TBC BANK

TBC Bank Announces 3Q 2014 IFRS Consolidated Results, Achieving Market Leading Position for Total Deposits

Financial Highlights

- Total operating income in 3Q 2014 up by 19.8% YoY to GEL 114.3 million (9M 2014: GEL 326.0 million, up 17.6%)
- Cost to income ratio from recurring operations improved to 44.8% in 3Q 2014 (3Q 2013: 48.0%). Cost to income including one off charges was 49.3%
- Profit for 3Q 2014 up 33.8% YoY to GEL 45.6 million (9M 2014: GEL 118.4 million, up 33.3%), delivering ROAE of 19.2% (3Q 2013: 20.0%)
- NIM (net interest margin) at 8.3% in 3Q 2014, compared to 8.6% in 3Q 2013
- Total assets reached GEL 5,043.6 million as of 30 September 2014, up 25.6% YoY and 5.1% QoQ
- Gross loans and advances to customers increased to GEL 3,230.2 million as of 30 September 2014, up 23.4% YoY and 5.0% QoQ:
    - retail gross loans reached GEL 1,446.2 million, up 33.2% YoY and 7.7% QoQ
    - SME gross loans reached GEL 460.7 million, up 35.1% YoY and 5.1% QoQ
    - micro gross loans reached GEL 239.0 million, up 28.6% YoY and 1.4% QoQ
    - corporate gross loans reached GEL 1,084.2 million, up 7.9% YoY and 2.2% QoQ
- Total customer deposits increased to GEL 3,002.8 million as of 30 September 2014, up 14.9% YoY and 2.5% QoQ
- Total equity was GEL 974.7 million as of 30 September 2014, up 41.5% YoY and 5.2% QoQ

Operational Highlights

- TBC Group became the largest bank in total customer deposits even though its market share decreased by 0.9 percentage points YoY and 0.6pp QoQ to 27.8%.
    - market share in individual deposits stayed stable at 33.3% QoQ basis, maintaining the largest market share among Georgian banks
    - market share in deposits of legal entities decreased by 4.3% to 22.4% QoQ basis

- Market Share in total loans increased by 1.1% to 27.0% QoQ basis
    - market share in individual loans increased by 2.1% to 28.6% QoQ basis, now the largest portfolio among Georgian banks per IFRS
    - market share in loans of legal entities stayed stable at 25.4% QoQ basis
- Mr. Badri Japaridze was appointed as Chairman of the Supervisory Board of Bank Constanta, where all members of the Supervisory Board of Bank Constanta are also members of TBC Bank Management or Supervisory Boards.
- Bank Constanta integration is on track with the legal merger planned to be completed in the first quarter of 2015.
- Management was strengthened by appointment of new Chief Risk Officer, effective from December 2014. George Tkhelidze joined us from Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA

Letter from the Chief Executive Officer

"We are pleased to announce very positive results for the third quarter and first nine months of 2014. TBC Bank has continued to realise the opportunities created by Georgia's fast-growing economy and stable regulatory environment, especially in our key retail, SME and microfinance segments.

The estimated real GDP growth rate for Georgia in the first 9 months of 2014 reached 5.9%[1] as of 30 September 2014 and the YoY inflation rate was 4.8%. The average USD/GEL exchange rate was broadly stable at 1.75 in 3Q 2014, compared to 1.76 for the previous quarter. The Georgian banking sector delivered resilient growth with the total loans increasing by 22.3% YoY and 3.9% QoQ.

Our improved cost to income ratio from recurring operations combined with our focus on the growing segments of the economy produced excellent results for net income and return on equity. In 3Q 2014, we delivered a record net income of GEL 45.6 million, up 33.8% YoY, and for 9M 2014 we reported net income of GEL 118.4 million, up 33.3% YoY. Return on average equity (ROAE) stood at 19.2% and 19.4%, respectively, for the 3Q and 9M periods, while return on average assets (ROAA) stood at 3.7% and 3.4% for 3Q and 9M, respectively.

Our capital base continues to strengthen, enhanced by our IPO in 2Q and the solid net income in 3Q, further supporting our growth strategy. The total capital adequacy ratio (CAR) per Basel I stood at 33.0% and the total CAR per newly implemented Basel II/III regulation stood at 16.7%, against the minimum requirement of 10.5% (or 13.5% including the capital buffer).

During 3Q 2014, in addition to being the largest bank in retail deposits we became the largest bank in total deposits with a market share of 27.8%[2]. Our market share in total assets and total loans stood at 25.8% and 27.0%[3], respectively.

As of 30 September 2014, our gross loan portfolio reached GEL 3,230.2 million, up 23.4% YoY or 5.0% QoQ, mainly driven by the growing retail portfolio, both on a YoY and QoQ basis. The second largest contributor to the loan portfolio growth was the SME segment on a YoY basis and the corporate segment on a QoQ basis. As of the same date, our retail banking share in total gross loans was 44.8%, followed by corporate with 33.6%, SME with14.3% and micro with 7.4%.

In the same period, total customer deposits reached GEL 3,002.8 million, up 14.9% YoY or 2.5% QoQ. The strong increase in total customer deposits was primarily driven by the increase in retail and SME segments. In 3Q 2014, we successfully managed to further reduce our cost of funding to 4.5%, compared to 5.7% in the same quarter of the previous year.

In 3Q 2014, our NIM stood at 8.3%, down by 0.3pp YoY and 0.1pp QoQ, in line with our expectations and the decreasing NIM trend in the country. Our cost to income ratio stood at 49.3% (44.8% excluding one-off charges related to Constanta and the IPO), compared to 48.0% in 3Q 2013. As expected, our cost of risk on loans decreased to 0.7% in 3Q 2014, from 1.1% in 3Q 2013 (9M 2014: 1.4% vs. 9M 2013: 1.3%).

Outlook

We continue to experience an improving macroeconomic environment, as confirmed by the projections of the IMF and World Bank for real GDP growth of 5% and 6.3% respectively. On this basis we see good cause to remain confident about the strong and sustainable development of the Georgian banking sector and our ability to continue delivering on our strategy, generating sustainable returns for our shareholders. We expect significant benefits from

[1] According to Geostat
[2] Includes Bank Constanta; 32.3% on a standalone basis
[3] Includes Bank Constanta; 24.1% and 24.8% respectively on a standalone basis

the planned merger with Bank Constanta in the first quarter of 2015, which will enable us to offer TBC Bank's products in an additional 59 branches.

Today, we are in line with, or ahead of, most of our mid-term targets.

- Our loan book is growing by more than 20%
- Our return on equity remains above 18%
- Our cost to income ratio (net of one-off costs) is approaching the 45% target
- Our Tier 1 capital ratio under Basel II/III is comfortably above 12.5%
- We reiterate our target dividend payout ratio of 25%

We believe that the actions we have taken have strongly positioned the Bank to sustain its successful performance into the long-term. We look forward to updating the market on our continued achievements in future."

