TBC BANK

TBC Bank Announces 2Q and 1H 2014 Results, Reporting GEL 37M Net Income in the Second Quarter of 2014

Consolidated Results of Operations

Financial Highlights 2Q 2014

- NIM (Net interest margin) reached 8.4% in 2Q 2014, compared to 8.2% in 2Q 2013;
- Total operating income in 2Q 2014 was GEL 108.4 million, up GEL 13.8 million, or 14.6%, compared to GEL 94.6 million in 2Q 2013;
- Cost to income ratio improved to 48.9% in 2Q 2014, compared to 55.8% in the same quarter of the previous year.
- Profit for the period was GEL 36.9 million, up GEL 1.9 million, or 5.3%, compared to GEL 35.1 million in 2Q 2013, delivering a return on average equity of 19.0%;
- Total assets reached GEL 4,798.1 million, up GEL 810.2 million, or 20.3% YoY (up 8.1% QoQ);
- Gross loans and advances to customers increased to GEL 3,077.8 million, up GEL 492.9 million, or 19.1% YoY (up 5.4% QoQ):
  - Retail gross loans reached GEL 1,343.0 million, up GEL 306.4 million, or 29.6% YoY (up 7.6% QoQ);
  - SME gross loan reached GEL 438.6 million, up GEL 121.2 million, or 38.2% YoY (up 8.4% QoQ);
  - Micro gross loans reached GEL 235.8 million, up GEL 52.7 million, or 28.8% YoY (up 8.1% QoQ);
  - Corporate gross loans reached GEL 1,060.5 million, up GEL 12.7 million, or 1.2% YoY (up 1.0% QoQ).
- Total customer deposits increased to GEL 2,929.2 million, up GEL 365.5 million, or 14.3% YoY (up 6.4% QoQ);
- Total equity was GEL 926.2 million, up GEL 255.1 million, or 38.0% YoY (up 27.4% QoQ).

Letter from the Chief Executive Officer

"I am honored to say that in the second quarter of 2014 we reached a major milestone in the Bank's entire history and listed the Bank's GDRs on the London Stock Exchange. I believe this transaction was a major step forward not only for TBC Bank but also for the banking system and the Georgian economy at large.

We raised USD 256 million through our IPO, representing the largest off-index IPO out of Europe, the Middle East and Africa (EMEA) and the largest ever IPO from Georgia as well.

The GDR's closing price was USD 14.3 on the 12th of August, 10% up from the listing price of USD 13.0 per GDR.

Following our IPO, Georgia signed an Association Agreement, including a deep and comprehensive free trade area (DCFTA) with EU, on June 27, which cements an undeniably strong foundation for the country's sustainable growth.

In 2Q 2014, we saw a continued strong performance in the Georgian economy, delivering a real GDP growth of 5.1%[1], which translates into 6.0%[1] economic growth in 1H 2014. In the first half of 2014, exports and imports grew by 14.9% (up 8.0% in 2Q 2014) and 15.8% (up 16.5% in 2Q 2014) respectively, compared to the same period in the previous year. In 2Q 2014, the exchange rate remained broadly flat at GEL1.75-1.77 to the USD, with YoY inflation rate of 2.0% as of June 2014.

The 2Q 2014 economic performance was supported by the strong banking system development with the total Georgian banking sector loans increasing to GEL 11.2 billion, up 21.9% YoY (up 4.3% QoQ), which resulted from the 31.0% YoY growth in total individual loans (up 6.3% QoQ) and a 14.7% YoY increase in total legal entity loans (up 2.5% QoQ). During the same period, total customer deposits increased to GEL 10.2 billion, up 19.6% YoY (up 5.6% QoQ) mainly due to the 21.4% YoY increase in individual deposits (up 5.1% QoQ) and 17.8% YoY increase in legal entity deposits (up 6.2% QoQ).

In the same quarter, TBC Bank acquired an additional 11% equity interest in its micro focused subsidiary Bank Constanta and as of June 30, 2014 TBC's shareholding in Bank Constanta reached 99.65% (currently 100%) after settling the dispute with Bank Constanta[2].

During 2Q 2014, we maintained a leading position in the Georgian banking sector with the largest market share in retail deposits of 33.3%[3]. Our market share in total assets and total loans stood at 25.6% and 26.7% respectively[4].

As of June 30, 2014, our gross loan portfolio reached GEL 3,077.8 million, up 19.1% YoY (up 5.4% QoQ), mainly driven by the increase in retail portfolio followed by the increase in SME, micro and corporate segments respectively both on a YoY and QoQ basis.

In the same period, total customer deposits reached GEL 2,929.2 million, up 14.3% YoY (up 6.4% QoQ). The YoY increase in total customer deposits was primarily driven by the increase in retail and SME segments, while the QoQ increase was principally due to the increase in retail and corporate deposits. In 2Q 2014, we successfully managed to further reduce our cost of funding to 4.7%, compared to 6.2% in the same quarter of the previous year.

[1] Geostat initial estimate
[2] TBC has settled for a gross amount of GEL 4.8 million all outstanding claims by the non-entrepreneurial (non-commercial) Legal Entity Fund Constanta (the ''Fund'') and a related individual regarding the sale by the Fund and the individual of their shares in Bank Constanta to TBC Bank in May 2011. In addition, TBC has acquired all outstanding shares held by third parties for an aggregate consideration with the amount of GEL 231,000, following which shares in Bank Constanta reached 100% by TBC Bank. The settlement with individual has been already approved by the court. The settlement with the fund is subject to court approval which is expected to be obtained in August or September 2014.
[3] Includes Bank Constanta; 32.2% on a standalone basis.
[4] Includes Bank Constanta; 23.9% and 24.5% respectively on a standalone basis

In 2Q 2014, our Net Interest Margin (NIM) increased to 8.4%, compared to 8.2% in 2Q 2013 with the net interest income increasing by GEL 13.6 million, or 20.3% to GEL 80.6 million, compared to the same quarter in 2013.

Total operating income reached GEL 108.4 million in 2Q 2014, up GEL 13.8 million, or 14.6%, compared to 2Q 2013. Total operating expenses increased by GEL 0.3 million, or 0.6%, compared to 2Q 2013. As a result of the positive operating leverage achieved in 2Q 2014, our cost to income ratio further improved to 48.9% (45.7% without one-off IPO related costs), compared to 55.8% in 2Q 2013.

Total provision expenses increased by GEL 11.7 million to GEL 12.1 million, compared to GEL 0.4 million in 2Q 2013, mainly due to the recovery of loan provision charges in 2Q 2013.

As a result, in 2Q 2014, we delivered solid profitability with the net income of GEL 36.9 million, up GEL 1.9 million, or 5.3%, compared to 2Q 2013, delivering a return on average equity (ROAE) and return on average assets (ROAA) of 19.0% and 3.2%, respectively.

As of June 30, 2014, TBC had 118 branches (58 of which belong to Bank Constanta), 319 ATMs (57 of which belong to Bank Constanta), 3,264 POS terminals and 2,593 cash-in terminals. As of June 30, 2014, we had around 106,700 active internet banking customers (up 50% YoY) and around 34,000 active mobile banking customers (up 155% YoY) through our best in class multichannel platform. We are honored to have received recognition for our best-in-class internet banking for the third consecutive year from the *Global Finance* Magazine. Our internet banking has been named the "Best Consumer and Corporate Internet Bank in Georgia in 2014" and the "Best Integrated Consumer and Corporate Bank Site in 2014 in the Central & Eastern European (CEE) region".

In consideration of the above, we have every reason to remain positive with the economic performance in the year 2014, with the IMF and World Bank economic outlooks for the real GDP growth of 5% and 6.3% respectively. As a leading player in the Georgian banking sector, we feel confident in our ability to continue delivering strong and sustainable growth in 2H 2014 and beyond."

