Provision for loan impairment	8,220	(11,620)	(3,884)	(5,783)	-	**(13,067)**
- Provision for performance guarantees and credit related commitments	(1,134)	124	(25)	5	-	**(1,030)**
- Provision for impairment of investments in finance lease	-	-	-	-	(185)	**(185)**
- Provision for impairment of other financial assets	5	(18)	1	12	(48)	**(48)**
- Provision for impairment of investment securities available for sale	-	-	-	-	(11)	**(11)**
- **Operating income after provisions for impairment**	**34,977**	**48,921**	**17,738**	**13,149**	**15,986**	**130,771**
- Staff costs	(4,524)	(16,905)	(3,683)	(6,649)	(2,411)	**(34,172)**
- Depreciation and amortisation	(257)	(3,849)	(505)	(1,489)	(466)	**(6,566)**
- Administrative and other operating expenses	(2,599)	(11,974)	(2,186)	(3,724)	(3,077)	**(23,560)**
- **Operating expenses**	**(7,380)**	**(32,728)**	**(6,374)**	**(11,862)**	**(5,954)**	**(64,298)**
- **Profit before tax**	**27,597**	**16,193**	**11,364**	**1,287**	**10,032**	**66,473**
- Income tax expense	(4,215)	(1,829)	(1,820)	(193)	280	**(7,777)**
- **Profit for the period**	**23,382**	**14,364**	**9,544**	**1,094**	**10,312**	**58,696**
31 March 2016						
- Total gross loans and advances to customers reported	1,347,213	2,041,314	610,353	494,839	-	**4,493,719**
- Total customer accounts reported	760,438	2,530,828	571,285	69,072	-	**3,931,623**
- Total credit related commitments and performance guarantees	422,251	128,898	69,642	2,253	-	**623,044**

18 Segment Information (Continued)

Segment information for the reportable segments of the Group for the three month period ended 31 March 2015 is as follows:

In thousands of GEL	Corporate	Retail	SME	Micro	Corporate centre and other operations	Total
Three months ended 31 March 2015						
- Interest income	30,750	61,146	16,447	24,220	13,986	**146,549**
- interest expense	(7,350)	(22,614)	(1,886)	(663)	(18,365)	**(50,878)**
- Inter-segment interest income/(expense)	(8,213)	3,264	(947)	(5,690)	11,586	**-**
- **Net interest income**	**15,187**	**41,796**	**13,614**	**17,867**	**7,207**	**95,671**
- Fee and commission income	7,981	13,380	2,472	882	309	**25,024**
- Fee and commission expense	(1,494)	(5,940)	(819)	(143)	(9)	**(8,405)**
- **Net fee and commission income**	**6,487**	**7,440**	**1,653**	**739**	**300**	**16,619**
- Gains less losses from trading in foreign currencies	7,231	4,250	6,084	441	(9,675)	**8,331**
- Foreign exchange translation losses less gains	-	-	-	-	9,338	**9,338**
- Net gain from derivative financial instruments	-	-	-	-	(438)	**(438)**
- Other operating income	-	-	-	-	4,607	**4,607**
- **Other operating non-interest income**	**7,231**	**4,250**	**6,084**	**441**	**3,832**	**21,838**
- Provision for loan impairment	(10,135)	(12,248)	(2,629)	(4,373)	-	**(29,385)**
- Provision for performance guarantees and credit related commitments	663	-	157	-	-	**820**
- Provision for impairment of investments in finance lease	-	-	-	-	(103)	**(103)**
- Provision for impairment of other financial assets	-	-	-	-	(339)	**(339)**
- **Operating income after provisions for impairment**	**19,433**	**41,238**	**18,879**	**14,674**	**10,897**	**105,121**
- Staff costs	(2,729)	(11,568)	(2,818)	(6,277)	(7,461)	**(30,853)**
- Depreciation and amortisation	(255)	(2,835)	(441)	(1,327)	(1,348)	**(6,206)**
- Administrative and other operating expenses	(642)	(7,324)	(1,177)	(2,406)	(3,985)	**(15,534)**
- **Operating expenses**	**(3,626)**	**(21,727)**	**(4,436)**	**(10,010)**	**(12,794)**	**(52,593)**
- **Profit before tax**	**15,807**	**19,511**	**14,443**	**4,664**	**(1,897)**	**52,528**
- Income tax expense	(2,073)	(2,559)	(1,894)	(612)	249	**(6,889)**
- **Profit for the period**	**13,734**	**16,952**	**12,549**	**4,052**	**(1,648)**	**45,639**
31 December 2015						
- Total gross loans and advances to customers reported	1,500,104	2,019,969	625,628	493,328	-	**4,639,029**
- Total customer accounts reported	1,001,341	2,469,878	633,211	73,501	-	**4,177,931**
- Total credit related commitments and performance guarantees	446,380	130,402	77,781	4,412	-	**658,975**

18 Segment Information (Continued)

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

In thousands of GEL	**31 March 2016**	**31 December 2015**
Total segment assets (gross loans and advances to customers)	4,493,719	4,639,029
Provision for loan impairment	(195,428)	(194,143)
Cash and cash equivalents	688,118	720,347
Mandatory cash balances with National Bank of Georgia	452,398	471,490
Due from other banks	12,591	11,042
Investment securities available for sale	224,614	307,310
Bonds carried at amortized cost	367,045	372,092
Current income tax prepayment	10,671	9,856
Deferred income tax asset	2,301	1,546
Other financial assets	55,380	64,317
Investments in finance leases	78,950	75,760
Other assets	96,920	103,912
Premises and equipment	249,756	247,767
Intangible assets	45,129	44,344
Investment properties	69,461	57,600
Goodwill	2,726	2,726
Total assets per statement of financial position	**6,654,351**	**6,934,995**

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

In thousands of GEL	**31 March 2016**	**31 December 2015**
Total segment liabilities (customer accounts)	3,931,623	4,177,931
Due to Credit institutions	1,002,300	1,113,574
Debt securities in issue	21,424	21,714
Current income tax liability	468	912
Deferred income tax liability	35,838	29,244
Provisions for liabilities and charges	10,491	9,461
Other financial liabilities	38,563	39,435
Other liabilities	29,687	40,627
Subordinated debt	303,381	283,648
Total liabilities per statement of financial position	**5,373,775**	**5,716,546**

