

# TBC BANK

## 2Q 2013 and 1H 2013 Financial Results



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### Cover Image

As part of our Social Responsibility and ongoing support to the art and culture, TBC Bank opened *TBC Clocks*, sculpture by a famous Georgian artist, which represents a piece of modern art in the city.

The Statue of Clocks expresses the relationship between people and time as well as the attitude of TBC Bank towards time and business.

The statue's role is two-fold – on the one hand it is a city clock, displaying time for Tbilisi's citizens and visitors. On the other hand, it is a piece of modern art for the city, a gift from TBC Bank.

## Results Overview 1H 2013

### Income Statement Highlights

<i>In millions</i>	H1 2013		H1 2012		Change in %
	GEL	USD	GEL	USD	
Total Operating Income	181.8	109.9	159.6	96.9	13.9%
Provisioning Charges	20.5	12.4	20.6	12.5	-0.5%
Non-interest expense	97.0	58.7	83.9	50.9	15.7%
Profit before tax	64.2	38.8	55.1	33.5	16.6%
Profit for the period	54.8	33.1	48.9	29.7	12.1%
ROAE	17.4%		19.9%		-2.5%
ROAA	2.9%		2.8%		0.0%
Pre-provision ROAE	23.9%		28.3%		-4.3%
Cost: Income	53.4%		52.5%		0.8%
Cost of Risk	1.3%		1.6%		-0.3%

### Balance Sheet and Capital Highlights

<i>In millions of GEL</i>	30-Jun-13		31-Dec-12		Change in %
	GEL	USD	GEL	USD	
Total Assets	3,987.9	2,415.6	3,899.7	2,353.9	2.3%
Gross Loans	2,584.8	1,565.7	2,536.7	1,531.2	1.9%
Customer Deposits	2,563.7	1,552.9	2,486.9	1,501.1	3.1%
Total equity	671.1	406.5	604.0	364.6	11.1%
Tier 1 Capital	623.1	377.4	559.4	337.6	11.4%
Risk weighted assets	2,766.6	1,675.8	2,761.4	1,666.8	0.2%
NPL to Gross Loans	1.4%		1.0%		0.5pp
BIS Tier 1 Capital Adequacy Ratio	22.5%		18.7%		3.8pp
BIS Total Capital Adequacy Ratio	29.1%		24.4%		4.7pp
Leverage (times)	5.9		7.0		1.05

### Selected Operating Data

	30-Jun-13	31-Dec-12
Branches	59	58
<i>thereof in Tbilisi</i>	39	38
Number of Accounts	943,663	895,427
Cash-in Terminals (TBC Pay)	1,978	1,944
Employees	2,807	2,882
ATMs	240	234
POS Terminals	3,211	2,888
Long-term ratings		
<i>Fitch</i>	BB-	BB-
<i>Moody's</i>	Ba3	Ba3

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

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## Financial Highlights 1H 2013

- Net income in 1H 2013 was GEL 54.8 million, up GEL 5.9 million, or 12.1%, compared to GEL 48.9 million achieved in 1H 2012, delivering an annualized return on average equity of 17.4%;
- Total operating income in H1 2013 was GEL 181.8 million, up GEL 22.2 million, or 13.9%, compared to GEL 159.6 million achieved in 1H 2012;
- Pre-provision income increased by 11.9% to GEL 75.3 million, compared to GEL 69.5 million in 1H 2012, delivering the annualized pre-provision return on average equity of 23.9%;
- Noninterest expenses were GEL 97.0 million in 1H 2013, up GEL 13.2 million, or 15.7%, compared to the 1H 2012;
- Total assets reached GEL 3,987.9 million, up GEL 88.2 million, or 2.3%, compared to the year end 2012;
- Gross loans and advances to customers reached GEL 2,584.8 million, up GEL 48.1 million, or 1.9% year-to-date;
- Total equity was GEL 671.1 million, up GEL 67.1 million, or 11.1% year-to-date.

## Georgia at a Glance

### GDP

GDP (2012): USD 15.8 billion; GDP per capita (2012): USD 3,520; Real GDP Growth H1 2013: 1.8%; Inflation, June 2013 (YoY): 0.2%

### Country ratings

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

### Recent country achievement

- The World's No. 1 Reformer, the World Bank & IFC Doing Business Report 2013;
- Fourth Friendliest Tax Regime globally, the Forbes Tax Misery & Reform Index 2009;
- No. 9 globally on the Ease of Doing Business (Doing Business Report 2013);
- No. 1 globally in terms of registering property, the World Bank & IFC Doing Business Report 2013;

## Georgian Banking Sector

### Market assets, loans and deposits

During H1 2013:

- Total Market Assets decreased by 4.0% (4.2% without exchange rate effect) and equaled GEL 14,932 million.
- Total Market Loans increased by 5.4% (5.7% without exchange rate effect) and equaled GEL 9,209 million.
- Total Market Deposits increased by 11.5% (11.8% without exchange rate effect) and equaled GEL 8,531 million.