Vakhtang Butskhrikidze
Chief Executive Officer

Results Overview 1Q 2014

Income Statement Highlights

In millions	1H 2014	1H 2013	*Change YoY*	2Q 2014	2Q 2013	1Q 2014	*Change YoY*	*Change QoQ*
Total Operating Income	211.7	181.8	*16.5%*	108.4	94.6	103.4	*14.6%*	*4.9%*
Provisioning Charges	25.1	20.5	*22.3%*	12.1	0.4	13.0	*NMF*	*-7.1%*
Operating Expenses	102.3	97.0	*5.4%*	53.0	52.7	49.2	*0.6%*	*7.7%*
Profit before Tax	84.4	64.2	*31.3%*	43.2	41.5	41.1	*4.3%*	*5.2%*
Profit for the Period	72.9	54.8	*32.9%*	36.9	35.1	35.9	*5.3%*	*2.7%*
ROAE	19.3%	17.3%	*2.0pp*	19.0%	21.7%	20.0%	*-2.7pp*	*-1.0pp*
ROAA	3.3%	2.9%	*0.4pp*	3.2%	3.6%	3.3%	*-0.4pp*	*-0.1pp*
Pre-provision ROAE	26.1%	24.0%	*2.1pp*	25.3%	21.9%	27.3%	*3.4pp*	*-2.0pp*
Cost: Income	48.3%	53.4%	*-5.1pp*	48.9%	55.8%	47.6%	*-6.8pp*	*1.3pp*
Cost of Risk	1.8%	1.3%	*0.5pp*	1.6%	-0.4%	2.0%	*2.1pp*	*-0.4pp*

Balance Sheet Highlights

	30-Jun-14		31-Mar-14		Change QoQ	30-Jun-13		Change YoY
In millions	GEL	USD	GEL	USD		GEL	USD	
Total Assets	4,798.1	2,712.2	4,437.9	2,539.3	*8.1%*	3,987.9	2,415.6	*20.3%*
Gross Loans	3,077.8	1,739.7	2,921.1	1,671.4	*5.4%*	2,584.8	1,565.7	*19.1%*
Customer Deposits	2,929.2	1,655.8	2,753.9	1,575.7	*6.4%*	2,563.7	1,552.9	*14.3%*
Total Equity	926.2	523.5	726.9	415.9	*27.4%*	671.1	406.5	*38.0%*
BIS Tier 1 Capital	879.7	497.3	681.8	390.1	*29.0%*	623.1	377.4	*41.2%*
BIS Risk Weighted Assets	3,322.2	1,877.9	3,189.1	1,824.7	*4.2%*	2,788.9	1,689.3	*19.1%*
NPL to Gross Loans	1.0%		1.0%		*0.0pp*	1.4%		*-0.4pp*
BIS Tier 1 Capital Adequacy Ratio	26.5%		21.4%		*5.1pp*	22.3%		*4.1pp*
BIS Total Capital Adequacy Ratio	33.0%		28.1%		*4.9pp*	28.9%		*4.1pp*
NBG Basel II Tier 1 CAR	13.4%		10.6%		*2.8pp*	11.5%		*2.0pp*
NBG Basel II Total CAR	16.7%		14.3%		*2.4pp*	14.6%		*2.0pp*
Leverage (times)	5.2		6.1		*-92.4pp*	5.9		*-76.2pp*

Income Statement Discussion

Net Interest Income

In thousands of GEL	**1H 2014**	**1H 2013**	***Change in %***	**2Q'14**	**1Q'14**	**2Q'13**	***Change YoY***	***Change QoQ***
Loans and advances to customers	224,992	213,099	*5.6%*	112,980	112,012	105,204	*7.4%*	*0.9%*
Investment securities available for sale	14,734	15,389	*-4.3%*	7,471	7,263	8,004	*-6.7%*	*2.9%*
Due from other banks	2,698	1,758	*53.5%*	1,287	1,411	545	*136.3%*	*-8.8%*
Investments in leases	4,567	3,431	*33.1%*	2,486	2,081	1,774	*40.1%*	*19.5%*
Interest income	**246,991**	**233,677**	***5.7%***	**124,224**	**122,767**	**115,527**	***7.5%***	***1.2%***
Customer accounts	54,812	75,023	*-26.9%*	27,467	27,345	36,686	*-25.1%*	*0.4%*
Due to credit institutions	21,831	18,732	*16.5%*	11,311	10,520	8,688	*30.2%*	*7.5%*
Subordinated debt	8,967	6,097	*47.1%*	4,645	4,322	3,038	*52.9%*	*7.5%*
Other	360	129	*179.1%*	200	160	102	*96.5%*	*25.0%*
Interest expense	**85,970**	**99,981**	***-14.0%***	**43,623**	**42,347**	**48,514**	***-10.1%***	***3.0%***
Net interest income	**161,021**	**133,696**	***20.4%***	**80,601**	**80,420**	**67,013**	***20.3%***	***0.2%***
Net interest margin	**8.6%**	**8.3%**	***0.3pp***	**8.4%**	**8.8%**	**8.2%**	***0.2pp***	***-0.4pp***

1H 2014 to 1H 2013 Comparison

In 1H 2014, the net interest income was GEL 161.0 million, up GEL 27.3 million, or 20.4%, compared to GEL 133.7 million in 1H 2013. The increase was a result of a 5.7% growth in interest income to GEL 247.0 million from GEL 233.7 million and a 14.0% decrease in interest expense to GEL 86.0 million from GEL 100.0 million.

The total interest income increase of GEL 13.3 million, or 5.7%, to GEL 247.0 million in 1H 2014 was mainly due to the increase in interest income from loans to customers, followed by an increase in interest income from investments in leases. Interest income from loans to customers increased by GEL 11.9 million, or 5.6%, to GEL 225.0 million for the six months ended 30 June 2014 from GEL 213.1 million for the six months ended 30 June 2013. This increase was primarily due to an increase in the average size of TBC's loan portfolio, which increased from GEL 2,532.8 million as at 30 June 2013 to GEL 2,959.3 million as at 30 June 2014, which more than offset the decline in loan yields over the same period from 17.0% to 15.3% in 1H 2014, aligned with the declining interest rates in the country. The second largest increase in interest income in absolute terms came from the interest income from investments in leases, which increased by GEL 1.1 million, or 33.1%, to GEL 4.6 million for the six months ended 30 June 2014, from GEL 3.4 million for the six months ended 30 June 2013. This increase was primarily due to the 39.7% increase in the size of the average TBC's lease portfolio during the period, which more than offset the decrease in average yields on investments in leases from 25.3% in 1H 2013 to 24.1% in 1H 2014. Interest income from investment securities available for sale was GEL 14.7 million, down GEL 0.7 million, or 4.3%, compared to GEL 15.4 million in 1H 2013, which was primarily due to the decrease in yields on investment securities available for sale to 5.6% from 7.0% in the same period of the previous year.

Total interest expense decreased by GEL 14.0 million, or 14.0%, to GEL 86.0 million for the six months ended 30 June 2014 from GEL 100.0 million for the six months ended 30 June 2013, mainly due to decreases in interest expense on customer accounts. Interest expense on customer accounts decreased by GEL 20.0 million, or 26.9%, to GEL 54.8 million for the six months ended 30 June 2014 from GEL 75.0 million for the six months ended 30 June 2013, mainly as a result of the reduction of cost of client deposits from 6.2% in 1H 2013 to 3.9% in 1H 2014, resulting from the management efforts to optimize cost of funding, which was broadly aligned with the general market trend of declining interest rates on deposits in Georgia. The decrease in interest expense on customer deposits was partially offset by the increase in interest expense on subordinated debt by GEL 2.9 million and on borrowed funds by GEL 3.5 million, mainly due to the YoY increase in the average balances of subordinated debt and borrowed funds by 47.6% and 16.5% respectively, in addition to the contractual margin step up on one of the subordinated loan facilities.

As a result, NIM increased by 0.3 percentage points, from 8.3% in 1H 2013 to 8.6% in 1H 2014. Due to the one-off interest income from one of the corporate loans, our interest income increased in 1Q 2014 by a one-off GEL 2.3 million. Without this one-off effect, our 1H 2014 NIM would have been 8.5%.

2Q 2014 and 2Q 2013 Comparison

In 2Q 2014, the net interest income increased by GEL 13.6 million, or 20.3% as a result of a GEL 8.7 million, or 7.5% increase in interest income and a GEL 4.9 million, or 10.1% decrease in interest expense, compared to 2Q 2013.

The GEL 8.7 million, or 7.5% increase in interest income mainly resulted from a GEL 7.8 million, or 7.4%, increase in interest income from loans, which in turn was due to the 18.0% YoY increase in average gross loan portfolio and which was partially offset by the decrease in loan yields to 15.1% from 16.6%. The increase in interest income was also driven by the increase in interest income from due from other banks and investments in leases each by GEL 0.7 million. The increase in interest income from due from other banks was mainly due to the 20.9% YoY increase in average portfolio of due from other banks as well as the increase in average yields on respective portfolios from 1.0% to 1.9%. The increase in interest income from investments in leases was mainly due to 41.2% YoY increase in average portfolio of investments in leases, which more than offset the decrease in respective yields from 25.2% in 2Q 2013 to 25.0% in 2Q 2014. Interest income from investment securities available for sale was GEL 7.5 million, down GEL 0.5 million, or 6.7%, compared to GEL 8.0 million in 2Q 2013, which was primarily due to the decrease in yields on investment securities available for sale to 5.6% from 6.8% in the same quarter of the previous year.

The GEL 4.9 million, or 10.1% YoY decrease in interest expense was primarily attributable to the reduced interest expense on customer deposits by GEL 9.2 million, or 25.1%, mainly resulting from the reduction in cost of client deposits by 2.1 percentage points to 3.9% in 2Q 2014, compared to 6.0% in 2Q 2013, aligned with the general deposit rate cuts in the market. The decrease in interest expense on customer deposits was partially offset by the increase in interest expense on subordinated debt by GEL 1.6 million and on borrowed funds by GEL 2.4 million, mainly due to the increase in the average balance of subordinated debt and borrowed funds on a YoY basis by 47.1% and 22.0% respectively, in addition to the contractual margin step up on one of the subordinated loan facilities.