19 Interest Income and Expense

	Three months ended	
In thousands of GEL	**31 March 2016**	**31 March 2015**
Interest income		
Loans and advances to customers	154,466	132,563
Bonds carried at amortised cost	7,880	-
Investment securities available for sale	7,053	8,041
Investments in leases	4,205	3,497
Due from other banks	1,255	2,448
Total interest income	**174,859**	**146,549**
Interest expense		
Customer accounts	35,778	32,513
Due to credit institutions	22,199	12,093
Subordinated debt	7,510	5,728
Debt Securities in issue	489	509
Other	-	35
Total interest expense	**65,976**	**50,878**
Net interest income	**108,883**	**95,671**

During three months ended 31 March 2016 the interest accrued on impaired loans was GEL 5,033 thousand (31 March 2016: GEL 3,520 thousand).

20 Fee and Commission Income and Expense

	Three months ended	
In thousands of GEL	**31 March 2016**	**31 March 2015**
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Card operations	13,282	10,761
- Settlement transactions	8,499	6,711
- Cash transactions	2,355	2,194
- Guarantees issued	2,320	2,158
- Issuance of letters of credit	1,479	1,750
- Foreign exchange operations	345	574
- Other	1,267	876
Total fee and commission income	**29,547**	**25,024**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Card operations	7,588	5,296
- Settlement transactions	1,240	702
- Cash transactions	559	676
- Letters of credit	480	544
- Guarantees received	140	226
- Foreign exchange operations	68	2
- Other	1,175	959
Total fee and commission expense	**11,250**	**8,405**
Net fee and commission income	**18,297**	**16,619**

21 Other Operating Income

	Three months ended	
In thousands of GEL	**31 March 2016**	**31 March 2015**
Revenues from operational leasing	1,810	2,225
Revenues from sale of cash-in terminals	232	191
Gain from sale of inventories of repossessed collateral	222	572
Gain from sale of investment properties	215	160
Administrative fee income from international financial institutions	212	182
Revenues from non-credit related fines	133	34
Gain on disposal of premises and equipment	65	8
Gain from expired liabilities related to customer loyalty programmes	-	389
Other	779	846
Total other operating income	**3,668**	**4,607**

Revenues from operational leasing is wholly attributable to investment properties. Carrying value of inventories of repossessed collateral disposed of during the three months period ended 31 March 2016 was GEL 5,482 thousand (31 March 2015: GEL 1,930 thousand).

22 Administrative and Other Operating Expenses

	Three months ended	
In thousands of GEL	**31 March 2016**	**31 March 2015**
Professional services	6,701	1,308
Rent	4,341	3,624
Advertising and marketing services	1,923	1,856
Intangible asset enhancement	1,880	1,197
Utility services	1,320	1,029
Taxes other than on income	1,162	1,352
Stationery and other office expenses	843	697
Communications and supply	755	812
Insurance	605	659
Premises and equipment maintenance	587	754
Security services	399	391
Business trip expenses	352	335
Transportation and vehicle maintenance	313	269
Loss on disposal of inventories	285	1
Charity	270	301
Personnel training and recruitment	234	247
Loss on disposal of premises and equipment	41	-
Impairment of intangible assets	19	-
Loss on disposal of investment properties	-	326
Write-down of current assets to fair value less costs to sell	(70)	(365)
Other	1,600	741
Total administrative and other operating expenses	**23,560**	**15,534**

23 Income Taxes

As at 31 March 2016, the statutory income tax rate applicable to the majority of the Group's income is 15% (three months ended 31 March 2015: 15%). Interim period income tax expense is recognized based on income tax rate expected for the full financial year which equalled 11.7% (three months ended 31 March 2015: 13.1%).

24 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in a number of legal claims. When determining the level of provision to be set up in respect of such claims, management uses both internal and external professional advice. The management believes that the provision recorded in this financial information is adequate.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group 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 period of review. To respond to the risks, the Group has engaged external tax specialists who are performing 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 at 31 March 2016 and 31 December 2015 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as at 31 March 2016, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 4,751 thousand (31 December 2015: 4,891 thousand).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. As disclosed in Note 11, as at 31 March 2016 and 31 December 2015, TBC Kredit had breached certain borrowing covenants agreed with foreign financial institution lenders. The major reason for the breaches was drastic devaluation of Azerbaijani Manat in February and December 2015. The Group was in compliance with all other covenants as at 31 March 2016 and 31 December 2015.

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent 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, which 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 extend 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 loss in an amount equal to the total unused commitments. However, the likely amount of loss is less 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 commitments.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e.: the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations.

24 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

In thousands of GEL	**31 March 2016**	**31 December 2015**
Performance guarantees issued	251,868	243,183
Financial guarantees issued	92,274	71,999
Undrawn credit lines	221,035	247,159
Letters of credit	57,867	96,634
Total credit related commitments and performance guarantees (before provision)	**623,044**	**658,975**
Provision for performance guarantees	(2,195)	(1,472)
Provision for credit related commitments and financial guarantees	(5,896)	(5,589)
Total credit related commitments and performance guarantees	**614,953**	**651,914**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as at 31 March 2016 composed GEL 140,639 thousand (31 December 2015: GEL 136,867 thousand).

***Capital expenditure commitments*.** At 31 March 2016, the Group has contractual capital expenditure commitments amounting to GEL 6,498 thousand (31 December 2015: 5,205 thousand).

25 Financial and Other Risk Management

TBC Bank Group operates a prudent approach to risk management through its strong and independent risk function 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 Bank's competitive advantage and strategic enabler.

TBC Bank Group governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. Supervisory Board 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 Group's daily activities.

Both the Supervisory Board and the Management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Group'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.