### Market profitability (NBG Based)

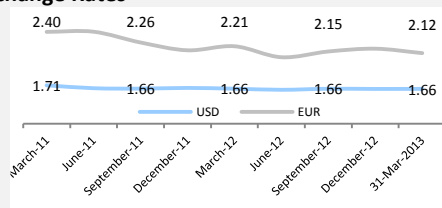
During H1 2013:

- Net Interest Margin on Total Assets: 5.9% (compared to the same 5.9% as of YE 2012)
- Cost/Income ratio: 53.2% (the decrease of 4.1 percentage points from YE 2012)

### Currency rate trends

At the end of Q1 2013, USD/GEL exchange rate was 1.66, same as at the YE 2012. EUR/GEL exchange rate was 2.12, 2.7% lower than the YE 2012 rate.

### Exchange Rates



## Letter from the Chief Executive Officer

The October 2012 parliamentary elections in Georgia and the consequent political handover have been exemplary for the entire CIS region. However, the transition period caused a temporary economic slowdown resulting in the decrease of the real GDP growth rate to 1.8% in 1H 2013.

Most of the organizations including IMF, EBRD and S&P, changing their forecast from their initial estimations, state or imply that the second half of 2013 is going to be stronger. We perceive business confidence to be rising and the Bank remains optimistic that by the end of the second half of 2013 we will start returning back to the previous growth pace.

Operating against the backdrop of the temporary economic growth rate slowdown, the banking sector remained fairly flat in the first quarter of 2013, while its growth accelerated in 2Q 2013. However, the corporate segment is deemed to need more time to adjust to its strategy and priorities.

Consequently, during the first half of 2013, the Georgian banking sector loans increased by 5.4% to GEL 9.2 billion, resulting from the 9.8% increase in total individual loans and 2.2% increase in total corporate loans. During the same period the total customer deposits increased by 11.5% and equaled GEL 8.5 billion with the corporate and retail deposits increasing by 12.8% and 10.3% respectively.

During the first half of 2012, we continued maintaining a leading position in the Georgian banking sector with the largest market share in retail deposits of 34.4%<sup>1</sup>. Our market share in total assets and total loans stood at 26.5% and 27.7% respectively<sup>2</sup>. During 2Q 2013, our gross loan portfolio increased by 1.9 percentage points YTD and reached GEL 2,584.8 million, primarily reflecting the slight decrease in the gross loan portfolio in the first quarter of 2013. In the same period, total customer deposits increased by 3.1% YTD to 2,563.7 million.

Despite moderate growth numbers, our 1H 2013 profitability results are strong. The net income was GEL 54.8 million, compared to GEL 48.9 million achieved in 1H 2012, delivering a return on average equity and a return on average assets of 17.4% and 2.9% respectively.

The temporary slowdown in the banking sector growth resulted in the high liquidity. Anticipating this development, we were proactive to improve liquidity management tools and take advantage of the opportunity to decrease our cost of funding. As a result, in the first half of 2013, we have decreased our cost of funding to 6.3%, compared to 7.2% in the same period of the previous year.

The bank's achievements that I would like to also highlight as an additional sign of a successful first half of the year are a number of awards that we

<sup>1</sup> Includes Bank Constanta; 33.3% on a standalone basis.

<sup>2</sup> Includes Bank Constanta; 24.5% and 25.1% respectively on a standalone basis

**TBC 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). Four prominent IFIs, EBRD, IFC, DEG and FMO together with JP Morgan and Ashmore hold 65% of TBC Bank shares.

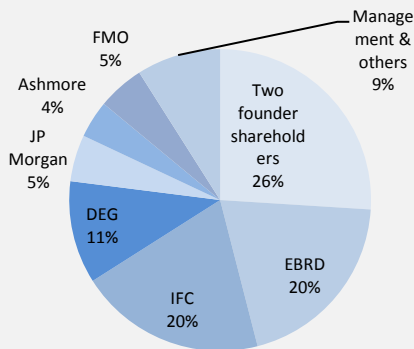
**Key Facts (as of June 30, 2013)**

- No 1 in Retail Deposits – 34% of market share as at 30 June 2013;
- A leading Bank in the country with 26% and 28% market share of total customer loans and total assets respectively as at 30 June 2013;
- Loan book composition: Corporate (41%), Retail (40%), SME (12%), Micro (7%)
- 59 branches (110 with Bank Constanta), 240 ATMs (286 with Bank Constanta), 3,211 POS's across Georgia;
- Number of customers: over 900k; Number of employees: c. 4,000;
- Entered microfinance segment in May 2011 through acquiring Bank Constanta
- Presence in Azerbaijan-subsidiary TBC Kredit - non-banking credit organization