As a result, NIM increased to 8.4% in 2Q 2014, compared to 8.2% in the same quarter of the previous year.

2Q 2014 and 1Q 2014 Comparison

On a QoQ basis, the net interest income increased by GEL 0.2 million, or 0.2% as a result of a GEL 1.5 million, or 1.2% increase in interest income and a 1.3 million, or 3.0% increase in interest expense.

The GEL 1.5 million, or 1.2% QoQ increase in interest income mainly resulted from a GEL 1.0 million, or 0.9%, increase in interest income from loans (without the one-off interest income in 1Q 2014, the interest income from loans would have increased by 3.0%), which in turn was due to the 3.6% QoQ increase in average gross loan portfolio and which was partially offset by 0.6 percentage points QoQ decrease in average loan yields. The increase in interest income was also driven by the increase in interest income from investments in leases by GEL 0.4 million, resulting from 8.5% QoQ increase in average portfolio of investments in leases as well as the increase in average yields on the respective portfolio from by 2.0 percentage points. Interest income from investment securities available for sale increased by GEL 0.2 million, or 2.9%, compared to GEL 7.3 million in 1Q 2014, which was due to the QoQ increase both in the average portfolio of investment securities available for sale and the increase in respective yields.

The GEL 1.3 million, or 3.0% QoQ increase in interest expense was due to the increase in interest expense on most of the interest bearing liabilities. Due to credit institutions (comprising other borrowed funds and due to other banks) had the largest contribution (GEL 0.8 million) in the interest expense increase. The GEL 0.4 million increase in interest expense from due to other banks was due to the increase in the respective average portfolio by 3.7% and the increase in rates on due to other banks from 2.7% to 4.6%. The GEL 0.4 million increase in interest expense from other borrowed funds was due to the increase in the respective average portfolio by 8.4%, which more than offset the decrease in rates on other borrowed funds from 7.2% to 6.8%. The GEL 0.1 million, or 0.4% increase in interest expense from customer accounts was primarily associated with the 2.9% QoQ increase in the average deposit portfolio, which more than offset the decrease in deposit rates by 0.1 percentage points QoQ to 3.9%.

As a result, NIM decreased by 0.4 percentage points QoQ. Without the effect of the one-off interest income from one of the corporate customers in 1Q 2014 mentioned above, NIM would have decreased by 0.2 percentage points QoQ.

Fee and Commission Income

In thousands of GEL	**1H 2014**	**1H 2013**	***Change in %***	**2Q'14**	**1Q'14**	**2Q'13**	***Change YoY***	***Change QoQ***
Card operations	14,655	15,118	*-3.1%*	7,650	7,005	7,588	*0.8%*	*9.2%*
Guarantees issued	4,361	3,024	*44.2%*	2,691	1,670	1,601	*68.1%*	*61.1%*
Settlement transactions	6,993	5,349	*30.7%*	3,943	3,050	2,767	*42.5%*	*29.3%*
Cash transactions	2,541	2,254	*12.8%*	1,374	1,167	1,222	*12.5%*	*17.8%*
Foreign exchange operations	582	778	*-25.2%*	272	310	426	*-36.1%*	*-12.2%*
Issuance of letters of credit	3,206	2,763	*16.0%*	1,562	1,644	1,733	*-9.8%*	*-5.0%*
Other	2,159	1,990	*8.5%*	1,196	963	1,034	*15.6%*	*24.2%*
Fee and commission income	**34,498**	**31,276**	***10.3%***	**18,689**	**15,809**	**16,370**	***14.2%***	***18.2%***
Card operations	7,133	6,417	*11.2%*	3,756	3,377	3,023	*24.2%*	*11.2%*
Guarantees received	2,083	3,074	*-32.2%*	1,054	1,029	2,377	*-55.6%*	*2.5%*
Settlement transactions	1,180	941	*25.4%*	726	454	512	*41.7%*	*60.0%*
Cash transactions	1,261	691	*82.6%*	631	630	325	*94.2%*	*0.2%*
Foreign exchange operations	31	35	*-10.1%*	17	14	21	*-16.6%*	*24.8%*
Other	2,027	1,531	*32.4%*	1,067	960	743	*43.5%*	*11.2%*
Fee and commission expense	**13,716**	**12,689**	***8.1%***	**7,252**	**6,464**	**7,001**	***3.6%***	***12.2%***
Net Fee and Commission Income	**20,781**	**18,587**	***11.8%***	**11,436**	**9,345**	**9,369**	***22.1%***	***22.4%***

1H 2014 to 1H 2013 Comparison

In 1H 2014, the net fee and commission income reached GEL 20.8 million, up GEL 2.2 million, or 11.8%, compared to 1H 2013, resulting from an increase in net fee and commission income from guarantees issued and letters of credit by GEL 2.8 million mainly driven by the increase in the average guarantees portfolio and the increase in the respective net fee and commission income. The increase in net fee and commission income was also driven by the increase in net fee and commission income from settlement transactions by GEL 1.4 million, aligned with the scale of the business. These increases were partially offset by the decrease in net fee and commission income from card operations by GEL 1.2 million (which was due to the fact that starting from 2014, the Bank records fee income from card operations on an accrual basis), as well as by the relatively small decrease in net fee and commission income from cash transactions and foreign exchange operations by GEL 0.3 million and GEL 0.2 million respectively. Without the effect of card fee deferral accrual in 2014, which was GEL 1.8 million in 1H 2014, the net fee and commission income would have increased by GEL 4.0 million, or 21.4%, compared to the same period of the previous year.

2Q 2014 and 2Q 2013 Comparison

In 2Q 2014, the net fee and commission income increased by GEL 2.1 million, or 22.1% compared to 2Q 2013, mainly resulting from the increase in guarantees issued and letters of credit by GEL 2.2 million and settlement transactions by GEL 1.0 million. These increases were partially offset by the decrease in net fee and commission income from card operations by GEL 0.7 million, which was due to the effect of card fee deferral mentioned above, as well as by the relatively small decrease in net fee and commission income from cash transactions and foreign exchange operations each by GEL 0.2 million. Without the effect of card fee deferral accrual in 2014, which was GEL 0.9 million in 2Q 2014, the net fee and commission income would have increased by GEL 2.9 million, or 31.4%, compared to the same quarter of the previous year.

2Q 2014 and 1Q 2014 Comparison

On a QoQ basis, the net fee and commission income increased by GEL 2.1 million, or 22.4% compared to 1Q 2014, mainly resulting from the increase in most of the items. The net fee and commission income from guarantees issued and letters of credit, settlement transactions, card operations and cash transactions increased by GEL 0.9 million, 0.6 million, 0.3 million and 0.2 million, respectively. The net fee and commission income from foreign exchange operations remained broadly stable on a QoQ basis.

Other Operating Non-interest Income

In thousands of GEL	**1H 2014**	**1H 2013**	***Change in %***	**2Q'14**	**1Q'14**	**2Q'13**	***Change YoY***	***Change QoQ***
Gains less losses from trading in foreign currencies and foreign exchange translations	16.2	15.9	*1.5%*	8.4	7.8	8.0	*4.2%*	*7.4%*
Gains less losses/(losses less gains) from derivative financial instruments	-0.5	1.1	*-150.3%*	-0.4	-0.2	1.5	*NMF*	*108.3%*
Other operating income	14.3	12.5	*14.6%*	8.3	6.0	8.6	*-3.1%*	*39.4%*
Other operating non-interest income	**29.9**	**29.5**	***1.5%***	**16.3**	**13.6**	**18.2**	***-10.2%***	***20.2%***

1H 2014 to 1H 2013 Comparison

Total other operating non-interest income increased by GEL 0.4 million, or 1.5%, to GEL 29.9 million for the six months ended 30 June 2014 from GEL 29.5 million for the six months ended 30 June 2013. This increase was mainly driven by the increase in other operating income by GEL 1.8 million, or 14.6%, which primarily resulted from the increase in revenues from operational leasing (rental income from investment property) and revenues from cash-in terminal services (TBC Pay). Total other operating non-interest income was also increased by the gains from trading in foreign currencies and foreign exchange translations by GEL 0.2 million. These increases were partially offset by the loss of GEL 0.5 million from the fair valuation of interest rate swap (reported under gains less losses from derivative financial instruments) entered for purposes of hedging interest rate increases in TBC's banking book, compared to a gain of GEL 1.1 million in 1H 2013.

2Q 2014 and 2Q 2013 Comparison

In 2Q 2014, the other operating non-interest income decreased by GEL 1.9 million, or 10.2%, primarily reflecting the loss in derivative financial instruments described above of GEL 0.4 million in 2Q 2014, compared to the gain of GEL 1.5 million in 2Q 2013. This decrease was partially offset by the increase in gains from trading in foreign currencies and foreign exchange translations by GEL 0.3 million, or 4.2%.