25 Financial and Other Risk Management (Continued)

TBC Bank Supervisory Board and Senior Management govern risk objectives through Risk Appetite Statement ("RAS") which is approved by the Supervisory Board and establishes desired risk profile and 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 day-to-day operations of the Group, 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 clarity regarding risk objectives, intense monitoring of risk profile against risk appetite, prompt escalation of risk-related concerns and establishment of remediation actions.

Daily management of individual risks is based on the three lines of defence principle. While business lines are primary owners of risks, risk teams assume the function of second line defence. This is performed through sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. Committees are established at operational levels in charge of making transaction-level decisions comprising component of clear and sophisticated delegations of authority framework based on "four-eye principle". All new products/projects pass through risk teams to assure the risks are analysed comprehensively. Such control arrangements guarantee that Bank makes informed risk-taking decisions that are adequately priced and that risks exceeding established targets of the Group are not taken. Credit, liquidity, market, operational and other non-financial risk management is performed by following teams within Risk Organization:

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

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

In addition to the above-mentioned risk teams, Compliance Department (reporting directly to CEO), is specifically in charge of AML and compliance risk management. Internal Audit Department as a third line of defence is in charge of provision of 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 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 risk governance components described above, compensation system comprises one of the most significant tools for introducing incentives for staff that are aligned with the Bank's long term interests to generate sustainable risk-adjusted returns. Risk Key Performance Indicators ("KPIs") are incorporated into both business line and risk staff remunerations. 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.

25 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 is equal to their carrying values. For maximum exposure on off-balance sheet commitments refer to Note 24.

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 is 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 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. During 2015 Risk Appetite framework has been further enhanced and respective metrics have been embedded in the Bank's strategic planning process, thus taking informed decision when defining the Bank's growth strategy.

Credit Approval: TBC Bank 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 clear segregation of duties among parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis 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 loan approval. Business borrowers lending guidelines have been tailored for individual economic sectors, outlining key lending criteria and target ratios within each industry.

Loan Approval Committees are responsible to review credit applications and approve 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 proposed credit exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers requires the review and approval of Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties that result in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

25 Financial and Other Risk Management (Continued)

Credit Risk Monitoring: The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk the Bank faces across various business segments. In order to minimise credit risk, the Group continuously monitors its credit portfolio, both at the level of individual transaction and at overall credit portfolio level. The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and to monitor the risks and adherence to predefined limits by means of reliable and timely data. Regular reports regarding quality trends of the portfolio are generated and presented to the Management Board Risk Committee on a monthly basis and to Risk Ethics and Compliance Committee on a quarterly basis. Report includes but is not limited to: total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, TBC Bank's related and connected party exposures and compliance with risk appetite limits.

In response to local currency devaluation, the Group undertook scrutinized monitoring of the loan book both on a transaction and portfolio level. As a result of monitoring process individual borrowers affected by currency devaluation were identified and specific action plans were outlined; list of vulnerable products and industries were identified with underwriting criteria being revised accordingly. This approach enabled the Group to keep credit risks within acceptable limits during not stable macro environment.

Credit Risk Mitigation: Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, TBC Bank uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The reliance that can be placed on these mitigants is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor. The centralized collateral management unit has been established in order to have central view and strategy on collateral management and ensure that all processes are efficiently followed.

Credit Risk Restructuring and Collection: The Group has in place a comprehensive portfolio supervision system to identify weakened or problem credit exposures in a timely manner and take early remedial actions. Dedicated restructuring units are in place to manage weakened borrowers across all business segments. The primary goal of 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.

For smaller retail and micro loans a special collection system is in place to effectively manage overdue loans, the system based on predefined strategies generates list of borrowers which should be contacted via phone call, generates letter reminders to overdue borrowers, records borrowers' promises to pay and other updates for further actions.

For management of loans with higher risk profile dedicated recovery units are in place. Corporate and SME borrowers are transferred to recovery unit in case there is a strong probability that a material portion of the principal amount will not be paid and 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) when 90 days overdue, although 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.

25 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 March 2016 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	463,653	209,369	15,096	**688,118**
Due from other banks	4,616	7,975	-	**12,591**
Mandatory cash balances with National Bank of Georgia	452,398	-	-	**452,398**
Loans and advances to customers	4,091,337	96,654	110,300	**4,298,291**
Investment securities available for sale	215,511	9,103	-	**224,614**
Bonds carried at amortized cost	367,045	-	-	**367,045**
Investments in leases	78,950	-	-	**78,950**
Other financial assets	55,353	27	-	**55,380**
Total financial assets	**5,728,863**	**323,128**	**125,396**	**6,177,387**
Non-financial assets	**473,502**	**32**	**3,430**	**476,964**
Total assets	**6,202,365**	**323,160**	**128,826**	**6,654,351**
Liabilities				
Due to credit institutions	333,080	605,257	63,963	**1,002,300**
Customer accounts	3,118,299	430,479	382,845	**3,931,623**
Debt securities in issue	4,748	-	16,676	**21,424**
Other financial liabilities	35,820	2,714	29	**38,563**
Subordinated debt	-	303,381	-	**303,381**
Total financial liabilities	**3,491,947**	**1,341,831**	**463,513**	**5,297,291**
Non-financial liabilities	**74,753**	**845**	**886**	**76,484**
Total liabilities	**3,566,700**	**1,342,676**	**464,399**	**5,373,775**
Net balance sheet position	**2,635,665**	**(1,019,516)**	**(335,573)**	**1,280,576**
Performance guarantees	**196,402**	**22,630**	**32,836**	**251,868**
Credit related commitments	**368,289**	**1,869**	**1,018**	**371,176**