Vakhtang Butskhrikidze
Chief Executive Officer

Conference Call Details

Hosts: Vakhtang Butskhrikidze, CEO, and Giorgi Shagidze, CFO

Date & time: Tuesday, 11 November 2014 at 14.00 (GMT) / 15.00 (CET) / 09.00 (EDT)

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Please dial-in approximately 5 minutes before the start of the call quoting the **password "TBC Bank"**

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Results Overview 3Q and 9M 2014

Income Statement Highlights

in thousands of GEL	9M 2014	9M 2013	*Change in %*	3Q'14	2Q'14	3Q'13	*Change YoY*	*Change QoQ*
Net interest income	246,372	206,665	*19.2%*	85,351	80,601	72,970	*17.0%*	*5.9%*
Net Fee and Commission Income	33,692	29,240	*15.2%*	12,911	11,437	10,653	*21.2%*	*12.9%*
Other operating non-interest income	45,958	41,263	*11.4%*	16,022	16,340	11,760	*36.2%*	*-1.9%*
Provisioning charges	(30,452)	(31,994)	*-4.8%*	(5,361)	(12,083)	(11,473)	*-53.3%*	*-55.6%*
Operating income after provisions for impairment	**295,571**	**245,174**	***20.6%***	**108,923**	**96,295**	**83,910**	***29.8%***	***13.1%***
Operating expenses	(158,617)	(142,794)	*11.1%*	(56,321)	(53,047)	(45,760)	*23.1%*	*6.2%*
Profit before tax	**136,954**	**102,381**	***33.8%***	**52,603**	**43,248**	**38,150**	***37.9%***	***21.6%***
Income tax expense	(18,528)	(13,516)	*37.1%*	(7,028)	(6,335)	(4,089)	*71.9%*	*10.9%*
Profit for the period	**118,426**	**88,864**	***33.3%***	**45,575**	**36,913**	**34,061**	***33.8%***	***23.5%***

Capital and Balance Sheet Highlights

	30-Sep-14		30-Jun-14		Change QoQ	30-Sep-13		Change YoY
In millions	GEL	USD	GEL	USD		GEL	USD	
Total Assets	5,043.6	2,878.1	4,798.1	2,712.2	*5.1%*	4,014.9	2,412.2	*25.6%*
Gross Loans	3,230.2	1,843.3	3,077.8	1,739.7	*5.0%*	2,617.8	1,572.8	*23.4%*
Customer Deposits	3,002.8	1,713.5	2,929.2	1,655.8	*2.5%*	2,613.7	1,570.4	*14.9%*
Total equity	974.7	556.2	926.2	523.5	*5.2%*	688.7	413.8	*41.5%*
Basel I Tier 1 Capital	926.1	528.5	879.7	497.3	*5.3%*	639.7	384.4	*44.8%*
Basel I Risk weighted assets	3,456.3	1,972.3	3,322.2	1,877.9	*4.0%*	2,861.1	1,719.0	*20.8%*
Basel II/III Tier 1 Capital	743.6	424.3	713.6	403.4	*4.2%*	515.7	309.9	*44.2%*
Basel II/III Risk weighted assets	5,486.8	3,131.0	5,308.0	3,000.4	*3.4%*	4,431.7	2,662.6	*23.8%*

Key Ratios

	9M 2014	9M 2013	Change YoY	3Q'14	2Q'14	3Q'13	Change QoQ	Change YoY
ROAE	19.4%	18.3%	1.1pp	19.2%	19.0%	20.0%	0.2pp	-0.8pp
ROAA	3.4%	3.1%	0.4pp	3.7%	3.2%	3.4%	0.5pp	0.3pp
Pre-provision ROAE	24.4%	25.0%	-0.6pp	21.4%	25.3%	26.9%	-3.8pp	-5.4pp
Cost: Income	48.7%	51.5%	-2.9pp	49.3%	48.9%	48.0%	0.3pp	1.3pp
Cost of Risk	1.4%	1.3%	0.2pp	0.7%	1.6%	1.1%	-0.9pp	-0.4pp
NPL to Gross Loans	0.9%	1.8%	-0.8pp	0.9%	1.0%	1.8%	-0.8pp	0.0pp
Basel I Total CAR	33.0%	28.8%	4.2pp	33.0%	33.0%	28.8%	4.2pp	0.0pp
Basel II/III Total CAR	16.7%	14.8%	1.9pp	16.7%	16.7%	14.8%	1.9pp	0.0pp
Leverage	5.2x	5.8x	-0.6x	5.2x	5.2x	5.8x	0.0x	-0.7x

Income Statement Discussion

Net Interest Income

in thousands of GEL	**9M 2014**	**9M 2013**	***Change in %***	**3Q'14**	**2Q'14**	**3Q'13**	***Change YoY***	***Change QoQ***
Loans and advances to customers	341,498	323,060	*5.7%*	116,506	112,980	109,961	*6.0%*	*3.1%*
Investment securities available for sale	22,685	23,324	*-2.7%*	7,951	7,471	7,935	*0.2%*	*6.4%*
Due from other banks	4,261	2,588	*64.7%*	1,563	1,287	830	*88.3%*	*21.5%*
Investments in leases	7,133	5,114	*39.5%*	2,566	2,486	1,683	*52.4%*	*3.2%*
Interest income	**375,576**	**354,086**	***6.1%***	**128,585**	**124,224**	**120,410**	***6.8%***	***3.5%***
Customer accounts	81,966	109,075	*-24.9%*	27,154	27,467	34,052	*-20.3%*	*-1.1%*
Due to credit institutions	32,613	27,953	*16.7%*	10,782	11,311	9,221	*16.9%*	*-4.7%*
Debt Securities	492	150	*228.0%*	259	143	94	*175.5%*	*81.1%*
Subordinated debt	13,932	10,138	*37.4%*	4,965	4,645	4,041	*22.9%*	*6.9%*
Other	201	105	*94.4%*	73	57	32	*28.1%*	*128.1%*
Interest expense	**129,204**	**147,421**	***-12.4%***	**43,234**	**43,623**	**47,440**	***-8.9%***	***-0.9%***
Net interest income	**246,372**	**206,665**	***19.2%***	**85,351**	**80,601**	**72,970**	***17.0%***	***5.9%***
Net interest margin	**8.5%**	**8.4%**	***0.1pp***	**8.3%**	**8.4%**	**8.6%**	***-0.3pp***	***-0.1pp***

9M 2014 to 9M 2013 Comparison

Net interest income increased by 19.2% to GEL 246.4 million, against 9M 2013, driven by 6.1% higher interest income and 12.4% lower interest expense.

The 6.1% YoY increase in interest income to GEL 375.6 million in 9M 2014 was mainly due to the increase in interest income from loans to customers, primarily related to the average gross loan portfolio increase by 17.7% YoY, which more than offset the decline in loan yields over the same period from 16.9% to 15.2%, aligned with the declining interest rates in the country. The second largest increase in interest income in absolute terms came from interest income from investments in leases, primarily due to the 38.8% increase in the size of TBC's average lease portfolio during the period. Yields on average interest earning assets decreased by 1.4pp to 12.9%, compared to 14.3% in 9M 2013.

Interest expense decreased by 12.4% YoY to GEL 129.2 million in 9M 2014, mainly due to the lower interest expense on customer accounts. The latter decreased primarily due to the lower cost of client deposits at 3.8% (9M 2013: 5.8%), resulting from the Management's efforts to optimize cost of funding in response to the general market trend of declining interest rates on deposits in Georgia. Consequently, the reduction in the cost of client deposits more than offset the 14.0% increase in the average customer deposit portfolio. As a result of the reduced interest rates on client deposits and most of other interest bearing liabilities, the Bank's cost of funding ratio declined by 1.5pp to 4.7% in 9M 2014 (9M 2013: 6.2%).

Consequently, NIM was 8.5% in 9M 2014, compared to 8.4% in 9M 2013. Due to the one-off interest income from one of the corporate loans, our interest income increased in 1Q 2014 by GEL 2.3 million. Without this one-off effect, 9M 2014 NIM would have been 8.4%, broadly stable compared to 9M 2013.

3Q 2014 and 3Q 2013 Comparison

In 3Q 2014, net interest income increased by 17.0% to GEL 85.4 million, compared to 3Q 2013, driven by 6.8% higher interest income and 8.9% lower interest expense.

Interest income increase of GEL 8.2 million, or 6.8%, to GEL 128.6 million in 3Q 2014 was mainly due to the increase in interest income from loans to customers, primarily related to the average gross loan portfolio increase by 19.5% YoY, which more than offset the decline in loan yields over the same period from 16.8% to 14.9%, aligned with the above mentioned declining interest rates in the country. Since the average gross loan portfolio accounts for 77.3% of the total interest earning liabilities, the decline in loan yields contributed to the decrease in yields on average interest earning assets by 1.7pp to 12.5% from 14.1% in 3Q 2013, despite the increase in average rates on finance lease portfolios and due from other banks by 2.2pp to 24.2% and by 0.5pp to 2.2%, respectively.