2Q 2014 and 1Q 2014 Comparison

On a QoQ basis, the other operating non-interest income increased by GEL 2.7 million, or 20.2%, primarily reflecting the GEL 2.4 million, or 39.4% increase in other operating income mainly resulting from the increase in gains from the sale of investment properties by GEL 2.4 million. The increase in total other operating income was also positively affected by GEL 0.6 million, or 7.4% increase in gains from trading in foreign currencies and foreign exchange translations.

These increases were partially offset by the higher loss from derivative financial instruments of GEL 0.4 million in 2Q 2014, compared to the loss of GEL 0.2 million in 1Q 2014 which is used for interest rate hedging, described above

Provision for Impairment

In thousands of GEL	1H 2014	1H 2013	*Change in %*	2Q'14	1Q'14	2Q'13	*Change YoY*	*Change QoQ*
Provision for loan impairment	26,953	16,954	*59.0%*	12,367	14,586	-2,698	*NMF*	*-15.2%*
Provision for impairment of investments in finance lease	110	67	*64.6%*	101	9	43	*135.5%*	*NMF*
Provision for/ (recovery of provision) performance guarantees and credit related commitments	-2,613	2,876	*-190.8%*	-814	-1,799	2,781	*-129.3%*	*-54.8%*
Provision for impairment of other financial assets	619	619	*0.0%*	429	190	249	*72.3%*	*125.8%*
Impairment of investment securities available for sale	22	5	*NMF*	0	22	0	*NMF*	*NMF*
Total provision charges for impairment	**25,091**	**20,521**	***22.3%***	**12,083**	**13,008**	**375**	***3122.1%***	***-7.1%***
Operating income after provisions for impairment	**186,648**	**161,265**	***15.7%***	**96,295**	**90,353**	**94,197**	***2.2%***	***6.6%***
Cost of Risk	**1.8%**	**1.3%**	***0.5pp***	**1.6%**	**2.0%**	**-0.4%**	***2.1pp***	***-0.4pp***

1H 2014 to 1H 2013 Comparison

In 1H 2014, total provision charges increased by GEL 4.6 million, or 22.3%, to GEL 25.1 million from GEL 20.5 million in 1H 2013. The increase in provision charges was primarily driven by the increase in provision for loan impairment.

Provision charges for loan impairment increased by GEL 10.0 million, or 59.0%, to GEL 27.0 million for 1H 2014 from GEL 17.0 million in 1H 2013, primarily due to the increased provision charges on the corporate segment, associated with certain corporate customers.

This increase was partially offset by the recovery of provisions on performance guarantees and credit related commitments in 1H 2014, resulting from transfer of guarantees into loans and the reduction of provision levels on certain guarantees due to the improvement in their financial standing in 1H 2014.

As a result, cost of risk on loans increased by 0.5 percentage points to 1.8% in 1H 2014.

2Q 2014 and 2Q 2013 Comparison

In 2Q 2014, total provision charges increased by GEL 11.7 million to GEL 12.1 million, compared to 2Q 2013. The difference in provision charges was primarily driven by the recovery of loan provision charges on corporate segment in 2Q 2013. The increase in loan provision charges was partially offset by the recovery of provisions in performance guarantees and credit related commitments in 2Q 2014 due to the reason described above.

As a result, cost of risk on loans was 1.6% in 2Q 2014, compared to the negative 0.4% cost of risk in 2Q 2013 due to the recovery of provisions in the last year quarter.

2Q 2014 and 1Q 2014 Comparison

On a QoQ basis, total provision charge decreased by GEL 0.9 million, or 7.1%. The decrease in provision charges was primarily driven by the recovery of provisions on mortgage loans in 2Q 2014, resulting from the temporary increase in mortgage loan provisioning charges in 1Q 2014 related to the exceptionally good performance of the mortgage loan book at the end of 2013. This decrease was partially offset by the increase in the recovery of performance guarantees and credit related commitments by GEL 1.0 million.

As a result, cost of risk on loans decreased by 0.4 percentage points, compared to 2.0% cost of risk in 1Q 2014.

Operating Expenses

In thousands of GEL	**1H 2014**	**1H 2013**	***Change in %***	**2Q'14**	**1Q'14**	**2Q'13**	***Change YoY***	***Change QoQ***
Staff costs	56,000	51,367	*9.0%*	29,016	26,984	25,619	*13.3%*	*7.5%*
Depreciation and amortisation	10,692	10,311	*3.7%*	5,397	5,295	4,806	*12.3%*	*1.9%*
Administrative and other operating expenses	35,604	35,356	*0.7%*	18,634	16,970	22,315	*-16.5%*	*9.8%*
Operating expenses	**102,296**	**97,034**	***5.4%***	**53,047**	**49,249**	**52,740**	***0.6%***	***7.7%***
Profit before tax	**84,352**	**64,231**	***31.3%***	**43,248**	**41,104**	**41,457**	***4.3%***	***5.2%***
Income tax expense	11,500	9,427	*22.0%*	6,335	5,165	6,396	*-1.0%*	*22.7%*
Profit for the period	**72,852**	**54,804**	***32.9%***	**36,913**	**35,939**	**35,061**	***5.3%***	***2.7%***

Cost to income ratio	**48.3%**	**53.4%**	***-5.1pp***	**48.9%**	**47.6%**	**55.8%**	***-6.8pp***	***1.3pp***
ROAE	**19.3%**	**17.3%**	***2.0pp***	**19.0%**	**20.0%**	**21.7%**	***-2.7pp***	***-1.0pp***
ROAA	**3.3%**	**2.9%**	***0.4pp***	**3.2%**	**3.3%**	**3.6%**	***-0.4pp***	***-0.1pp***

1H 2014 to 1H 2013 Comparison

Total operating expenses increased by GEL 5.3 million, or 5.4%, to GEL 102.3 million for the six months ended 30 June 2014 from GEL 97.0 million for the six months ended 30 June 2013. The increase was principally due to one-off IPO related costs, which amounted to GEL 4.9 million in 1H 2014.

Without these costs, total operating expenses would have increased by GEL 0.4 million, or 0.4% in 1H 2014, compared to the same period of the previous year. The GEL 0.4 million increase was mainly due to the increase in staff costs by GEL 4.6 million, or 9.0% (Bank Constanta accounted for GEL 1.5 million, or 33.5% of the total staff cost increase along with the growth of Bank Constanta's business as well as the general increase in salaries, bonuses and various HR management related costs on a TBC Group level). This increase was partially offset by the positive effect of revaluation of repossessed assets, which amounted to GEL 0.1 million in 1H 2014, compared to the one off expense of GEL 7.4 million related to the revaluation of repossessed assets in 1H 2013.

2Q 2014 and 2Q 2013 Comparison

In 2Q 2014, operating expenses increased by GEL 0.3 million, or 0.6% to GEL 53.0 million, compared to GEL 52.7 million in 2Q 2013. This increase was primarily effected by the one-off IPO related costs incurred in 2Q 2014, which amounted to GEL 3.5 million.

Without these costs, total operating expenses would have decreased by GEL 3.2 million, or 6.1% in 2Q 2014, compared to the same quarter of the previous year, mainly due to the absence of Q2 2013 costs associated with the revaluation of repossessed assets mentioned above. This decrease in costs more than offset the increase in staff costs in 2Q 2014, compared to the previous year quarter due to the higher staff costs associated with employee bonuses and cash incentives, and other staff and HR management related expenses.

2Q 2014 and 1Q 2014 Comparison

On a QoQ basis, operating expenses increased by GEL 3.8 million, or 7.7%, compared to 1Q 2014. This increase was primarily due to the higher portion of IPO costs incurred in 2Q 2014 (GEL 3.5 million) than in1Q 2014 (GEL 1.4 million).

Without these costs in 2Q 2014 and 1Q 2014, total operating expenses would have increased by GEL 1.7 million, or 3.5% on a QoQ basis, which is mainly attributable to the QoQ increase in staff costs associated with the higher employee bonuses and cash incentives incurred in 2Q 2014 and higher advertising and marketing expenses related to the increased marketing activities in the second quarter of 2014.