25 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2015 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	509,000	199,383	11,964	**720,347**
Due from other banks	2,976	8,066	-	**11,042**
Mandatory cash balances with National Bank of Georgia	471,490	-	-	**471,490**
Loans and advances to customers	4,192,155	123,643	129,088	**4,444,886**
Investment securities available for sale	297,975	9,335	-	**307,310**
Bonds carried at amortised cost	372,092	-	-	**372,092**
Investments in leases	75,760	-	-	**75,760**
Other financial assets	64,302	15	-	**64,317**
Total financial assets	**5,985,750**	**340,442**	**141,052**	**6,467,244**
Non-financial assets	**465,094**	**39**	**2,618**	**467,751**
Total assets	**6,450,844**	**340,481**	**143,670**	**6,934,995**
Liabilities				
Due to credit institutions	408,475	637,367	67,732	**1,113,574**
Customer accounts	3,378,566	462,400	336,965	**4,177,931**
Debt securities in issue	4,798	-	16,916	**21,714**
Other financial liabilities	36,772	2,591	72	**39,435**
Subordinated debt	-	283,648	-	**283,648**
Total financial liabilities	**3,828,611**	**1,386,006**	**421,685**	**5,636,302**
Non-financial liabilities	**78,624**	**834**	**786**	**80,244**
Total liabilities	**3,907,235**	**1,386,840**	**422,471**	**5,716,546**
Net balance sheet position	**2,543,609**	**(1,046,359)**	**(278,801)**	**1,218,449**
Performance guarantees	**234,695**	**1,786**	**6,702**	**243,183**
Credit related commitments	**401,590**	**13,199**	**1,003**	**415,792**

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

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As at 31 March 2016, the Bank maintained an aggregate open currency position of 1.1% of regulatory capital (31 December 2015: 1.6%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

25 Financial and Other Risk Management (Continued)

The Bank has in place Market Risk Management Policy, market risk management procedure and relevant methodologies which are updated annually in order to further increase effectiveness of currency risk management.

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:

	At 31 March 2016				At 31 December 2015			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	2,175,326	1,327,704	8,147	**855,769**	2,442,850	1,646,864	3,430	**799,416**
US Dollars	3,536,086	3,420,836	(110,656)	**4,594**	3,507,494	3,428,146	(71,933)	**7,415**
Euros	416,966	453,931	37,515	**550**	466,450	499,702	32,715	**(537)**
Other	48,881	94,820	66,800	**20,861**	50,436	61,531	36,285	**25,190**
Total	**6,177,259**	**5,297,291**	**1,806**	**881,774**	**6,467,230**	**5,636,243**	**497**	**831,484**

To assess currency risk the Bank performs value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the income of the Group of possible worst movement of currency rates against Georgian Lari, with all other variables held constant. To identify maximum expected losses associated with currency fluctuations, 99% confidence level is defined based on monthly changes in exchange rates over the 3 years look-back period. During the three months ended 31 March 2016 and year ended 31 December 2015, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**31 March 2016**	**31 December 2015**
Maximum loss (VAR, 99% confidence level)	(317)	(449)
Maximum loss (VAR,95% confidence level)	(204)	(285)

Interest rate risk. Interest rate risk arises from potential changes in 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.

Deposits and most of loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. 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. 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. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

The table below summarizes the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at amounts monitored by the management, categorized 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 (NII) in case of upward movement and do not affect NII in case of downward shift of interest rates.

25 Financial and Other Risk Management (Continued)

In thousands of GEL	Less than 1 year	More than 1 year	Total
31 March 2016			
Total financial assets	3,427,598	2,768,024	**6,195,622**
Total financial liabilities	3,526,375	1,789,151	**5,315,526**
Net interest sensitivity gap at 31 March 2016	**(98,777)**	**978,873**	**880,096**
31 December 2015			
Total financial assets	3,634,967	2,847,165	**6,482,132**
Total financial liabilities	3,747,595	1,903,627	**5,651,222**
Net interest sensitivity gap at 31 December 2015	**(112,628)**	**943,538**	**830,910**

At 31 March 2016, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the period would have been GEL 1,056 thousand (31 March 2015: GEL 5,948 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 699 thousand (31 March 2015: GEL 7,642 thousand) higher, 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 1,056 thousand (31 March 2015: GEL 2,273 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 686 thousand (31 March 2015: GEL 7,372 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale and repurchase receivables.

For the management of interest rate risk on a standalone basis, the Bank has introduced an advanced model developed with the assistance of Ernst & Young LLC. The interest rate risk analysis is performed by Financial Risk Management Department monthly.

The Bank calculates 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.

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 Supervisory Board Risk, Ethics and Compliance Committee.

Liquidity Risk. Liquidity risk is the risk that TBC 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. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

25 Financial and other Risk Management (Continued)

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses Liquidity Coverage ratio and Net Stable Funding ratio set forth under Basel III, as well as minimum liquidity ratio defined by the NBG. In addition the Bank performs stress tests, what if and scenarios analysis.

The Liquidity Coverage ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time bands and ensure that liquidity coverage ratio limits are put in place. TBC Bank also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC Bank calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis. TBC 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 the NBG accounting rules.

Calculation of the NSFR as at 31 March 2016 and 31 December 2015 is summarized in the table below.

25 Financial and Other Risk Management (Continued)

Net Stable Funding Ratio		**31 March 2016** **117.3%**	**31 December 2015** **116.3%**
In thousands of GEL	**Factor**	**Amount**	
Available stable funding		**5,141,501**	**5,219,116**
Capital: Tier 1 & Tier 2 Capital Instruments		**1,526,035**	**1,449,145**
Tier 1	100%	1,218,542	1,157,022
Tier 2	100%	307,493	292,123
Long Term Funding (year >= 1)		**585,641**	**600,268**
Long Term Borrowings (>=1 year)	100%	470,633	490,833
Subordinated debt not included in Tier 2	100%	74,741	75,651
Other funding (>=1 year)	100%	40,267	33,784
Other Funding		**3,029,825**	**3,169,703**
Total Corporate deposits	50%	380,219	500,671
Total SME deposits	80%	512,286	565,369
Total Retail deposits	80%	2,024,662	1,975,902
Short term Borrowings with remaining maturity (<1year)	50%	93,136	110,588
Subordinated Debt (<1 year)	50%	19,522	17,173
Required amount of stable funding		**4,383,455**	**4,489,467**
Long term Assets with remaining maturity >=1 year		**3,546,622**	**3,593,696**
Certificate of Deposits and Treasury bills	5%	6,772	8,624
Reserves in NGB (Stable part)	100%	393,587	411,585
Loans (>=1 year)	100%	2,787,763	2,819,307
Fixed and Intangible Assets(>=1 year)	100%	294,885	292,111
Other assets (>=1 year)	100%	27,717	27,308
Financial lease receivables (>1 year)	100%	35,898	34,761
Short term Assets with remaining maturity <1 year		**806,085**	**863,175**
Loans (< 1 year)	50%	784,559	842,675
Financial lease receivables (<=1 year)	50%	21,526	20,500
Undrawn amount of committed credit and liquidity facilities		**30,748**	**32,596**
Unused credit lines and undisbursed amounts from loans	5%	11,052	12,358
Guarantees	5%	19,696	20,238

25 Financial and Other Risk Management (Continued)

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

Loan to deposit ratio was at 114.3% and 111.0%, at the 31 March 2016 and 31 December 2015 respectively.