The 8.9% YoY decrease in interest expense was primarily attributable to the reduced interest expense on customer deposits by GEL 6.9 million, or 20.3%, mainly resulting from the reduction in cost of client deposits by 1.5pp to 3.6% in 3Q 2014 (3Q 2013: 5.2%). The reduced deposit rates more than offset the increase in average deposit portfolio by 13.6% YoY. The decrease in interest expense on customer deposits was partially offset by the increase in interest expense on other borrowed funds by GEL 1.7 million and on subordinated debt by GEL 0.9 million, mainly due to the increase in the average balance of borrowed funds and subordinated debt on a YoY basis by 32.0% and 38.6%, respectively, in addition to the contractual margin step up on one of the subordinated loan facilities. Due to the decrease in average rates on all interest earning liabilities, the Bank's cost of funding was reduced by 1.3pp to 4.5% in 3Q 2014.

Mainly due to the fact that yields on average interest earning assets declined at a faster pace during the period than the cost of funding, NIM decreased to 8.3% in 3Q 2014, compared to 8.6% in the same quarter of the previous year.

3Q 2014 and 2Q 2014 Comparison

On a QoQ basis, the net interest income increased by 5.9% as a result of 3.5% higher interest income and 0.9% lower interest expense.

The GEL 4.4 million, or 3.5%, QoQ increase in interest income mainly resulted from the increase in interest income on loans, which in turn was due to the 3.2% QoQ increase in average gross loan portfolio and which was partially offset by 0.2pp QoQ decrease in average loan yields. The increase in interest income was also driven by the increase in interest income from investment securities available for sale, resulting from the 2.5% QoQ increase in the respective average portfolio and the slight increase in its yields by 0.1pp to 5.7%. Yields on average interest earning assets decreased by 0.5pp in 3Q 2014, compared to the previous quarter.

The GEL 0.4 million, or 0.9% QoQ, decrease in interest expense was due to the decrease in interest expense on customer accounts and at credit institutions (comprising other borrowed funds and due to other banks), which was broadly offset by the issuance of bonds by our subsidiaries TBC Kredit and TBC Leasing and by the increased interest expense on subordinated debt due to the interest rate step up in Q2 2014. Mainly due to the reduced interest rates on customer accounts and other borrowed funds by 0.2pp and 0.1pp, respectively, cost of funding was reduced by 0.2pp QoQ.

As a result, NIM decreased slightly by 0.1pp.

Fee and Commission Income

in thousands of GEL	9M 2014	9M 2013	*Change in %*	3Q'14	2Q'14	3Q'13	*Change YoY*	*Change QoQ*
Card operations	23,406	23,074	*1.4%*	8,751	7,650	7,956	*10.0%*	*14.4%*
Settlement transactions	11,068	8,479	*30.5%*	4,074	3,943	3,130	*30.2%*	*3.3%*
Guarantees issued	6,475	5,211	*24.2%*	2,114	2,691	2,187	*-3.4%*	*-21.5%*
Issuance of letters of credit	4,935	4,830	*2.2%*	1,729	1,562	2,067	*-16.3%*	*10.7%*
Cash transactions	4,307	3,600	*19.6%*	1,765	1,374	1,346	*31.1%*	*28.5%*
Foreign exchange operations	861	1,131	*-23.9%*	279	272	353	*-21.1%*	*2.6%*
Other	3,585	2,172	*65.1%*	1,425	1,197	182	*683.8%*	*19.1%*
Fee and commission income	**54,637**	**48,497**	***12.7%***	**20,139**	**18,689**	**17,221**	***16.9%***	***7.8%***
Card operations	10,902	9,513	*14.6%*	3,769	3,756	3,096	*21.7%*	*0.3%*
Guarantees received	886	2,657	*-66.6%*	378	277	903	*-58.1%*	*36.4%*
Cash transactions	1,957	1,081	*81.0%*	696	631	390	*78.3%*	*10.3%*
Settlement transactions	1,718	1,564	*9.8%*	538	726	623	*-13.7%*	*-26.0%*
Foreign exchange operations	46	54	*-15.1%*	15	17	19	*-21.8%*	*-11.1%*
Letters of credit	2,325	2,120	*9.6%*	749	777	800	*-6.4%*	*-3.6%*
Other	3,111	2,266	*37.3%*	1,083	1,068	735	*47.4%*	*1.5%*
Fee and commission expense	**20,944**	**19,256**	***8.8%***	**7,228**	**7,252**	**6,567**	***10.1%***	***-0.3%***
Net Fee and Commission Income	**33,692**	**29,240**	***15.2%***	**12,911**	**11,437**	**10,653**	***21.2%***	***12.9%***

9M 2014 to 9M 2013 Comparison

In 9M 2014, the net fee and commission income reached GEL 33.7 million, up GEL 4.5 million, compared to 9M 2013, mainly resulting from an increase in net fee and commission income from guarantees by GEL 3.0 million and from settlement transactions by GEL 2.4 million, driven by the growing scale of the business. The net fee and commission income from card operations decreased by GEL 1.1 million as the Bank started recording fee income from card operations on an accrual basis from 2014. Without the effect of card fee deferral accrual, which amounted to GEL 2.3 million in 9M 2014, the net fee and commission income would have increased by GEL 6.7 million, or 23.0%, compared to the same period of the previous year.

3Q 2014 and 3Q 2013 Comparison

In 3Q 2014, net fee and commission income increased by GEL 2.3 million, compared to 3Q 2013, mainly resulting from the increase in net fee and commission income from settlement transactions and guarantees issued by GEL 1.0 million and GEL 0.5 million, respectively. Net fee and commission income from card operations increased slightly by GEL 0.1 million. Excluding the GEL 2.3 million card fee deferral recorded in 3Q 2014, net fee and commission income would have increased by GEL 2.8 million, or 25.8%, compared to the same quarter of the previous year.

3Q 2014 and 2Q 2014 Comparison

On a QoQ basis, net fee and commission income increased by GEL 1.5 million, or 12.9% compared to 2Q 2014, resulting from the increase in most of the items. The net fee and commission income from card operations, cash transactions, settlement transactions and letters of credit increased by GEL 1.1 million, GEL 0.3 million, GEL 0.3 million and GEL 0.2 million, respectively. Net fee and commission income from foreign exchange operations remained broadly stable on a QoQ basis. These increases were partially offset by the decrease in net fee and commission income from guarantees by GEL 0.7 million, which was primarily due to higher amount of guarantees and L/C issued in Q2 vs Q3 2014.

Other Operating Non-interest Income

in thousands of GEL	**9M 2014**	**9M 2013**	***Change in %***	**3Q'14**	**2Q'14**	**3Q'13**	***Change YoY***	***Change QoQ***
Gains less losses from trading in foreign currencies and foreign exchange translations	26,308	23,890	*10.1%*	10,144	8,372	7,969	*27.3%*	*21.2%*
Gains less losses/(losses less gains) from derivative financial instruments	(384)	670	*nm*	162	(369)	(415)	*nm*	*nm*
Gain from sale of inventories of repossessed collateral	*1,094.0*	*973.3*	*12.4%*	*415.0*	*464.0*	*423.3*	*-2.0%*	*-10.6%*
Gain from sale of investment properties	*3,095.8*	*4,695.9*	*-34.1%*	*62.8*	*2,723.0*	*0.0*	*nm*	*-97.7%*
Revenues from cash-in services	*6,863.4*	*5,336.8*	*28.6%*	*2,322.4*	*2,317.0*	*1,986.8*	*16.9%*	*0.2%*
Revenues from operational leasing	*5,039.8*	*1,787.4*	*182.0%*	*1,805.8*	*1,655.0*	*654.4*	*175.9%*	*9.1%*
Administrative fee income from international financial institutions	*729.9*	*906.3*	*-19.5%*	*198.9*	*259.0*	*297.3*	*-33.1%*	*-23.2%*
Revenues from non-credit related fines	*53.3*	*288.8*	*-81.6%*	*35.3*	*4.0*	*12.8*	*175.3%*	*781.5%*
Gain on disposal of premises and equipment	*85.4*	*0.0*	*nm*	*26.4*	*53.0*	*0.0*	*nm*	*-50.1%*
Other	*3,071.9*	*2,713.6*	*13.2%*	*848.9*	*862.0*	*830.5*	*2.2%*	*-1.5%*
Other operating income	**20,033.5**	**16,702.2**	***19.9%***	**5,715.5**	**8,337.0**	**4,205.2**	***35.9%***	***-31.4%***
Other operating non-interest income	**45,958**	**41,263**	***11.4%***	**16,022**	**16,340**	**11,760**	***36.2%***	***-1.9%***