Balance Sheet Discussion

In millions of GEL	**30-Jun-14**	**31-Mar-14**	**30-Jun-13**	***Change QoQ***	***Change YoY***
Cash, due from banks and mandatory cash balances with NBG	855.2	627.2	652.2	*36.4%*	*31.1%*
Loans and advances to customers (Net)	2,931.5	2,772.6	2,416.2	*5.7%*	*21.3%*
Financial securities	515.0	568.9	490.5	*-9.5%*	*5.0%*
Fixed and intangible assets & investment property	303.0	309.2	281.7	*-2.0%*	*7.6%*
Other assets	193.3	160.0	147.3	*20.8%*	*31.2%*
Total assets	**4,798.1**	**4,437.9**	**3,987.9**	***8.1%***	***20.3%***
Due to credit institutions	660.4	687.7	550.2	*-4.0%*	*20.0%*
Customer accounts	2,929.2	2,753.9	2,563.7	*6.4%*	*14.3%*
Debt Securities in issue	6.9	4.5	4.2	*51.7%*	*62.1%*
Subordinated Debt	178.4	172.8	127.1	*3.3%*	*40.3%*
Other liabilities	97.0	92.0	71.6	*5.4%*	*35.5%*
Total Liabilities	**3,871.9**	**3,711.0**	**3,316.8**	***4.3%***	***16.7%***
Total equity	**926.2**	**726.9**	**671.1**	***27.4%***	***38.0%***

Assets

As at 30 June 2014, TBC had total assets of GEL 4,798.1 million, up GEL 810.2 million, or 20.3% YoY. This increase in total assets was mainly due to the increase in net loans to customers by GEL 515.4 million, or 21.3%, primarily driven by the increase in retail and SME net portfolios by GEL 316.8 million, or 32.2% and GEL 121.1 million, or 38.8%, respectively along with the increase in corporate and micro portfolios. The YoY increase in total assets was also due to the increase in liquid assets (comprising cash and cash equivalents, due from other banks and mandatory cash balances and investment securities available for sale less corporate shares) by GEL 237.8 million, or 20.9%, compared to the six months ended 30 June 2013, mainly as a result of the increase in cash and cash equivalents and investment securities available for sale as a result of TBC's investment of its excess liquidity in investment securities, and the purchase of corporate bonds issued by EBRD securities in March 2014, a transaction in which TBC Bank acted as an underwriter.

On a QoQ basis, total assets increased by 8.1%, primarily due to the GEL 158.9 million (5.7%%) increase in net loans and advances to customers to GEL 2,931.5 million, compared to GEL 2,772.6 million as at 31 March 2014. This increase in net loans and advances to customers was mainly due to the increase in retail and SME net portfolios by GEL 95.0 million, or 7.9% and GEL 33.3 million, or 8.3%, respectively along with the increase in corporate and micro portfolios. The QoQ increase in total assets was also due to the increase in liquid assets by GEL 189.1 million, or 15.9%, primarily resulting from a GEL 214.9 million increase in cash and cash equivalents which more than offset the decrease in investment securities available for sale by GEL 39.0 million, or 6.9%. As a result our liquid assets to liability ratio increased to 35.2%, compared to 32.0% as at 31 March 2014.

As at 30 June 2014, the gross loan portfolio reached 3,077.8 million, up 19.1% YoY and 5.4% QoQ. As at the same period, the gross loans denominated in foreign currency accounted for 65.1% of total gross loans, compared to 73.1% as at 30 June 2013 and 65.8%, as at 31 March 2014, which reflects the decreasing trend in foreign currency denominated loans. NPL ratio, defined as loans overdue more than 90 days over gross loan portfolio, was standing at 1.0%, compared to 1.4% and 1.0% as at 30 June 2013 and 31 March 2014, respectively.

Liabilities

As at 30 June 2014, TBC had total liabilities of GEL 3,871.9 million as compared to total liabilities of GEL 3,316.8 million as at 30 June 2013 and GEL 3,711.0 million as at 31 March 2014.

On a YoY basis, the GEL 555.1 million, or 16.7% increase in total liabilities was primarily due to the increase in customer deposits by GEL 365.5 million, or 14.3%, primarily driven by the increase in retail and SME deposits, as well as the increase in amounts due to credit institutions by GEL 110.3 million, or 20.0%, as a result of increases in other borrowed funds by GEL 52.8 million and amounts due to other banks by GEL 57.5 million.

On a QoQ basis, the GEL 161.0 million, or 4.3% increase in total liabilities was primarily due to the increase in customer deposits by GEL 175.3 million, or 6.4%, mainly due to the increase in retail and corporate deposits. This increase was partially offset by a decrease in amounts due to credit institutions by GEL 27.3 million, or 4.0%, as a result of decreases in other borrowed funds by GEL 22.9 million and amounts due to other banks by GEL 4.4 million.

Liquidity

The Bank's liquidity ratio defined by the National Bank of Georgia was 38.1%, compared to 34.1% and 32.1% as at 30 June 2013 and 31 March 2014, respectively.

Total Equity

As at 30 June 2014, TBC had total equity of GEL 926.2 million, as compared to total equity of GEL 671.1 million as at 30 June 2013 and GEL 726.9 million as at 31 March 2014.

The GEL 255.1 million (38.0%) YoY and GEL 199.2 million (27.4%) increase in total equity was primarily due to the IPO gross proceeds of GEL 175.6 million in 2Q 2014 as well as the increase in retained earnings by GEL 93.6 million YoY and GEL 35.2 million QoQ.

Regulatory Capital

As of 30 June 2014, the Bank's NBG tier 1 and total capital ratios were 14.4% and 17.7% respectively, compared to 12.2% and 14.8% as at 30 June 2013 and 11.4% and 14.5% as at 31 March 2014. The minimum capital requirements set by NBG for tier 1 and total capital ratios are 8% and 12% respectively.

The Bank's BIS tier 1 capital ratio was 26.5%, compared to 22.3% and 21.4% as at 30 June 2013 and 31 March 2014 respectively. The tier 1 capital reached GEL 879.7 million, compared to 623.1 million and 681.8 million as at 30 June 2013 and 31 March 2014, respectively. Risk weighted assets were GEL 3,322.2 million as at 30 June 2014, up GEL 532.2 YoY and GEL 133.1 million QoQ.

Results by Segments and Subsidiaries

- **Retail** – all individual customers of the Group as well as customers that have been granted gold-pawn loans.
- **Corporate** – business customers which 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 significant legal entity customers may also be assigned the status of being a corporate customer, on a discretionary basis; for example, if they are regarded by the Group as having strong growth potential.
- **SME** – business customers that are not included either in the corporate or micro segments.
- **Micro** – all business customers of Bank Constanta, that have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds USD 150 thousand.
- **Corporate Center and Other Operations** – comprise the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The following table sets out information on the financial results of TBC's segments for the first quarter 2014:

In thousands of GEL	Retail	Corporate	SME	Micro	Corp. Center	Total
Six months ended 30 June 2014						
Interest income	112,063	60,200	25,545	27,184	21,999	**246,991**
interest expense	-39,557	-11,313	-3,850	-92	-31,158	**-85,970**
Inter-segment interest income/(expense)	4,834	-24,463	-1,851	-9,199	30,679	-
Net interest income	**77,340**	**24,424**	**19,844**	**17,893**	**21,520**	**161,021**
Fee and commission income	20,121	8,386	4,238	1,587	166	**34,498**
Fee and commission expense	-11,758	-985	-450	-440	-83	**-13,716**
Net fee and commission income	**8,363**	**7,401**	**3,788**	**1,147**	**83**	**20,782**
Gains less losses from trading in foreign currencies	3,859	6,290	5,263	708	601	**16,721**
Foreign exchange translation losses less gains	-	-	-	-	-557	**-557**
Net gain from derivative financial instruments	-	-	-	-	-546	**-546**
Other operating income	-	-	-	-	14,318	**14,318**
Other operating non-interest income	**3,859**	**6,290**	**5,263**	**708**	**13,816**	**29,936**
Provision for loan impairment	-9,982	-12,636	-1,569	-2,766	-	**-26,953**
Provision for performance guarantees and credit related commitments	-	2,443	170	-	-	**2,613**
Provision for impairment of investments in finance lease	-	-	-	-	-110	-110
Provision for impairment of other financial assets	-	-	-	-	-619	**-619**
Impairment of investment securities available for sale	-	-	-	-	-22	-22
Operating income after provisions for impairment	**79,580**	**27,922**	**27,496**	**16,982**	**34,668**	**186,648**
Staff costs	-25,140	-5,044	-4,902	-7,784	-13,130	**-56,000**
Depreciation and amortisation	-6,013	-377	-927	-1,206	-2,169	**-10,692**
Administrative and other operating expenses	-16,743	-2,114	-2,415	-4,707	-9,625	**-35,604**
Operating expenses	**-47,896**	**-7,535**	**-8,244**	**-13,697**	**-24,924**	**-102,296**
Profit before tax	**31,684**	**20,387**	**19,252**	**3,285**	**9,744**	**84,352**
Income tax expense	-4,312	-2,750	-2,624	-448	-1,366	-11,500
Profit for the period	**27,372**	**17,637**	**16,628**	**2,837**	**8,378**	**72,852**
30-Jun-14						
Total gross loans and advances to customers reported	1,342,957	1,060,485	438,565	235,760	-	**3,077,767**
Total customer accounts reported	1,746,625	743,464	434,922	4,203	-	**2,929,214**
Total credit related commitments and performance guarantees	560	334,848	27,201	40	-	**362,649**

Retail Banking

As at 30 June 2014, TBC Bank was the largest bank in the country in terms of retail deposits and the second largest bank in terms of retail loans, accounting for 33.3% and 28.0% of the market shares respectively.