**Ratings**

- Fitch: BB- (Long Term IDR)/B (Short Term IDR) upgraded in June 2012
- Moody's: B1 (FC)/Ba3 (LC) affirmed in October 2012

**Shareholder Structure**



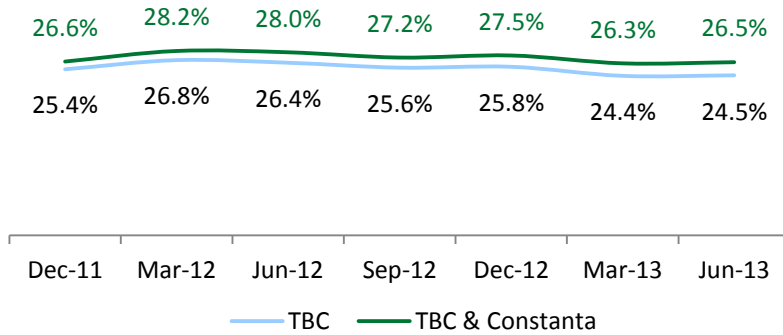
Note: Market shares include Bank Constanta

received during the period. In the first half of 2013, the Bank won the “Best Bank in Georgia” award from such prestigious magazines as *Global Finance* and *EMEA Finance*. Furthermore, our best-in class internet banking was recognized again by the Global Finance Magazine and won awards in both consumer and corporate internet banking in a number of nominations: Best Integrated Consumer Bank Site and Best Bill Presentment & Payment in Central & Eastern Europe, Best Consumer Internet Bank in Georgia 2013, Best Integrated Corporate Bank Site in Central & Eastern Europe and Best Corporate Internet Bank in Georgia 2013.

To sum up, the banking sector demonstrated relatively improved performance in 2Q 2013 and is expected to grow at a faster pace in the second half of 2013. In this case, TBC Bank is well positioned to reap the benefits of increased credit demand and growing banking sector at large.”

## Market Shares<sup>3</sup>

### Asset Market Shares

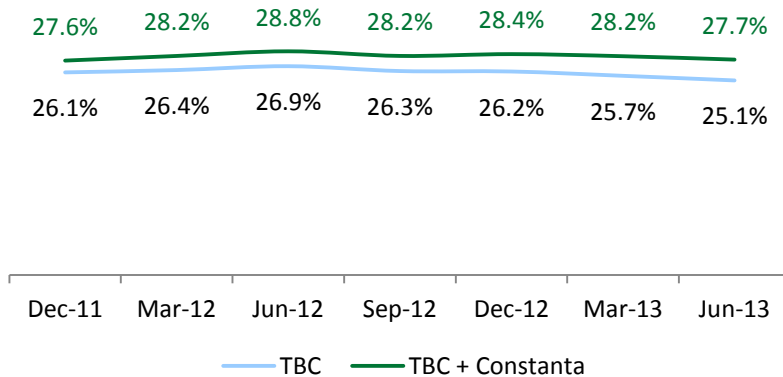


Source: NBG (National Bank of Georgia, central bank of the country)

TBC Bank's market share in total assets increased by 0.1 percentage points QoQ and decreased 1.3 percentage points YTD attaining 24.5% as of Q2 2013.

TBC Bank's market share, including Bank Constanta, reached 26.5% as of Q2 2013, up 0.2 percentage points QoQ and down 1.0 percentage points YTD.

### Loan Market Shares



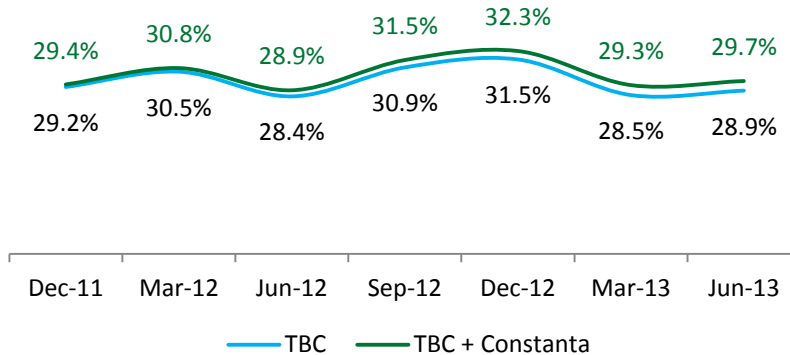
Source: NBG

<sup>3</sup> Market shares are calculated based on the NBG

TBC Bank's market share in total loans was 25.1%, down 0.6 percentage points QoQ and 1.2 percentage points YTD as of June 2013.