9M 2014 to 9M 2013 Comparison

Total other operating non-interest income increased by 11.4% to GEL 46.0 million in 9M 2014, compared to the same period of the previous year. This increase was mainly driven by the 19.9% increase in other operating income which primarily resulted from the increase in revenues from operational leasing (rental income from investment property) and revenues from cash-in terminal services. Total other operating non-interest income was also supported by the gains from trading in foreign currencies and foreign exchange translations, up by GEL 2.4 million YoY. These increases were partially offset by the loss of GEL 0.4 million from the fair valuation of derivatives, compared to a gain of GEL 0.7 million in 9M 2013.

3Q 2014 and 3Q 2013 Comparison

In 3Q 2014, other operating non-interest income increased by GEL 4.3 million, or 36.2%, reflecting the increase in most of the items, mostly driven by the growing scale of the business. The GEL 1.5 million, or 35.9%, increase in other operating income was mainly due to the increase in revenues from operational leasing (rental income from investment property) and revenues from cash-in terminal services by GEL 1.2 million and GEL 0.3 million, respectively.

3Q 2014 and 2Q 2014 Comparison

On a QoQ basis, other operating non-interest income decreased by GEL 0.3 million, or 1.9%, primarily reflecting the GEL 2.7 million decrease in gains from the sale of investment properties due to the higher sales of such properties in 2Q 2014. This decrease was largely offset by the increase in gains from trading in foreign currencies and foreign exchange translations by GEL 1.8 million and the gains recorded from derivative financial instruments in 3Q 2014 in the amount of GEL 0.2 million, compared to a loss of GEL 0.4 million in 2Q 2014.

Provision for Impairment

in thousands of GEL	**9M 2014**	**9M 2013**	***Change in %***	**3Q'14**	**2Q'14**	**3Q'13**	***Change YoY***	***Change QoQ***
Provision for loan impairment	32,473	23,945	*35.6%*	5,520	12,367	6,991	*-21.0%*	*-55.4%*
Provision for impairment of investments in finance lease	166	71	*134.3%*	56	101	4	*1367.9%*	*-44.7%*
Provision for/ (recovery of provision) performance guarantees and credit related commitments	-2,777	7,138	*nm*	-164	-814	4,262	*nm*	*-79.9%*
Provision for impairment of other financial assets	567	835	*-32.0%*	-52	429	216	*-123.9%*	*-112.0%*
Impairment of investment securities available for sale	22	5	*354.6%*	0	0	0	*60.6%*	*nm*
Total provision charges for impairment	**30,452**	**31,994**	***-4.8%***	**5,361**	**12,083**	**11,473**	***-53.3%***	***-55.6%***
Operating income after provisions for impairment	**295,571**	**245,174**	***20.6%***	**108,923**	**96,295**	**83,910**	***29.8%***	***13.1%***
Cost of risk on loans	**1.4%**	**1.3%**	***0.2pp***	**0.7%**	**1.6%**	**1.1%**	***-0.4pp***	***-0.9pp***

9M 2014 to 9M 2013 Comparison

In 9M 2014, total provision charges decreased by GEL 1.5 million, or 4.8%, compared to 9M 2013. The decrease in provision charges was primarily driven by the recovery of provisions on performance guarantees and credit related commitments in 9M 2014 due to the transfer of guarantees into loans and the reduction of provision levels on certain guarantees due to the improvement in their financial standing during the period.

The recovery of provisions on performance guarantees and credit related commitments was broadly offset by the increase in provision charges for loan impairment, which increased by GEL 8.5 million to GEL 32.5 million in 9M 2014. The loan provision charges increased mainly due to the increased provision charges on the corporate segment, associated with certain corporate customers during Q1 and Q2 2014, which was partially offset by the decreased provision charges on Retail and SME segments.

In 9M 2014, cost of risk on loans was 1.4%, compared to 1.3% in the same period of the previous year.

3Q 2014 and 3Q 2013 Comparison

In 3Q 2014, total provision charges decreased by GEL 6.1 million to GEL 5.4 million, compared to 3Q 2013. The decrease was primarily due to the recovery of provisions on performance guarantees and credit related commitments in 3Q 2014 due to the reduction of provision levels on certain guarantees resulting from the improvement in their financial standing during the period. In addition, loan provision charges also decreased by GEL 1.5 million, mainly due to the recovery of loan provision charges on Corporate and SME segments in 3Q 2014, resulting from the improvement in financial standing of certain Corporate customers and the reduced overdue loans in SME segment in the current year quarter.

As a result, cost of risk on loans decreased to 0.7% in 3Q 2014, compared to 1.1% in 3Q 2013.

3Q 2014 and 2Q 2014 Comparison

On a QoQ basis, total provision charge decreased by GEL 6.7 million, primarily resulting from the recovery of loan provision charges on the Corporate and SME segments in 3Q 2014 due to the reasons described above. As a result, cost of risk on loans decreased by 0.9pp, compared to 1.6% cost of risk in 2Q 2014.