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

Market liquidity risk is the risk that TBC cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, TBC Bank follows Basel III guidelines on high-quality liquidity asset eligibility 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 forms part of the TBC's overall prudential liquidity policy and is designed to ensure that TBC 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 plan is updated once a year. Last time it was updated in February 2015.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirements of the NBG. The limit is defined by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months. As at 31 March 2016 the ratios were well above the prudential limit set by the NBG as follows:

	31 March 2016	**31 December 2015**
Average Liquidity Ratio	33.1%	34.4%

According to daily cash flow forecasts, and the surplus in liquidity standing, 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 as at 31 March 2016 based on remaining undiscounted contractual obligations. Repayments which are subject to notice 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.

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to Credit institutions	465,617	106,008	495,249	21,333	**1,088,207**
Customer accounts – individuals	1,377,493	915,863	345,369	24,144	**2,662,869**
Customer accounts – other	1,111,373	155,352	73,498	16,946	**1,357,169**
Other financial liabilities	34,414	2,120	2,029	-	**38,563**
Subordinated debt	25,165	33,598	218,456	155,530	**432,749**
Debt securities in issue	5,078	12,408	4,905	-	**22,391**
Gross settled forwards	112,782	14,591	-	-	**127,373**
Performance guarantees	16,111	101,754	133,445	558	**251,868**
Financial guarantees	28,470	96,693	24,843	134	**150,140**
Other credit related commitments	221,035	-	-	-	**221,035**
Total potential future payments for financial obligations	**3,397,538**	**1,438,387**	**1,297,794**	**218,645**	**6,352,364**

25 Financial and Other Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to Credit institutions	518,915	148,380	520,673	24,181	**1,212,149**
Customer accounts – individuals	1,346,154	889,799	348,627	23,859	**2,608,439**
Customer accounts – other	1,419,830	119,695	98,836	23,739	**1,662,100**
Other financial liabilities	36,099	1,196	2,140	-	**39,435**
Subordinated debt	2,284	54,214	215,062	132,636	**404,196**
Debt securities in issue	480	17,996	5,061	-	**23,537**
Gross settled forwards	94,368	1,967	-	-	**96,335**
Performance guarantees	16,023	88,666	137,944	550	**243,183**
Financial guarantees	75,707	65,959	26,836	131	**168,633**
Other credit related commitments	247,159	-	-	-	**247,159**
Total potential future payments for financial obligations	**3,757,019**	**1,387,872**	**1,355,179**	**205,096**	**6,705,166**

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than 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 customer accounts are classified based on remaining contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a 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 demand of a depositor. Based on 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 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 liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

25 Financial and Other Risk Management (Continued)

The expected gap may be summarised as follows at 31 March 2016:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	688,118	-	-	-	**688,118**
Due from other banks	258	3,732	-	8,601	**12,591**
Mandatory cash balances with National Bank of Georgia	452,398	-	-	-	**452,398**
Loans and advances to customers	579,705	968,684	1,866,861	883,041	**4,298,291**
Investment securities available for sale	224,614	-	-	-	**224,614**
Bonds carried at amortised cost	69,892	161,717	108,676	26,760	**367,045**
Finance lease receivables	18,450	24,601	35,899	-	**78,950**
Other financial assets	31,739	6,827	16,814	-	**55,380**
Total financial assets	**2,065,174**	**1,165,561**	**2,028,250**	**918,402**	**6,177,387**
Liabilities					
Due to Credit institutions	458,092	78,292	445,221	20,695	**1,002,300**
Customer accounts	347,366	47,766	-	3,536,491	**3,931,623**
Debt securities in issue	4,697	12,010	4,717	-	**21,424**
Other financial liabilities	34,414	2,120	2,029	-	**38,563**
Subordinated debt	23,186	15,859	143,970	120,366	**303,381**
Total financial liabilities	**867,755**	**156,047**	**595,937**	**3,677,552**	**5,297,291**
Credit related commitments and performance guarantees					
Performance guarantees	2,195	-	-	-	**2,195**
Financial guarantees	5,896	-	-	-	**5,896**
Other credit related commitments	37,973	-	-	-	**37,973**
Credit related commitments and performance guarantees	**46,064**	**-**	**-**	**-**	**46,064**
Net liquidity gap at 31 March 2016	**1,151,355**	**1,009,514**	**1,432,313**	**(2,759,150)**	**834,032**
Cumulative gap at 31 March 2016	**1,151,355**	**2,160,869**	**3,593,182**	**834,032**	