The retail segment accounted for 43.6% and 59.6% of TBC's loan and deposit portfolios respectively, representing the largest segment of the Bank's portfolios. The retail segment served over 900k customers, offering its clients a wide range of products, including lending products (mortgage, consumer loan, auto loan, POS loan, student loan, credit card, gold pawn), accounts and deposit products (current account, savings account, term deposit, gold deposit, children savings account, certificates of deposit), debit cards (both Visa and MasterCard), and other products (cash operations, currency exchange, wire transfers, safe and deposit boxes).

Our highly productive and efficient distribution network enables us to reach out to retail clients with 118 branches (58 of which belong to Bank Constanta), 319 ATMs (57 of which belong to Bank Constanta) and 3,264 POS terminals (2,494 of which have contactless payment capabilities), and 2,593 cash-in terminals (TBC Pay) across the country.

The retail segment leverages its strength on our best in class multichannel platform with global award winning Internet banking[5] along with mobile, iPod, iPad and other type of e-banking applications. As at 30 June 2014, our customer base of internet and mobile banking was approximately 107k and 34k active users respectively. During 1H 2014, the number of transactions performed by internet and mobile banking increased by 57% (from 888k to 1,394k) and its share in total transactions[6] increased from 26% to 32%, compared to 1H 2013.

We have a leading market position in the credit card market in Georgia based on the outstanding number of credit cards (circa 208k) as at 30 June 2014. As at the same date, the number of issued debit cards reached approximately 419k. Our retail customers are also offered contactless credit and debit cards, allowing cardholding clients to make payments up to GEL 45 in a much faster way than with an ordinary card.

Retail Loans and Advances to Customers

As of 30 June 2014, retail loans increased to GEL 1,343.0 million, up GEL 306.4 million, or 29.6% YoY and up GEL 94.4 million, or 7.6% QoQ. As at the same period, TBC Bank's market share in individual loans was 28.0%.

As at 30 June 2014, foreign currency loans represented 57.3% of total retail loan portfolio.

Retail Customer Deposits

As at 30 June 2014, retail deposits increased to GEL 1,746.6 million, up GEL 247.2 million, or 16.5% YoY and up GEL 97.1 million, or 5.9% QoQ. TBC's market share in individual deposits was 33.3% as at the same date.

Term deposits represented 61.3% of the total retail deposit portfolio as at 30 June 2014. As for the retail deposits dollarization, foreign currency deposits represented 82.5% of total retail deposit portfolio.

Retail Segment Profitability

In 1H 2014, retail loan yields and deposit rates stood at 17.9% and 4.8% respectively and the segment's cost of risk was 1.6% during the same period. The retail segment contributed to 37.6%, or GEL 27.4 million to TBC's total net income in 1H 2014.

Corporate Banking

As of 30 June 2014, TBC Bank was the second largest bank in terms of corporate loans and corporate deposits in the Georgian banking sector. Corporate loans and deposits market share[7] stood at 25.4% and 23.4% as at the same period.

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[5] Global Finance Magazine named TBC Bank's internet banking in global nominations: "The Best Bill Payment & Presentment in the World" and "The Best Integrated Internet Bank Site in the World"

[6] Total transactions include transactions made in branches, through call center, internet banking, mobile banking, cash-in terminals, as well as direct debits and standing orders.

[7] *As per NBG, corporate segments market share comprises all legal entity loans and deposits, including corporate SME and Micro*

The corporate segment accounted for 34.5% and 25.4% of TBC's loan and deposit portfolios respectively, representing the second largest segment of the Bank's portfolios. The corporate segment served over 6,300 accounts and 1,300 customers, offering a wide range of products, including lending products (short-term working capital loans, credit line, overdraft, corporate cards, long term balance sheet finance, project finance, trade finance), treasury products (currency exchange operations, currency risk management, FX derivatives, fixed income products, mutual fund products), deposit & other products (term deposits, current/savings accounts, cash management, cash collections, internet banking) and documentary products (letters of credit, local and international guarantees).

Corporate Loans and Advances to Customers

As at 30 June 2014, corporate loans amounted to GEL 1,060.5 million, up GEL 12.7 million, or 1.2% YoY and down GEL 10.7 million, or 1.0% QoQ. As at the same date, the market share in legal entity loans reached 25.4%.
As of 30 June 2014, foreign currency loans represented 72.4% of the total corporate loan portfolio.

Corporate Customer Deposits

As at 31 March 2014, corporate deposits were GEL 743.5 million, up GEL 12.1 million or 1.7% YoY and up GEL 71.2 million, or 10.6% QoQ. As of the same date, the market share in legal entity deposits reached 23.4%.
As at 30 June 2014, foreign currency corporate deposits represented 61.2% of total corporate deposit portfolio.

Corporate Segment Profitability

In 1H 2013, corporate loan yields and deposit rates stood at 11.3% and 3.3% respectively. In the same period, cost of risk was 2.4%. In terms of profitability, corporate segment net profit reached GEL 17.6 million, or 24.2% of TBCs total net income.

SME Banking

As of 30 June 2014, the SME segment accounted for 14.2% and 14.8% of TBC's total loans and deposits respectively. The segment offers various types of lending products (loans, credit lines, overdrafts, letters of credit, international bank guarantee, local bank guarantee), deposit products and payment solutions (current account, savings account, term deposit, wire transfer, business cards, payroll services, merchant solutions/POS terminals) and operational products (internet banking, SMS services, money market, derivatives, cash collection, escrow account, direct debit).
As of 30 June 2014, TBC Bank served around 51k customers through the SME business line and had circa 2.7k outstanding SME loans.

SME Loans and Advances to Customers

As at 30 June 2014, SME loans increased to GEL 438.6 million, up GEL 121.2 million, or 38.2% YoY and up GEL 33.8 million, or 8.4% QoQ. Despite the absence of SME market information[8], the Management believes that TBC Bank is one of the leading banks in the market, demonstrated by its large and continuously-growing number of loyal customers.
As at 30 June 2014, foreign currency loans represented 83.7% of total SME portfolio.

SME Customer Deposits

As of 30 June 2014, SME deposits were GEL 434.9 million, up GEL 108.2 million, or 33.1% YoY and up GEL 7.0 million, or 1.6% QoQ. In regard to SME deposits, the Management believes that TBC Bank has the largest shares on the market, as demonstrated by its strong customer base.
In regards to SME deposits dollarization, foreign currency SME deposits represented 52.8% of total SME deposit portfolio.

[8] Due to the fact that NBG does not produce market data comparisons for the SME segment, it is impossible to calculate SME market shares.

SME Segment Profitability

In 1H 2014, SME loan yields and deposit rates stood at 12.6% and 1.8% respectively. In the same period, cost of risk was 0.8%. In terms of profitability, SME segment net profit reached GEL 16.6 million, or 22.8% of TBC's total net income.

Micro Banking

All micro customers of the Bank are served though our subsidiary Bank Constanta. The Micro segment is the smallest but fastest growing segment of TBC, accounting for 7.7% and 0.1% of the total loans and deposit portfolios respectively as at 30 June 2014. The Micro segment offers various types of loan and deposit products tailored to the needs of its clients including lending products (mini loans, business loans, agricultural loans, seasonal loans, international bank guarantees, local bank guarantees) and deposit products and payment solutions (current accounts, savings accounts, term deposits, wire transfers, payroll services, internet banking, kiosk banking).

As of 30 June 2014, TBC Bank served around 32k customers[9] through its Micro segment and had over 32k outstanding loans.

Micro Loans and Advances to Customers

Micro loans and advances to customers reached GEL 235.8 million as at 30 June 2014, up GEL 52.7 million, or 28.8% YoY and up GEL 17.7 million, or 8.1% QoQ. Despite the absence of Micro segment market share data, the Management believes that the Group is a very strong player in the Micro segment, due to Bank Constanta's long and established presence in the Micro market.

As of 31 December 2013, foreign currency loans represented 41.8% of the total micro portfolio.

Micro Customer Deposits

As at 30 June 2014, micro customer deposits were GEL 4.2 million, down GEL 1.9 million, or 31.7% YoY and broadly stable on a QoQ basis.

In terms of Micro deposits dollarization, foreign currency Micro deposits represented 29.6% of the total Micro deposit portfolio.

Micro Segment Profitability

In 1H 2014, Micro loan yields and deposit rates stood at 25.1% and 4.6% respectively. In the same period, the cost of risk was 2.6%. In terms of profitability, micro segment net profit reached GEL 2.8 million, or 3.9% of TBC's total net income.

TBC Kredit

TBC Kredit, which is 75% owned by TBC, is a non-banking credit organization that operates in the micro finance market in Azerbaijan. TBC Kredit's core business activity is SME, consumer and mortgage loans. TBC Kredit has its headquarters and four branches in Azerbaijan.