Operating Expenses

in thousands of GEL	9M 2014	9M 2013	*Change in %*	3Q'14	2Q'14	3Q'13	*Change YoY*	*Change QoQ*
Staff costs	85,575	77,722	*10.1%*	29,575	29,016	26,355	*12.2%*	*1.9%*
Depreciation and amortisation	16,233	15,039	*7.9%*	5,541	5,397	4,728	*17.2%*	*2.7%*
Provision for liabilities and charges	4,780	0	*nm*	4,780	0	0	*nm*	*nm*
Professional services	*8,450.3*	*2,550.9*	*231.3%*	*1,251.3*	*3,513.0*	*584.9*	*113.9%*	*-64.4%*
Advertising and marketing services	*9,420.5*	*10,287.1*	*-8.4%*	*3,027.5*	*3,710.0*	*4,545.1*	*-33.4%*	*-18.4%*
Rent	*8,800.4*	*8,049.3*	*9.3%*	*3,010.4*	*2,923.0*	*2,671.3*	*12.7%*	*3.0%*
Utility services	*2,738.5*	*2,529.8*	*8.3%*	*899.5*	*819.0*	*818.8*	*9.9%*	*9.8%*
Intangible asset enhancement	*3,346.1*	*2,531.3*	*32.2%*	*1,353.1*	*1,074.0*	*715.3*	*89.2%*	*26.0%*
Taxes other than on income	*2,920.2*	*1,958.6*	*49.1%*	*974.2*	*1,052.0*	*656.6*	*48.4%*	*-7.4%*
Communications and supply	*2,461.2*	*2,261.2*	*8.8%*	*861.2*	*825.0*	*794.2*	*8.4%*	*4.4%*
Stationary and other office expenses	*1,827.0*	*1,727.4*	*5.8%*	*624.0*	*505.0*	*527.4*	*18.3%*	*23.6%*
Insurance	*1,465.5*	*1,110.4*	*32.0%*	*554.5*	*469.0*	*382.4*	*45.0%*	*18.2%*
Security services	*1,154.1*	*1,209.3*	*-4.6%*	*399.1*	*386.0*	*403.3*	*-1.0%*	*3.4%*
Premises and equipment maintenance	*1,199.3*	*1,903.6*	*-37.0%*	*465.3*	*396.0*	*478.6*	*-2.8%*	*17.5%*
Business trip expenses	*1,070.9*	*653.0*	*64.0%*	*296.9*	*575.0*	*251.0*	*18.3%*	*-48.4%*
Transportation and vehicles maintenance	*885.6*	*897.1*	*-1.3%*	*313.6*	*294.0*	*282.1*	*11.2%*	*6.7%*
Charity	*756.6*	*637.3*	*18.7%*	*258.6*	*249.0*	*204.3*	*26.6%*	*3.8%*
Personnel training and recruitment	*513.9*	*498.9*	*3.0%*	*253.9*	*192.0*	*160.9*	*57.7%*	*32.2%*
Write-down of current assets to fair value less costs to sell	*238.6*	*6,900.8*	*-96.5%*	*336.6*	*-108.0*	*-464.2*	*-172.5%*	*-411.6%*
Loss on disposal of Inventory	*201.7*	*0.0*	*nm*	*4.7*	*197.0*	*0.0*	*nm*	*-97.6%*
Loss on disposal of investment properties	*0.4*	*0.0*	*nm*	*-0.6*	*0.0*	*0.0*	*nm*	*nm*
Loss on disposal of premises and equipment	*13.9*	*26.0*	*-46.5%*	*8.9*	*5.0*	*4.0*	*124.9%*	*77.9%*
Other	*4,563.4*	*4,301.3*	*6.1%*	*1,531.4*	*1,558.0*	*1,661.3*	*-7.8%*	*-1.7%*
Administrative and other operating expenses	**52,028**	**50,033**	***4.0%***	**16,424**	**18,634**	**14,677**	***11.9%***	***-11.9%***
Operating expenses	**158,617**	**142,794**	***11.1%***	**56,321**	**53,045**	**45,760**	***23.1%***	***6.2%***
Profit before tax	**136,954**	**102,381**	***33.8%***	**52,602**	**43,248**	**38,150**	***37.9%***	***21.6%***
Income tax expense	18,528	13,516	*37.1%*	7,028	6,335	4,089	*71.9%*	*10.9%*
Profit for the period	**118,426**	**88,864**	***33.3%***	**45,574**	**36,913**	**34,061**	***33.8%***	***23.5%***
Cost to income ratio	**48.7%**	**51.5%**	***-2.9pp***	**49.3%**	**48.9%**	**48.0%**	***1.3pp***	***0.3pp***
ROAE	**19.4%**	**18.3%**	***1.1pp***	**19.2%**	**19.0%**	**20.0%**	***-0.8pp***	***0.2pp***
ROAA	**3.4%**	**3.1%**	***0.4pp***	**3.7%**	**3.2%**	**3.4%**	***0.3pp***	***0.5pp***

9M 2014 to 9M 2013 Comparison

In 9M 2014, total operating expenses increased by GEL 15.8 million, or 11.1% YoY, out of which 10 million was one-off charges related to the IPO (GEL 5.2 million) and the settlement of Bank Constanta claims[4] (GEL 4.8 million).

Without these one-off costs, total operating expenses would have increased by GEL 5.8 million, or 4.1% in 9M 2014, compared to the same period of the previous year. The GEL 5.8 million increase was mainly due to the increase in staff costs by GEL 7.9 million, or 10.1% YoY (Bank Constanta accounted for GEL 2.4 million, or 31.2% of the total staff cost increase in line 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 along with the increase in several other operating expense items was partially offset by the reduced loss on revaluation of repossessed assets, which amounted to GEL 0.2 million in 9M 2014, compared to the higher one off expense related to the revaluation of repossessed assets incurred in 2Q 2013.

As a result, the cost to income ratio was 48.7% (45.6% without one-off charges) in 9M 2014, compared to 51.5% in 9M 2013.

3Q 2014 and 3Q 2013 Comparison

In 3Q 2014, operating expenses increased by GEL 10.6 million, or 23.1% to GEL 56.3 million, compared to 3Q 2013. This increase was primarily effected by the one-off Constanta case settlement and IPO related costs in the amounts of GEL 4.8 million and GEL 0.3 million and was incurred in 3Q 2014.

Without this one-off cost, total operating expenses would have increased by GEL 5.4 million, or 11.9% mainly due to the increased staff costs by GEL 3.2 million related to the increase in salaries, bonuses and various HR management associated costs on a TBC Group level (Bank Constanta accounted for GEL 0.9 million, or 27.9% of the total staff cost increase aligned with the growth of Bank Constanta's business). The remaining increase in operating expenses was due to the loss in revaluation of repossessed assets in 3Q 2014 in an amount of 0.3 million, compared to the gain of GEL 0.5 million in 3Q 2013 and the increase in professional services fees by GEL 0.7 million and in intangible asset maintenance (IT software related maintenance fee) by GEL 0.6 million.

Consequently, the cost to income ratio was 49.3% (44.8% without one-off IPO and Constanta case settlement related charges) in 3Q 2014, compared to 48.0% in Q3 2013.

3Q 2014 and 2Q 2014 Comparison

On a QoQ basis, operating expenses increased by GEL 3.3 million, or 6.2%, compared to 2Q 2014. Without the one off-costs in 3Q 2014 described above and the one-off IPO cost also incurred in 2Q 2014, total operating expenses would have increased by 3.4% mainly due to the decrease in costs associated with professional services and the increase in staff costs.

As a result, the cost to income ratio was up 0.3pp QoQ, and down 0.9pp QoQ without one-off charges in 3Q and 2Q 2014.

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[4] In July 2014, 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.

Balance Sheet Discussion

In thousands of GEL	30-Sep-14	30-Jun-14	30-Sep-13	*Change QoQ*	*Change YoY*
Cash, amounts due from banks and mandatory cash balances with NBG	895.1	855.2	579.6	*4.7%*	*54.4%*
Loans and advances to customers (Net)	3,084.1	2,931.5	2,450.7	*5.2%*	*25.8%*
Financial securities	557.2	515.0	526.1	*8.2%*	*5.9%*
Fixed and intangible assets & investment property	306.0	303.0	302.8	*1.0%*	*1.1%*
Other assets	201.2	193.3	155.7	*4.1%*	*29.2%*
Total assets	**5,043.6**	**4,798.1**	**4,014.9**	***5.1%***	***25.6%***
Due to credit institutions	760.3	660.4	480.6	*15.1%*	*58.2%*
Customer accounts	3,002.8	2,929.2	2,613.7	*2.5%*	*14.9%*
Debt Securities in issue	14.7	6.9	4.3	*115.0%*	*244.5%*
Subordinated Debt	180.7	178.4	130.8	*1.3%*	*38.2%*
Other liabilities	110.3	97.0	96.8	*13.7%*	*13.9%*
Total Liabilities	**4,068.9**	**3,871.9**	**3,326.2**	***5.1%***	***22.3%***
Total equity	**974.7**	**926.2**	**688.7**	***5.2%***	***41.5%***

Assets

As at 30 September 2014, TBC had total assets of GEL 5,043.6 million, up 25.6% YoY. This increase in total assets was mainly due to the increase in net loans to customers by 25.8%, primarily driven by the 36.0% increase in retail and SME net portfolios 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, amounts due from other banks, mandatory cash balances and investment securities available for sale less corporate shares) by GEL 344.0 million, or 31.3%, compared to 30 September 2013, mainly as a result of an increased equity and an increased scale of the business.

On a QoQ basis, total assets increased by GEL 245.5 million, or 5.1%, primarily due to the 5.2% increase in net loans and advances to customers to GEL 3,084.1 million. This increase was in turn driven mainly by growth in retail, corporate and SME net portfolios of 7.9%, 2.5%, and 5.3%, respectively. The QoQ increase in total assets was also due to the increase in liquid assets by 6.0% to GEL 1,443.9 million. As a result, our liquid assets to liability ratio increased to 35.5%, compared to 35.2% at 30 June 2014.