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

25 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2015:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	720,347	-	-	-	**720,347**
Due from other banks	1,290	1,059	-	8,693	**11,042**
Mandatory cash balances with National Bank of Georgia	471,490	-	-	-	**471,490**
Loans and advances to customers	697,228	950,170	1,907,830	889,658	**4,444,886**
Investment securities available for sale	307,310	-	-	-	**307,310**
Bonds carried at amortised cost	86,357	113,248	145,720	26,767	**372,092**
Finance lease receivables	16,555	24,444	34,761	-	**75,760**
Other financial assets	41,544	5,704	17,069	-	**64,317**
Total financial assets	**2,342,121**	**1,094,625**	**2,105,380**	**925,118**	**6,467,244**
Liabilities					
Due to Credit institutions	513,415	114,093	462,636	23,430	**1,113,574**
Customer accounts	346,674	27,885	-	3,803,372	**4,177,931**
Debt securities in issue	32	16,916	4,766	-	**21,714**
Other financial liabilities	36,099	1,196	2,140	-	**39,435**
Subordinated debt	1,303	33,042	145,566	103,737	**283,648**
Total financial liabilities	**897,523**	**193,132**	**615,108**	**3,930,539**	**5,636,302**
Credit related commitments and performance guarantees					
Performance guarantees	1,472	-	-	-	**1,472**
Financial guarantees	5,589	-	-	-	**5,589**
Other credit related commitments	36,982	-	-	-	**36,982**
Credit related commitments and performance guarantees	**44,043**	-	-	-	**44,043**
Net liquidity gap at 31 December 2015	**1,400,555**	**901,493**	**1,490,272**	**(3,005,421)**	**786,899**
Cumulative gap at 31 December 2015	**1,400,555**	**2,302,048**	**3,792,320**	**786,899**	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-3 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 estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

25 Financial and Other Risk Management (Continued)

Operating environment. In 2015 GDP growth rate amounted to 2.8%, beating the initial forecast of 2%. Growth has been supported by investments, private and public consumption while contribution of net exports has been negative. According to the initial estimates, Georgian GDP increased by 1.6% in first 2 months of 2016 with growth recovering to 2.6% in February 2016 following close to zero growth in the preceding month.

Trade balance continues to improve at the expense of sustained decline of imports. In Q1 2015 exports of goods fell by 11.9% year-over-year, as opposed to 23% annual decline in 2015 while imports (Excluding one-off imports of C-hepatitis medicaments donated to Georgia) declined by 17% year-over-year in Q1 2016, resulting in a 18.6% year-over-year improvement of trade deficit. Decline of imports was broad based across different categories of goods, Imports of transportation (-26% year-over-year), petroleum products (-24% year-over-year) and consumer goods (-15% year-over-year) fell most in Q1 2016, imports of capital and intermediate goods also declined but at a lesser rate (-12% year-over-year).

Fall in remittance inflows, that was one of the major reasons behind the depreciation of GEL last year, also moderated. Remittance inflows fell by 4.9% year-over-year in Q1 2016 as opposed to the 25% year-over-year decline in 2015.

Despite the low growth environment in the region, tourism receipts continue to exhibit robust growth trend, number of incoming visitors posting 15% annual growth in Q1 2016. Over the same period number of visitors staying more than a day in the country increased at a higher rate (+16.6% year-over-year). Importance of tourism inflows for the economy of Georgia is consistently increasing, in 2015 tourism inflows stood at 13.9% of GDP and is set to further increase given high growth rate of incoming visitors positively contributing to the external balance of Georgia.

Improved external balance, appreciating regional currencies and weaker USD along with the expectations for an appreciation of GEL reversed GEL exchange rate. By the end of Q1 2016, GEL appreciated by 1% against USD YTD, over the same period Nominal effective exchange rate of GEL appreciated by 4.3%. Since the mid-March 2016 appreciation of GEL accelerated, allowing NBG to start replenishing international reserves, overall NBG purchased 55mln USD on the FX market from 17th of March to 21th of April, over the same period GEL strengthened by an additional 4% against the USD.

Consumer price inflation started to decline after reaching 5.6% year-over-year in January and February 2016. As of March CPI inflation stood at 4.1%, reflecting tight monetary policy with refinancing rate at 8% and prices on commodities still below the levels a year ago. Core inflation (headline inflation excluding prices of food, beverages, transportation and administered prices) also started to decline, down from 6.9% year-over-year by the end of 2015 to 6% year-over-year as of March 2016.

Georgia is well positioned to recover from the regional slowdown relatively quickly. Given the well diversified trade portfolio, FTAs with all of the major economic players in the region and most importantly continued improvements in business environment, Georgia is set to get back to its potential growth rate of around 5% by the end of 2017, according to the IMF’s World Economic Outlook issued in April 2016.

The last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia maintains leading position in the World Bank’s Doing Business 2016 report, ranking 24th out of the 189 countries, well ahead the most of the countries in the region and European Union. Georgia scores particularly well in the following components: registering property (3rd globally), Starting a business (6th globally), Getting credit (7th globally). In addition, Georgia keeps its established position as one of the safest, business friendly and corruption free economy in the CEE (Central and Eastern Europe) region and among its immediate neighbours.

26 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the NBG (ii) to safeguard the Group's ability to continue as a going concern and (iii) to comply with Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's CFO and Deputy CFO.

Bank and the Group complied with all internally and externally imposed capital requirements throughout three months periods ended 31 March 2016 and 31 March 2015.

NBG Capital adequacy ratio

Under the current capital requirements set by NBG banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the set 11.4% minimum level and a ratio of Tier 1 capital to risk weighted assets above the set 7.6% minimum level. In the middle of 2015, previously established 3% capital add-on was removed by NBG. No additional add-ons are in place. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

In thousands of GEL	**31 March 2016**	**31 December 2015**
Share capital	448,945	443,987
Retained earnings and other disclosed reserves	605,311	568,604
General loan loss provisions (up to 1.25 % of risk – weighted assets)	84,008	87,037
Less intangible assets	(42,028)	(41,080)
Less Investments into subsidiary companies and capital of other banks	(50,770)	(50,840)
Subordinated debt (included in regulatory capital)	189,595	173,652
Total regulatory capital	**1,235,061**	**1,181,360**
Risk-weighted Exposures		
Credit risk weighted assets (including off-balance obligations)	5,202,839	5,304,184
Currency Induced Credit Risk	2,101,688	2,056,062
minus general and special reserves	(229,484)	(205,131)
Risk-weighted assets	**7,075,043**	**7,155,115**
Tier 1 Capital adequacy ratio	**13.8%**	**11.0%**
Total Capital adequacy ratio	**17.5%**	**16.5%**

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 31 March 2016 and 31 December 2015 are given in the tables below:

26 Management of Capital (Continued)

In thousands of GEL	**31 March 2016**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,626,191	77,170
Gross Loans and accrued interests	4,545,824	6,421,045
Repossessed Assets	42,423	42,423
Fixed Assets and intangible assets	309,171	267,143
Other assets	140,903	122,961
Total	**6,664,512**	**6,930,742**
Total Off-balance	**662,293**	**373,785**
minus general and special reserves	(229,484)	(229,484)
Total Amount	**7,097,321**	**7,075,043**

In thousands of GEL	**31 December 2015**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,794,873	85,733
Gross Loans and accrued interests	4,671,693	6,445,027
Repossessed Assets	44,253	44,253
Fixed Assets and intangible assets	306,368	265,288
Other assets	177,111	151,073
Total	**6,994,298**	**6,991,374**
Total Off-balance	**696,260**	**368,872**
minus general and special reserves	(205,131)	(205,131)
Total Amount	**7,485,427**	**7,155,115**

26 Management of Capital (Continued)

NBG Basel II Capital adequacy ratio

After adoption of NBG Basel II/III requirements the Bank in addition to above capital ratios calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2013. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

In thousands of GEL	**31 March 2016**	**31 December 2015**
Tier 1 Capital	994,119	953,403
Tier 2 Capital	258,699	245,705
Regulatory capital	**1,252,818**	**1,199,108**
Risk-weighted Exposures		
Credit Risk Weighted Exposures	6,859,874	7,005,711
Risk Weighted Exposures for Market Risk	14,056	18,651
Risk Weighted Exposures for Operational Risk	576,628	452,089
Total Risk-weighted Exposures	**7,450,558**	**7,476,451**
Minimum Tier 1 ratio	**8.5%**	**8.5%**
Tier 1 Capital adequacy ratio	**13.3%**	**12.8%**
Minimum total capital adequacy ratio	**10.5%**	**10.5%**
Total Capital adequacy ratio	**16.8%**	**16.0%**

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 31 March 2016 and 31 December 2015 are given in the tables below:

	31 March 2016	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,699,930	582,056
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	4,287,873	5,429,761
Repossessed Assets	42,423	42,423
Fixed Assets and intangible assets	309,171	336,327
Other assets	134,366	199,958
minus general provision, penalty and interest provision	(40,212)	(40,212)
Total	**6,433,551**	**6,550,313**
Total Off-balance	**750,613**	**309,561**
Market Risk	**14,056**	**14,056**
Operational Risk	**403,640**	**576,628**
Total Amount	**7,601,860**	**7,450,558**

	31 December 2015	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,857,283	570,748
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	4,442,340	5,555,538
Repossessed Assets	44,253	44,253
Fixed Assets and intangible assets	306,368	334,472
Other assets	179,535	219,572
minus general provision, penalty and interest provision	(36,630)	(36,630)
Total	**6,793,149**	**6,687,953**
Total Off-balance	**789,224**	**317,758**
Market Risk	**18,651**	**18,651**
Operational Risk	**316,462**	**452,089**
Total Amount	**7,917,486**	**7,476,451**

26 Management of Capital (Continued)

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, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	**31 March 2016**	**31 December 2015**
Tier 1 capital		
Share capital	427,886	427,061
Retained earnings and disclosed reserves	786,979	725,498
Less: Goodwill	(2,726)	(2,726)
Non-controlling interest	6,403	7,189
Total tier 1 capital	**1,218,542**	**1,157,022**
Tier 2 capital		
Revaluation reserves	59,308	58,701
General Reserve	58,590	59,770
Subordinated debt (included in tier 2 capital)	189,595	173,652
Total tier 2 capital	**307,493**	**292,123**
Total capital	**1,526,035**	**1,449,145**
Credit risk weighted assets (including off-balance obligations)	4,687,163	4,781,605
Less: General Reserve	(136,839)	(134,373)
Market Risk	26,005	32,605
Total Risk-weighted assets	**4,576,329**	**4,679,837**
Minimum Tier 1 ratio	**4.0%**	**4.0%**
Tier 1 Capital adequacy ratio	**26.6%**	**24.7%**
Minimum total capital adequacy ratio	**8.0%**	**8.0%**
Total Capital adequacy ratio	**33.3%**	**31.0%**

Following Basel I guidelines General Reserve is defined by the management as the minimum among the following:
a) IFRS provisions created on loans without impairment trigger event
b) 2% of loans without impairment trigger event
c) 1.25% of total RWA (Risk Weighted Assets)

26 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 31 March 2016 and 31 December 2015 are given in the tables below:

In thousands of GEL	**31 March 2016**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,744,766	112,111
Gross loans and accrued interests	4,493,719	3,660,138
Repossessed assets	71,307	71,307
Fixed assets and intangible assets	297,611	294,885
Other assets	242,376	242,376
Total	**6,849,779**	**4,380,817**
Total Off-balance	**844,183**	**306,346**
Less: Loan loss provision minus General Reserve	(136,839)	(136,839)
Market Risk	**26,005**	**26,005**
Total Amount	**7,583,128**	**4,576,329**

In thousands of GEL	**31 December 2015**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,882,281	103,406
Gross loans and accrued interests	4,639,029	3,757,464
Repossessed assets	85,216	85,216
Fixed assets and intangible assets	294,837	292,111
Other assets	227,775	227,775
Total	**7,129,138**	**4,465,972**
Total Off-balance	**849,295**	**315,633**
Less: Loan loss provision minus General Reserve	(134,373)	(134,373)
Market Risk	**32,605**	**32,605**
Total Amount	**7,876,665**	**4,679,837**

27 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 are as follows:

	31 March 2016				31 December 2015			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities available for sale								
- Government notes	-	1,020	-	**1,020**	-	998	-	**998**
- Certificates of Deposits of National Bank of Georgia	-	26,509	-	**26,509**	-	84,849	-	**84,849**
- Corporate bonds	-	149,916	-	**149,916**	-	174,916	-	**174,916**
- Ministry of Finance Treasury Bills	-	34,300	-	**34,300**	-	33,445	-	**33,445**
- Corporate shares (Visa Inc)	9,103	-	-	**9,103**	9,335	-	-	**9,335**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	1,892	-	**1,892**	-	604	-	**604**
NON-FINANCIAL ASSETS								
- Premises and leasehold improvements	-	-	176,218	**176,218**	-	-	175,184	**175,184**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**9,103**	**213,637**	**176,218**	**398,958**	**9,335**	**294,812**	**175,184**	**479,331**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
- Interest rate swaps included in other financial liabilities	-	2,624	-	**2,624**	-	2,303	-	**2,303**
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	86	-	**86**	-	108	-	**108**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**2,710**	**-**	**2,710**	-	**2,411**	**-**	**2,411**

There were no transfers between levels 1 and 2 during three months ended 31 March 2016 (31 December 2015: None).