During 1H 2014, TBC Kredit's gross loans increased by GEL 12.7 million, or 20.4% YoY and by GEL 5.3 million, or 7.5% QoQ. In 1H 2014, TBC Kredit's net income reached GEL 2.0 million, up GEL 0.3 million, or 18.5% YoY, delivering an annualized ROAE of 15.2%. The following table sets out the selected balance sheet items of TBC Kredit as at 31 March 2014, 31 December 2013 and 31 March 2013.

[9] *Micro segment customers are calculated as Bank Constanta's number of borrowers that fall under micro segment. The remaining micro borrowers of Bank Constanta are added to the relevant retail and SME segments.*

In thousands GEL	30-Jun-14	31-Mar-14	30-Jun-13	*Change QoQ*	*Change YoY*
Net loans	73,485	68,382	61,592	*7.5%*	*19.3%*
Total assets	**77,006**	**74,372**	**65,550**	***3.5%***	***17.5%***
Borrowed funds	40,335	41,663	34,008	*-3.2%*	*18.6%*
Debt securities in issue	6,853	4,517	4,228	*51.7%*	*62.1%*
Total liabilities	**48,961**	**47,664**	**42,891**	***2.7%***	***14.2%***
Total equity	**28,045**	**26,708**	**22,658**	***5.0%***	***23.8%***

Assets

TBC Kredit's total assets reached GEL 77.0 million as of 30 June 2014, 17.5% YoY and 3.5% QoQ. These increases on a YoY and QoQ basis were primarily attributable to the increase in net loan portfolios by GEL 11.9 million YoY and GEL 5.1 million QoQ.

Liabilities

TBC Kredit's total liabilities increased by 14.2% YoY and 2.7% QoQ, amounting to GEL 49.0 million as of 30 June 2014. Both on a YoY and QoQ basis, the increase was mainly due to the increase in other borrowed funds and debt securities in issue.

Equity

TBC Kredit's total equity increased by GEL 5.4 million, or 23.8% and GEL 1.3 million, or 5.0% QoQ to GEL 28.0 million as at 30 June 2014. The increase was mainly due to the increase in net income attributable to total equity.

Market Shares[10]

Asset Market Shares

TBC Bank's market share in total assets increased by 0.7 percentage points QoQ attaining 23.9% as at 30 June 2014. TBC Bank's market share, including Bank Constanta, was 25.6% as at 30 June 2014, up 0.9 percentage points QoQ.

Loans Market Shares

TBC Bank's market share in total loans was 24.5% as at 30 June 2014, the same as at the end of the 1Q 2014. TBC Bank's market share in total loans, including Bank Constanta, was 26.7% on the same date, up 0.3 percentage points QoQ.

Deposits Market Shares

The market share in total customer deposits increased by 0.3 percentage points QoQ, reaching 27.7% as at 30 June 2014.The combined market shares of TBC Bank and Bank Constanta increased by 0.3 percentage points QoQ, reaching 28.4% as at 30 June 2014.

[10] Market shares are based on National Bank of Georgia (NBG)

Annexes

Unaudited Consolidated Balance Sheet

In thousands of GEL	30-Jun-14	31-Mar-14
Cash and cash equivalents	544,433	329,568
Due from other banks	2,645	2,619
Mandatory cash balances with National Bank of Georgia	308,164	294,990
Loans and advances to customers (Net)	2,931,545	2,772,629
Investment securities available for sale	515,029	568,865
Repurchase receivables	14,810	-
Investments in finance leases	40,913	38,548
Investment properties	78,847	83,331
Goodwill	2,726	2,726
Intangible assets	27,050	26,672
Premises and equipment	197,055	199,171
Other financial assets	42,538	44,092
Other assets	90,241	69,822
Differed income tax asset	359	-
Current income tax prepayment	1,749	4,858
TOTAL ASSETS	**4,798,104**	**4,437,891**
LIABILITIES		
Due to Credit Institutions	660,416	687,731
Customer accounts	2,929,214	2,753,884
Current income tax liability	1,120	-
Debt Securities in issue	6,853	4,517
Deferred income tax liability	27,758	27,882
Provisions for liabilities and charges	9,767	10,581
Other financial liabilities	33,368	30,619
Other liabilities	25,029	22,955
Subordinated debt	178,418	172,787
TOTAL LIABILITIES	**3,871,943**	**3,710,956**
EQUITY		
Share capital	19,576	16,499
Share premium	405,872	241,231
Retained earnings	446,088	410,935
Share based payment reserve	3,189	2,658
Other reserves	43,708	42,426
TOTAL EQUITY	**918,433**	**713,749**
Non-controlling interest	7,728	13,186
TOTAL EQUITY	**926,161**	**726,935**
TOTAL LIABILITIES AND EQUITY	**4,798,104**	**4,437,891**

Unaudited Consolidated Income Statement

In thousands of GEL	1H 2014	1H 2013	2Q'14	1Q'14	2Q'13
Interest income	246,991	233,677	124,224	122,767	115,527
Interest expense	-85,970	-99,981	-43,623	-42,347	-48,514
Net interest income	**161,021**	**133,696**	**80,601**	**80,420**	**67,013**
Fee and commission income	34,498	31,276	18,689	15,809	16,370
Fee and commission expense	-13,716	-12,689	-7,252	-6,464	-7,001
Net Fee and Commission Income	**20,782**	**18,587**	**11,437**	**9,345**	**9,369**
Gains less losses from trading in foreign currencies	16,721	14,045	7,228	9,493	9,155
Foreign exchange translation gains less losses	-557	1,876	1,144	-1,701	-1,117
Gains less losses/(losses less gains) from derivative financial instruments	-546	1,085	-369	-177	1,547
Other operating income	14,318	12,497	8,337	5,981	8,605
Other operating non-interest income	**29,936**	**29,503**	**16,340**	**13,596**	**18,190**
Provision for loan impairment	-26,953	-16,954	-12,367	-14,586	2,698
Provision for impairment of investments in finance lease	-110	-67	-101	-9	-43
Provision for/ (recovery of provision) performance guarantees and credit related commitments	2,613	-2,876	814	1,799	-2,781
Provision for impairment of other financial assets	-619	-619	-429	-190	-249
Impairment of investment securities available for sale	-22	-5	0	-22	0
Operating income after provisions for impairment	**186,648**	**161,265**	**96,295**	**90,353**	**94,197**
Staff costs	-56,000	-51,367	-29,016	-26,984	-25,619
Depreciation and amortisation	-10,692	-10,311	-5,397	-5,295	-4,806
Administrative and other operating expenses	-35,604	-35,356	-18,634	-16,970	-22,315
Operating expenses	**-102,296**	**-97,034**	**-53,047**	**-49,249**	**-52,740**
Profit before tax	**84,352**	**64,231**	**43,248**	**41,104**	**41,457**
Income tax expense	-11,500	-9,427	-6,335	-5,165	-6,396
Profit for the period	**72,852**	**54,804**	**36,913**	**35,939**	**35,061**

Key Ratios

Average Balances

Average balances included in this document are calculated as the average of the relevant monthly balances as at each month end. Balances as at 30 June 2014 and 2013, 31 March 2014 and 2013, have been extracted from the Reviewed Consolidated IFRS Financial Statements and balances as at 31 December 2014 and 2013 have been extracted from Audited Consolidated Financial Statements. Balances as at the remaining month ends have been derived from TBC's unaudited and consolidated management accounts prepared from TBC's accounting records and used by Management for monitoring and control purposes.

Ratios (based on monthly averages, where applicable)	1H 2014	1H 2013	2Q'14	1Q'14	2Q'13
ROAE[1]	19.3%	17.3%	19.0%	20.0%	21.7%
ROAA[2]	3.3%	2.9%	3.2%	3.3%	3.6%
Pre-provision ROAE	26.1%	24.0%	25.3%	27.3%	21.9%
Pre-provision ROAA	4.4%	4.0%	4.3%	4.5%	3.7%
Cost: Income[3]	48.3%	53.4%	48.9%	47.6%	55.8%
Cost of Risk[4]	1.8%	1.3%	1.6%	2.0%	-0.4%
NIM[5]	8.6%	8.3%	8.4%	8.8%	8.2%
Loan yields[6]	15.3%	17.0%	15.1%	15.6%	16.6%
Deposit rates[7]	3.9%	6.2%	3.9%	4.0%	6.0%
Yields on interest earning assets [8]	13.1%	14.4%	12.9%	13.4%	14.2%
Cost of Funding[9]	4.8%	6.4%	4.7%	4.8%	6.2%
Spread[10]	8.4%	8.1%	8.2%	8.6%	8.0%
NPLs to gross loans[11]	1.0%	1.4%	1.0%	1.0%	1.4%
NPLs+restructured loans to gross loans[12]	4.4%	4.1%	4.4%	4.7%	4.1%
Provision Level to Gross Loans[13]	4.8%	6.5%	4.8%	5.1%	6.5%
NPLs+Restructured loans coverage ratio[14]	109.1%	159.5%	109.1%	109.0%	159.5%
BIS Tier 1[15]	26.5%	22.3%	26.5%	21.4%	22.3%
Total BIS CAR[16]	33.0%	28.9%	33.0%	28.1%	28.9%
NBG Basel II Tier 1 CAR[17]	13.4%	11.5%	13.4%	10.6%	11.5%
NBG Basel II Total CAR[18]	16.7%	14.6%	16.7%	14.3%	14.6%

For the readers' convenience, below are the ratios calculated based on both monthly and quarterly average balances.