As at 30 September 2014, the gross loan portfolio reached 3,230.2 million, up 23.4% YoY and 5.0% QoQ. At the same time, the gross loans denominated in foreign currency accounted for 64.1% of total gross loans, compared to 71.9% at 30 September 2013 and 65.1% at 30 June 2014, which reflects the downward trend in foreign currency denominated loans. The NPL ratio, defined as loans overdue more than 90 days relative to gross loan portfolio, stood at 0.9%, compared to 1.8% and 1.0% as at 30 September 2013 and 30 June 2014, respectively. The NPL+restructured ratio was 4.1%, compared to 4.9% and 4.4% as at 30 September 2013 and 30 June 2014, respectively, and the NPL+restructured loans coverage ratio was 111.6%, compared to 129.7% as of 30 September 2014 and 109.1% as of 30 June 2014.

Liabilities

As at 30 September 2014, TBC had total liabilities of GEL 4,068.9 million, up 22.3% YoY and 5.1% QoQ.

On a YoY basis, the GEL 742.7 million, or 22.3% increase in total liabilities was primarily due to the increase in customer deposits by GEL 389.1 million, or 14.9%, primarily driven by the increase in retail and SME deposits, as well as the increase in due to credit institutions by GEL 279.7 million as a result of increases in other borrowed funds by GEL 226.3 million and due to other banks by GEL 53.4 million.

On a QoQ basis, the GEL 197.0 million, or 5.1% increase in total liabilities was primarily due to the increase in other borrowed funds by GEL 79.0 million and in customer deposits by GEL 73.6 million, or 2.5%, mainly due to the increase in retail and SME deposits. This increase in other borrowed funds was also driven by the issuance of Bonds by our subsidiaries TBC Kredit and TBC Leasing in amounts of USD 2.5 million and USD 2.0 million, respectively.

Liquidity

The Bank's liquidity ratio, as defined by the National Bank of Georgia, was 37.7%, compared to 36.4% and 36.7% as at 30 September 2013 and 30 June 2014, respectively.

Total Equity

As at 30 September 2014, TBC had total equity of GEL 974.7 million, compared to GEL 688.7 million as at 30 September 2013 and GEL 926.2 million as at 30 June 2014. The QoQ increase in total equity was primarily driven by the net income recorded in Q3 2014. The YOY increase in total equity was due to IPO gross proceeds of GEL 175.6 million in 2Q 2014 as well as an increase in retained earnings of GEL 124.2 million.

Regulatory Capital

As of 30 September 2014, the Bank's Basel II/III[5] tier 1 and total capital adequacy ratios (CAR) were 13.6% and 16.7%, respectively, compared to 13.4% and 16.7% as at 30 June 2014. The minimum capital requirements set by NBG for Basel II/III tier 1 and total capital ratios are 8.5% and 10.5% (13.5% including the capital buffer), respectively. The Bank's Basel II/III tier 1 capital reached GEL 743.6 million, compared to 713.6 million as at 30 June 2014. Risk weighted assets were GEL 5,486.8 million as at 30 September 2014, up GEL 178.8 million QoQ.

The Bank's Basel I tier 1 capital ratio was 26.8%, compared to 22.4% and 26.5%% as at 30 September 2013 and 30 June 2014, respectively. Tier 1 capital reached GEL 926.1 million, compared to 639.7 million and 879.7 million as at 30 September 2013 and 30 June 2014, respectively. Risk weighted assets were GEL 3,456.3 million as at 30 September 2014, up GEL 595.2 YoY and GEL 134.1 million QoQ.

Market Shares[6]

Asset Market Shares

TBC Bank's market share in total assets increased by 0.9pp YoY and 0.2pp QoQ, attaining 25.8% as of 30 September 2014.

Loans Market Shares

TBC Bank's market share in total loans was 26.7% as of 30 September 2014, up 0.3pp both on a YoY and QoQ basis.

In terms of individual loans, the Bank's respective market share reached 28.6%, up 1.3pp YoY and 0.6pp QoQ. The market share in legal entity loans was 25.4%, down 0.6pp YoY and broadly stable on a QoQ basis.

Deposits Market Shares

TBC Group became the largest bank in terms of total deposits although, its market share of total customer deposits decreased by 0.9 percentage points YoY and 0.6pp QoQ to 27.8%.

[5] Starting from June 2014 National Bank of Georgia enforced Basel II/III regulation
[6] Market shares are based on National Bank of Georgia (NBG) and include Bank Constanta

The Bank maintains its longstanding leadership in individual deposits with a market share of 33.3%, down 0.3pp YoY and broadly stable on a QoQ basis. In terms of legal entity deposits, TBC Bank had market share of 22.4%, down 1.6pp YoY and 1.0pp 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 nine months 2014:

In thousands of GEL	Retail	Corporate	SME	Micro	Corp. Center	Total
Nine months ended 30 September 2014						
Interest income	171,610	88,712	39,466	41,710	34,079	**375,576**
interest expense	-60,015	-16,372	-5,451	-127	-47,238	**-129,204**
Inter-segment interest income/(expense)	6,932	-33,658	-2,931	-13,661	43,318	**0**
Net interest income	**118,526**	**38,682**	**31,084**	**27,922**	**30,159**	**246,372**
Fee and commission income	32,111	12,876	6,645	2,482	522	**54,637**
Fee and commission expense	-18,234	-1,265	-679	-637	-130	**-20,944**
Net fee and commission income	**13,877**	**11,611**	**5,967**	**1,845**	**392**	**33,692**
Gains less losses from trading in foreign currencies	6,119	8,898	8,304	1,223	569	**25,112**
Foreign exchange translation losses less gains	0	0	0	0	1,196	**1,196**
Net gain from derivative financial instruments	0	0	0	0	-384	**-384**
Other operating income	0	0	0	0	20,034	**20,034**
Other operating non-interest income	**6,119**	**8,898**	**8,304**	**1,223**	**21,414**	**45,958**
Provision for loan impairment	-15,693	-11,512	-956	-4,311	0	**-32,473**
Provision for performance guarantees and credit related commitments	0	2,678	99	0	0	**2,777**
Provision for impairment of investments in finance lease	0	0	0	0	-166	-166
Provision for impairment of other financial assets	0	0	0	0	-567	**-567**
Impairment of investment securities available for sale	0	0	0	0	-22	-22
Operating income after provisions for impairment	**122,829**	**50,356**	**44,497**	**26,679**	**51,211**	**295,571**
Staff costs	-38,858	-7,597	-7,530	-11,723	-19,867	**-85,575**
Depreciation and amortisation	-9,194	-574	-1,409	-1,814	-3,244	**-16,235**
Provision for liabilities and charges	0	0	0	0	-4,780	**-4,780**
Administrative and other operating expenses	-25,212	-2,819	-3,580	-6,923	-13,493	**-52,026**
Operating expenses	**-73,264**	**-10,990**	**-12,519**	**-20,460**	**-41,384**	**-158,617**
Profit before tax	**49,565**	**39,366**	**31,978**	**6,219**	**9,826**	**136,954**
Income tax expense	-6,659	-5,289	-4,296	-835	-1,449	-18,528

Profit for the period	**42,906**	**34,078**	**27,682**	**5,383**	**8,377**	**118,426**

The following table sets out loans and customer deposits portfolios of TBC's segments as of 30 September 2014:

In thousands of GEL	30-Sep-14	30-Jun-14	30-Sep-13
Loans and Advances to Customers			
Consumer	*676,337*	*626,705*	*572,490*
Mortgage	*627,531*	*580,974*	*413,040*
Pawn	*142,361*	*135,278*	*100,251*
Retail	1,446,229	1,342,957	1,085,781
Corporate	1,084,219	1,060,485	1,005,127
SME	460,727	438,565	340,996
Micro	239,034	235,760	185,939
Total loans and advances to customers (gross)	**3,230,209**	**3,077,767**	**2,617,843**
Less: Provision for loan impairment	(146,145)	(146,222)	(167,177)
Total loans and advances to customers (net)	**3,084,064**	**2,931,545**	**2,450,666**
Customer Accounts			
Retail	1,788,244	1,746,626	1,511,010
Corporate	746,345	743,464	733,456
SME	463,078	434,922	364,083
Micro	5,142	4,203	5,194
Total customer accounts	**3,002,810**	**2,929,214**	**2,613,742**

Retail Banking

As at 30 September 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 28.6% of the market shares, respectively.