27 Fair Value Disclosures (Continued)

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

	Fair value at			
In thousands of GEL	31 March 2016	31 December 2015	Valuation technique	Inputs used
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	211,745	294,208	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	1,892	604	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**213,637**	**294,812**		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Interest rate swaps included in other financial liabilities	2,624	2,303	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	86	108	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**2,710**	**2,411**		

There were no changes in valuation technique for level 2 and level 3 recurring fair value measurements during the three month period ended 31 March 2016 (The year ended 31 December 2015: None).

For description of the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 10. 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.

27 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 March 2016				31 December 2015			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**
FINANCIAL ASSETS								
Cash and cash equivalents	688,118	-	-	688,118	720,347	-	-	720,347
Due from other banks	12,591	-	-	12,591	11,042	-	-	11,042
Mandatory cash balances with the NBG	-	452,398	-	452,398	-	471,490	-	471,490
Loans and advances to customers:								
- Corporate loans	-	-	1,355,562	1,247,354	-	-	1,504,360	1,392,054
- Consumer loans	-	-	897,373	853,167	-	-	870,285	831,588
- Mortgage loans	-	-	902,765	879,003	-	-	906,240	892,139
- Small and micro loans	-	-	600,003	595,199	-	-	616,803	613,122
- Micro	-	-	489,885	474,004	-	-	493,125	475,309
- Others	-	-	249,409	249,564	-	-	241,733	240,674
Bonds carried at amortised cost	-	350,695	-	367,045	-	350,167	-	372,092
Investments in leases	-	-	76,441	78,950	-	-	80,018	75,760
Other financial assets	-	-	53,488	53,488	-	-	63,713	63,713
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	117,551	69,461	-	-	105,972	57,600
TOTAL ASSETS	**700,709**	**803,093**	**4,742,477**	**6,020,342**	**731,389**	**821,657**	**4,882,249**	**6,216,930**
FINANCIAL LIABILITIES								
Due to credit institutions	-	1,002,319	-	1,002,300	-	1,113,666	-	1,113,574
Customer accounts	-	2,152,601	1,802,614	3,931,623	-	2,372,794	1,812,575	4,177,931
Debt securities in issue	-	21,424	-	21,424	-	21,714	-	21,714
Other financial liabilities	-	35,853	-	35,853	-	37,024	-	37,024
Subordinated debt	-	304,401	-	303,381	-	284,985	-	283,648
TOTAL LIABILITIES	**-**	**3,516,598**	**1,802,614**	**5,294,581**	**-**	**3,830,183**	**1,812,575**	**5,633,891**

The fair values in 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 estimated 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 amount could be required to be paid by the Group.

28 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making 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 that hold more than 6% of ownership stake in the Bank or have their representatives in the Supervisory Board are considered as Significant Shareholders. Included in key management personnel are members of the Supervisory Board, the Management Board and their close family members.

At 31 March 2016, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 6.3% - 20 %)	4,107	3,833
Impairment provisions for loans and advances to customers	46	14
Derivative financial liability	2,624	-
Due to credit institutions (contractual interest rate: 5.6% - 12.9%)	51,079	-
Customer accounts (contractual interest rate: 0 – 7.5%)	8,823	10,712
Subordinated debt (contractual interest rate: 9.9% - 12.6%)	133,728	-

The income and expense items with related parties for the three months ended 31 March 2016 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income	89	58
Interest expense	5,025	132
Gains less losses from trading in foreign currencies	19	16
Foreign exchange translation losses less gains	(64)	(42)
Fee and commission income	6	5
Fee and commission expense	172	-
Administrative and other operating expenses	-	42
Net loss on derivative financial instruments	363	-

Aggregate amounts of loans advanced to and repaid by related parties during the three months ended 31 March 2016 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the period	1,130	2,703
Amounts repaid by related parties during the period	(227)	(849)

28 Related Party Transactions (Continued)

At 31 December 2015, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 7.3 - 20%)	3,179	1,963
Impairment provisions for loans and advances to customers	45	7
Derivative financial liability	2,303	-
Due to credit institutions (contractual interest rate: 5.2 - 11.3 %)	63,810	-
Customer accounts (contractual interest rate: 0 - 7.5 %)	8,924	10,253
Subordinated debt (contractual interest rate: 9.9 - 12.6%)	132,530	-

The income and expense items with related parties for the three month ended 31 March 2015 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income	145	30
Interest expense	5,952	128
Gains less losses from trading in foreign currencies	8	26
Foreign exchange translation gains less losses	940	17
Fee and commission income	2	3
Fee and commission expense	175	-
Administrative and other operating expenses	11	96
Net gain on derivative financial instruments	438	-

Aggregate amounts of loans advanced to and repaid by related parties during the three months ended 31 March 2015 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the period	561	262
Amounts repaid by related parties during the period	(822)	(384)

Compensation of the key management and Supervisory Board members is presented below:

	Expense over the three months ended		**Accrued liability as of**	
In thousands of GEL	**31 March 2016**	**31 March 2015**	**31 March 2016**	**31 December 2015**
Salaries and bonuses	2,923	2,351	-	867
Cash settled bonuses related to share-based compensation	1,236	236	3,834	5,254
Equity-settled share-based compensation	2,403	526	-	-
Total	**6,562**	**3,113**	**3,834**	**6,121**