Selected Ratios Calculated Based on Quarterly Averages

Ratios (based on quarterly averages where applicable)	1H 2014	1H 2013	2Q'14	1Q'14	2Q'13
ROAE	18.6%	17.4%	18.0%	20.1%	21.7%
ROAA	3.2%	2.9%	3.2%	3.3%	3.7%
Pre-provision ROAE	25.0%	24.0%	23.9%	27.5%	21.9%
Pre-provision ROAA	4.3%	3.9%	4.3%	4.5%	3.7%
Cost of Risk	1.8%	1.3%	1.7%	2.0%	-0.4%
NIM	8.5%	8.2%	8.4%	8.7%	8.2%
Loan yields	15.2%	16.9%	15.1%	15.5%	16.5%
Deposit rates	3.9%	6.1%	3.9%	3.9%	5.9%
Yields on interest earning assets	13.0%	14.2%	12.9%	13.3%	14.1%
Cost of Funding	4.7%	6.3%	4.7%	4.7%	6.2%
Spread	8.3%	7.9%	8.1%	8.6%	7.9%

Ratio definitions

1. Return on average total equity (ROAE) equals net income attributable to owners divided by monthly average of total shareholders' equity attributable to the Bank's equity holders for the same period; Pre-provision ROAE excludes all provision charges. Annualised where applicable.
2. Return on average total assets (ROAA) equals net income of the period divided by monthly average total assets for the same period. Pre-provision ROAE excludes all provision charges. Annualised where applicable.
3. Cost to Income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
4. Cost of risk equals provision for loan impairment divided by monthly average gross loans and advances to customers. Annualised where applicable.
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets. Annualised where applicable.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers. Annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits. Annualised where applicable.
8. Yields on interest earning assets equals total interest income divided by monthly average interest earning assets. Annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities. Annualised where applicable.
10. Spread equals difference between yields on interest earning assets and cost of funding.
11. NPLs to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
12. NPLs+restructured loans to gross loans equal NPLs plus those restructured loans that are overdue by 90 days or less divided by the gross loan portfolio for the same period.
13. Provision Level to Gross Loans equal loan loss provision divided by the gross loan portfolio for the same period.
14. NPLs+Restructured loans coverage ratio equal loan loss provision divided by the sum of NPLs plus those restructured loans that are overdue by 90 days or less.
15. BIS Tier 1 capital adequacy ratio Tier 1 capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
16. Total BIS CAR equals total capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
17. NBG Basel II Tier 1 CAR equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the NBG Basel II requirements. After adoption of NBG Basel II/III requirements, the Bank also 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 2012.
18. NBG Basel II Total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the NBG Basel II requirements. After adoption of NBG Basel II/III requirements, the Bank also 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 2012.

Earnings per Share and Book Value per Share Ratio Definitions:

- 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.
- 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.
- Book Value per Share is calculated by dividing the equity attributable to shareholders of the bank by the weighted average number of ordinary shares in issue during the period.

Exchange Rates

Certain financial information in this document is presented in U.S. Dollars solely for the convenience of the reader. For balance sheet items, we used the end-of-period official exchange rate as reported by the NBG as of 30 June 2014, 31 March 2014 and 30 June 2013.

TBC Bank at a Glance

TBC Bank is a leading Bank in Georgia, offering a broad range of products and services through its extensively developed retail, corporate, SME and micro banking business lines. The Bank is one of the largest financial institutions in the country in terms of retail deposits (#1), customer loans, deposits and assets (#2). The Bank completed the largest ever Georgian IPO and its GDRs were listed on the London Stock Exchange in June 2014.

Key Facts (as of June 30, 2014)

- No 1 in Retail Deposits – 33.3% of market share;
- A leading Bank in the country with 26.7% and 25.6% market share of total loans and total assets respectively;
- Loan book composition: Retail (43.6%), Corporate (34.5%), SME (14.2%), Micro (7.7%)
- 319 ATMs (57 of which belong to Bank Constanta), 3,264 POSs across Georgia;
- Number of customers: over 1 million; Number of employees (Group): over 4,600;
- Entered microfinance segment in May 2011 through acquisition of Bank Constanta
- Presence in Azerbaijan through subsidiary TBC Kredit (non-banking credit organization)

Ratings

- Fitch: BB- (Long Term IDR)/B (Short Term IDR) upgraded in June 2013
- Moody's: B1 (FC)/Ba3 (LC) affirmed in April 2014

Successful IPO Completed in June 2014

- On the 11th of June LSE welcomed TBC Bank to the Main Market
- IPO raised USD 239M valuing company at USD 640M
- Pricing of initial public offering at USD 13.00 Per GDR
- Largest ever off-index international IPO out of EMEA region
- Largest ever Georgian IPO
- Strong institutional investor base

Current Shareholding Structure (June 2014)

EBRD	12.5%
IFC	6.2%
DEG	3.6%
FMO	4.4%
JP Morgan	1.6%
Ashmore	2.7%
Founders	22.4%
Top Management	3.0%
Middle Management	0.4%
Other	3.2%
Free Float	40.0%

Share Information

In millions	1H 2014	1H 2013	Change YoY
Share price at period end	14.15	n/a	-
Shares outstanding at period end	48,939,058	41,248,750*	18.6%
Weighted average number of shares outstanding	42,054,230	40,702,750*	3.3%
Basic EPS	1.70	1.32	28.8%
Diluted EPS	1.69	1.30	30.0%
Book value per share	21.84	16.16	35.1%

(*) adjusted to share split

Selected Operating Data

	30-Jun-14	31-Mar-14	30-Jun-13
Branches	**118**	**116**	**108**
TBC	*60*	*59*	*56*
Constanta	*58*	*57*	*51*
Cash-in Terminals (TBC Pay)	**2,593**	**2,608**	**2,214**
Employees	**4,301**	**4,122**	**4,002**
TBC	*3,042*	*2,887*	*2,807*
Constanta	*1,259*	*1,235*	*1,195*
ATMs	**319**	**316**	
TBC	*262*	*262*	*240*
Constanta	*57*	*54*	*46*
POS Terminals	**3,264**	**2,836**	**2,888**

Georgia at a Glance

GDP

GDP (2013): USD 16.1 billion; GDP per capita (2013): USD 3,597; Real GDP Growth (2Q 2014): 5.1% (initial estimate);
Inflation (YoY, June 2014): 2.0%

Country ratings

Fitch Rating BB-/Stable
Standard & Poor's: BB-/Stable
Moody's rating: Ba3/Stable

Recent country achievement

- The World's No. 2 Reformer, *The World Bank & IFC Doing Business Report 2014*;
- No. 8 globally on the Ease of Doing Business, *Doing Business Report 2014*;
- Fourth Friendliest Tax Regime globally, *The Forbes Tax Misery & Reform Index 2009*;
- One of the least corrupt countries in the world, *Transparency International 2013*;
- 8th most attractive developing country for retail expansion in 2013, *The 2013 Global Retail Development Index.*

Georgian Banking Sector

Market assets, loans and deposits (NBG based)

During 1H 2014:

- Total Market Assets increased by 6.1% (5.1% without exchange rate effect) and equaled GEL 18,321 million.
- Total Market Loans increased by 6.3% (5.1% without exchange rate effect) and equaled GEL 11,228 million.
- Total Market Deposits increased by 5.4% (4.2% without exchange rate effect) and equaled GEL 10,204 million.

Market profitability (NBG Based)

During 1H 2014:

- Net Interest Margin on Total Assets: 5.8% (down 0.1 percentage points compared to 1H 2013)
- Cost/Income ratio: 51.9% (down 1.2 percentage points compared to 1H 2013)

Currency rate trends

As at 30 June 2014 USD/GEL exchange rate was 1.77, 1.9% higher compared to YE 2013 rate and EUR/GEL exchange rate was 2.41, 0.8% higher compared to YE 2013 rate.

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Forward-Looking Statements

This document contains forward-looking statements; such forward-looking statements contain known and unknown risks, uncertainties and other important factors, which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward-looking statements include, among others, the achievement of anticipated levels of profitability, growth, cost and recent acquisitions, the impact of competitive pricing, the ability to obtain necessary regulatory approvals and licenses, the impact of developments in the Georgian economic, political and legal environment, financial risk management and the impact of general business and global economic conditions.

None of the future projections, expectations, estimates or prospects in this document should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects are based are accurate or exhaustive or, in the case of the assumptions, entirely covered in the document. These forward-looking statements speak only as of the date they are made, and subject to compliance with applicable law and regulation the Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in the document to reflect actual results, changes in assumptions or changes in factors affecting those statements.