The retail segment accounted for 44.8% and 59.6% of TBC's loan and deposit portfolios, respectively, representing the largest segment of the Bank's portfolios. The retail segment served up to 1 million 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 through 121 branches (59 of which belong to Bank Constanta), 325 ATMs (57 of which belong to Bank Constanta) and 3,903 POS terminals (3,200 of which have contactless payment capabilities), and 2,762 cash-in terminals (TBC Pay) across the country.

The retail segment leverages our best in class multichannel platform with global award winning Internet banking[7] along with mobile, iPod, iPad and other type of e-banking applications. As at 30 September 2014, we had 94,000 internet and 74,000 mobile banking customers. During 9M 2014, the number of transactions performed by internet

[7] TBC Bank has been recognized by Global Finance Magazine as 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. This is the third consecutive year that TBC has been honored in the Magazine's annual Best Internet Bank Awards program.

and mobile banking increased by 55% and its share in total transactions[8] increased from 14% to 17%, compared to 9M 2013.

We have a leading market position in the credit card market in Georgia based on 192,000 outstanding credit cards as at 30 September 2014. At the same date, the number of issued debit cards reached approximately 603,000. 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 September 2014, retail loans stood at GEL 1,446.2 million, up 33.2% YoY and 7.7% QoQ. As of this date, TBC Bank's market share in individual loans was 28.6%.

As at 30 September 2014, foreign currency loans represented 56.1% of total retail loan portfolio.

Retail Customer Deposits

As of 30 September 2014, retail deposits increased to GEL 1,788.2 million, up 18.3% YoY and 2.4% QoQ. TBC's market share in individual deposits was 33.3% as at the same date.

Term deposits represented 65.0% of the total retail deposit portfolio as at 30 September 2014. Foreign currency deposits represented 83.7% of total retail deposit portfolio.

Retail Segment Profitability

In 9M 2014, retail loan yields and deposit rates stood at 17.6% and 4.7% respectively and the segment's cost of risk was 1.6%. The retail segment contributed to 36.2%, or GEL 42.9 million, to TBC's total net income in 9M 2014.

Corporate Banking

As of 30 September 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 shares[9] stood at 25.4% and 22.4%, respectively.

The corporate segment accounted for 33.6% and 24.9% of TBC's loan and deposit portfolios, respectively, representing the second largest segment of the Bank's portfolios. The corporate segment served over 6,500 accounts and 1,400 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 September 2014, corporate loans amounted to GEL 1,084.2 million, up 7.9% YoY and 2.2% QoQ. As of the same date, foreign currency loans represented 72.8% of the total corporate loan portfolio.

Corporate Customer Deposits

[8] 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.
[9] As per NBG, corporate segment's market share comprises all legal entity loans and deposits, including Corporate, SME and Micro.

As at 30 September 2014, corporate deposits were GEL 746.3 million, up 1.8% YoY and 0.4% QoQ. As of the same date, foreign currency corporate deposits represented 56.1% of total corporate deposit portfolio.

Corporate Segment Profitability

In 9M 2014, corporate loan yields and deposit rates stood at 11.2% and 3.1%, respectively. In the same period, cost of risk was 1.5%. In terms of profitability, corporate segment's net profit reached GEL 34.1 million, or 28.8% of TBCs total net income.

SME Banking

As of 30 September 2014, the SME segment accounted for 14.3% and 15.4% 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 September 2014, TBC Bank served around 53,000 customers through the SME business line and had circa 2,600 outstanding SME loans.

SME Loans and Advances to Customers

As of 30 September 2014, SME loans increased to GEL 460.7 million, up 35.1% YoY and 5.1% QoQ. Despite the absence of SME market information[10], the Management believes that TBC Bank is one of the leading banks in the market, based on its large and continuously-growing number of loyal customers.

As of 30 September 2014, foreign currency loans represented 82.1% of total SME portfolio.

SME Customer Deposits

As of 30 September 2014, SME deposits were GEL 463.1 million, up 27.2% YoY and 6.5% QoQ. In regard to SME deposits, the Management believes that TBC Bank has the largest shares on the market, based on its large customer base.

Foreign currency SME deposits represented 52.9% of total SME deposit portfolio.

SME Segment Profitability

In 9M 2014, SME loan yields and deposit rates stood at 12.6% and 1.7%, respectively. In the same period, cost of risk was 0.3%. In terms of profitability, SME segment net profit reached GEL 27.7million, or 23.4%, of TBC's total net income.

Micro Banking

All micro customers of the Bank are served though Bank Constanta, our 100% owned micro-focused subsidiary, which will be fully integrated in TBC Bank by 1Q 2015.

The Micro segment is the smallest but fastest growing segment of TBC, accounting for 7.4% and 0.2% of the total loans and deposit portfolios, respectively, as of 30 September 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,

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

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 September 2014, TBC Bank served around 33,000 customers[11] through its Micro segment and had over 34,000 outstanding loans.

Micro Loans and Advances to Customers

Micro loans reached GEL 239.0 million as of 30 September 2014, up 28.6% YoY and 1.4% QoQ. As of 30 September 2014, foreign currency loans represented 39.5% of the total micro loan portfolio.

Micro Customer Deposits

As of 30 September 2014, micro customer deposits were GEL 5.1 million, down 1.0% YoY and up 22.4% QoQ.

Foreign currency Micro deposits represented 25.7% of the total Micro deposit portfolio.

Micro Segment Profitability

In 9M 2014, Micro loan yields and deposit rates stood at 24.9% and 3.8%, respectively. In the same period, the cost of risk was 2.6%. In terms of profitability, micro segment's net profit reached GEL 5.4 million, or 4.5% 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. In addition to its headquarters, TBC Kredit has four branches in Azerbaijan.

TBC Kredit's gross loans increased to GEL 78.6 million, up 17.4% YoY and 4.4% QoQ. In 9M 2014. TBC Kredit's net income increased by 12.5% to GEL 3.1 million, delivering an annualized ROAE of 11.4%. The following table sets out selected balance sheet items of TBC Kredit as at 30 September 2014, 30 June 2014 and 30 September 2013.

In thousands GEL	**30-Sep-14**	**30-Jun-14**	**30-Sep-13**	***Change QoQ***	***Change YoY***
Net loans	76,674	73,485	65,971	*4.3%*	*16.2%*
Total assets	**80,557**	**77,006**	**69,847**	***4.6%***	***15.3%***
Borrowed funds	39,362	40,335	40,798	*-2.4%*	*-3.5%*
Debt securities in issue	11,239	6,853	4,276	*64.0%*	*162.8%*
Total liabilities	**51,690**	**48,961**	**45,943**	***5.6%***	***12.5%***
Total equity	**28,867**	**28,045**	**23,903**	***2.9%***	***20.8%***

Assets

TBC Kredit's total assets reached GEL 80.6 million as of 30 September 2014, up 15.3% YoY and 4.6% QoQ. These increases were primarily attributable to the increase in net loan portfolios by GEL 10.7 million YoY and GEL 3.2 million QoQ.

[11] 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.

Liabilities

TBC Kredit's total liabilities increased by 12.5% YoY and 5.6% QoQ, amounting to GEL 51.7 million as of 30 September 2014. The increase was mainly due to the bond issued by TBC Kredit, whereby TBC Bank acted as an arranger of the transaction.

Equity

TBC Kredit's total equity increased by GEL 20.8% YoY and 2.9% QoQ to GEL 28.9 million as of 30 September 2014. The increase was mainly due to the increase in net income.

Annexes

Unaudited Consolidated Balance Sheet

In thousands of GEL	30-Sep-14	30-Jun-14	30-Sep-13
Cash and cash equivalents	548,286	544,433	267,507
Due from other banks	31,928	2,645	24,947
Mandatory cash balances with National Bank of Georgia	314,902	308,164	287,131
Loans and advances to customers (Net)	3,084,064	2,931,545	2,450,666
Investment securities available for sale	557,218	515,029	526,133
Repurchase receivables	9,965	14810	0
Investments in finance leases	43,944	40,913	32,711
Investment properties	77,893	78,847	83,428
Goodwill	2,726	2,726	2,726
Intangible assets	30,244	27,050	22,047
Premises and equipment	197,859	197,055	197,341
Other financial assets	42,443	42,538	40,341
Deferred income tax asset	304	359	-
Current income tax prepayment	4,813	1749	5,959
Other assets	96,978	90,241	73,957
TOTAL ASSETS	**5,043,567**	**4,798,104**	**4,014,892**
LIABILITIES			
Due to Credit Institutions	760,339	660,416	480,598
Customer accounts	3,002,810	2,929,214	2,613,742
Current income tax liability	1,158	1120	-
Debt Securities in issue	14,732	6,853	4,276
Deferred income tax liability	34,225	27,758	26,489
Provisions for liabilities and charges	9,352	9,767	12,297
Other financial liabilities	36,062	33,368	30,815
Subordinated debt	180,737	178,418	130,798
Other liabilities	29,500	25,029	27,210
TOTAL LIABILITIES	**4,068,915**	**3,871,943**	**3,326,223**
EQUITY			
Share capital	19,576	19,576	16,499
Share premium	405,658	405,872	242,624
Retained earnings	492,135	446,088	367,981
Share based payment reserve	3,605	3,189	1,441
Other reserves	45,839	43,708	46,217
TOTAL EQUITY	**966,813**	**918,433**	**674,762**
Non-controlling interest	7,839	7,728	13,907
TOTAL EQUITY	**974,652**	**926,161**	**688,669**
TOTAL LIABILITIES AND EQUITY	**5,043,567**	**4,798,104**	**4,014,892**

Unaudited Consolidated Income Statement

In thousands of GEL	9M 2014	9M 2013	3Q'14	2Q'14	3Q'13
Interest income	375,576	354,086	128,585	124,224	120,410
Interest expense	-129,204	-147,421	-43,234	-43,623	-47,440
Net interest income	**246,372**	**206,665**	**85,351**	**80,601**	**72,970**
Fee and commission income	54,637	48,497	20,139	18,689	17,221
Fee and commission expense	-20,944	-19,256	-7,228	-7,252	-6,567
Net Fee and Commission Income	**33,692**	**29,240**	**12,911**	**11,437**	**10,653**
Gains less losses from trading in foreign currencies	25,112	26,199	8,391	7,228	12,154
Foreign exchange translation gains less losses	1,196	-2,309	1,753	1,144	-4,185
Gains less losses/(losses less gains) from derivative financial instruments	-384	670	162	-369	-415
Other operating income	20,034	16,702	5,716	8,337	4,205
Other operating non-interest income	**45,958**	**41,263**	**16,022**	**16,340**	**11,760**
Provision for loan impairment	-32,474	-23,945	-5,521	-12,367	-6,991
Provision for impairment of investments in finance lease	-166	-71	-56	-101	-4
Provision for/ (recovery of provision) performance guarantees and credit related commitments	2,777	-7,138	164	814	-4,262
Provision for impairment of other financial assets	-567	-835	52	-429	-216
Impairment of investment securities available for sale	-22	-5	0	0	0
Operating income after provisions for impairment	**295,571**	**245,174**	**108,923**	**96,295**	**83,910**
Staff costs	-85,575	-77,722	-29,575	-29,016	-26,355
Depreciation and amortisation	-16,233	-15,039	-5,541	-5,397	-4,728
Provision for liabilities and charges	-4,780	0	-4,780	0	0
Administrative and other operating expenses	-52,028	-50,033	-16,424	-18,634	-14,677
Operating expenses	**-158,617**	**-142,794**	**-56,321**	**-53,047**	**-45,760**
Profit before tax	**136,954**	**102,381**	**52,602**	**43,248**	**38,150**
Income tax expense	-18,528	-13,516	-7,028	-6,335	-4,089
Profit for the period	**118,426**	**88,864**	**45,574**	**36,913**	**34,061**
Profit attributable to owners of the bank	117,550	86,970	45,518	36,617	33,366

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 have been extracted 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)	9M 2014	9M 2013	3Q'14	2Q'14	3Q'13
ROAE[1]	19.4%	18.3%	19.2%	19.0%	20.0%
ROAA[2]	3.4%	3.1%	3.7%	3.2%	3.4%
Pre-provision ROAE	24.4%	25.0%	21.4%	25.3%	26.9%
Pre-provision ROAA	4.3%	4.2%	4.1%	4.3%	4.5%
Cost: Income[3]	48.7%	51.5%	49.3%	48.9%	48.0%
Cost of Risk[4]	1.4%	1.3%	0.7%	1.6%	1.1%
NIM[5]	8.5%	8.4%	8.3%	8.4%	8.6%
Loan yields[6]	15.2%	16.9%	14.9%	15.1%	16.8%
Deposit rates[7]	3.8%	5.8%	3.6%	3.9%	5.2%
Yields on interest earning assets [8]	12.9%	14.3%	12.5%	12.9%	14.1%
Cost of Funding[9]	4.7%	6.2%	4.5%	4.7%	5.7%
Spread[10]	8.3%	8.2%	8.0%	8.2%	8.4%
NPLs to gross loans[11]	0.9%	1.8%	0.9%	1.0%	1.8%
NPLs+restructured loans to gross loans[12]	4.1%	4.9%	4.1%	4.4%	4.9%
Provision Level to Gross Loans[13]	4.5%	6.4%	4.5%	4.8%	6.4%
NPLs+Restructured loans coverage ratio[14]	111.6%	129.7%	111.6%	109.1%	129.7%
BIS Tier 1[15]	26.8%	22.4%	26.8%	26.5%	22.4%
Total BIS CAR[16]	33.0%	28.8%	33.0%	33.0%	28.8%
NBG Basel II Tier 1 CAR[17]	13.6%	11.6%	13.6%	13.4%	11.6%
NBG Basel II Total CAR[18]	16.7%	14.8%	16.7%	16.7%	14.8%

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)	9M 2014	9M 2013	3Q'14	2Q'14	3Q'13
ROAE	19.0%	18.3%	19.2%	18.0%	19.9%
ROAA	3.4%	3.0%	3.7%	3.2%	3.4%
Pre-provision ROAE	23.9%	25.0%	21.4%	23.9%	26.7%
Pre-provision ROAA	4.3%	4.1%	4.1%	4.3%	4.5%
Cost of Risk	1.4%	1.2%	0.7%	1.7%	1.1%
NIM	8.4%	8.3%	8.2%	8.4%	8.6%
Loan yields	15.0%	16.8%	14.7%	15.1%	16.8%
Deposit rates	3.8%	5.8%	3.6%	3.9%	5.2%
Yields on interest earning assets	12.8%	14.2%	12.4%	12.9%	14.1%
Cost of Funding	4.6%	6.1%	4.4%	4.7%	5.8%
Spread	8.2%	8.1%	7.9%	8.1%	8.3%

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.

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 September 2014, 30 June 2014 and 30 September 2013.

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.