TBC Bank's market share, including Bank Constanta was 27.7% as of Q2 2013, down by 0.4 percentage points QoQ and 0.7 percentage points YTD.

### Deposit Market Shares



Source: NBG

The market share in total customer deposits increased by 0.4 percentage points QoQ and decreased by 2.6 percentage points YTD, reaching 28.9% as of June 2013.

The combined market shares of TBC Bank and Bank Constanta increased by 0.3 percentage points QoQ and decreased by 2.6 percentage points YTD, reaching 29.7% as of Q2 2013.

The decrease in the market share of total deposits on a year-to-date basis was a result of the Management's decision to optimize the Bank's cost of funding where among other initiatives we have been releasing the high cost and high volatile corporate deposits.



## Consolidated Results of Operations

### Income Statement Discussion

<i>In millions of GEL</i>	1H 2013	1H 2012	Change (%)	2Q2013	1Q2013	2Q2012	2Q13 vs. 2Q12	2Q13 vs. 1Q13
Interest income	233.7	221.1	5.7%	115.3	118.4	114.9	0.4%	-2.6%
Interest expense	-100.0	-103.4	-3.3%	-48.6	-51.4	-51.0	-4.8%	-5.5%
<b>Net interest income before provisions</b>	<b>133.7</b>	<b>117.8</b>	<b>13.5%</b>	<b>66.8</b>	<b>66.9</b>	<b>63.9</b>	<b>4.5%</b>	<b>-0.3%</b>
Provision for impairment charges	-20.5	-20.6	-0.5%	-0.8	-19.7	-17.2	-95.3%	-95.8%
<b>Net interest income after provisions</b>	<b>113.2</b>	<b>97.1</b>	<b>16.5%</b>	<b>65.9</b>	<b>47.2</b>	<b>46.7</b>	<b>0.0</b>	<b>0.0</b>
<b>Net fee and commission income</b>	<b>18.6</b>	<b>18.1</b>	<b>2.9%</b>	<b>9.2</b>	<b>9.4</b>	<b>9.5</b>	<b>-2.9%</b>	<b>-2.4%</b>
<b>Other operating income</b>	<b>29.5</b>	<b>23.8</b>	<b>24.1%</b>	<b>18.3</b>	<b>11.2</b>	<b>15.0</b>	<b>22.0%</b>	<b>63.1%</b>
Staff costs	-51.4	-44.1	16.5%	-25.6	-25.7	-22.4	14.3%	-0.5%
Depreciation and amortisation	-10.3	-8.7	18.0%	-4.8	-5.5	-4.5	7.3%	-12.7%
Administrative and other operating expenses	-35.4	-31.0	14.0%	-21.5	-13.8	-17.4	23.4%	55.6%
<b>Other operating expenses</b>	<b>-97.0</b>	<b>-83.9</b>	<b>15.7%</b>	<b>-51.9</b>	<b>-45.1</b>	<b>-44.3</b>	<b>17.2%</b>	<b>15.2%</b>
<b>Net operating income</b>	<b>64.2</b>	<b>55.1</b>	<b>16.6%</b>	<b>41.5</b>	<b>22.8</b>	<b>26.8</b>	<b>54.9%</b>	<b>82.1%</b>
<b>Profit before tax</b>	<b>64.2</b>	<b>55.1</b>	<b>16.6%</b>	<b>41.5</b>	<b>22.8</b>	<b>26.8</b>	<b>54.9%</b>	<b>82.1%</b>
Income tax expense	-9.4	-6.2	0.0	-6.3	-3.1	-3.0	0.0	0.0
<b>Profit for the period</b>	<b>54.8</b>	<b>48.9</b>	<b>12.1%</b>	<b>35.2</b>	<b>19.6</b>	<b>23.8</b>	<b>47.9%</b>	<b>79.1%</b>
<b>ROAE (annualised)</b>	<b>17.4%</b>	<b>19.9%</b>	<b>-2.5pp</b>	<b>21.7%</b>	<b>12.9%</b>	<b>18.9%</b>	<b>2.9pp</b>	<b>8.8pp</b>

### *Profit for the period*

#### 1H 2013 to 1H 2012 Comparison

Profit for the first half of 2013 was GEL 54.8 million, up GEL 5.9 million, or 12.1%, compared to GEL 48.9 million in the prior year period. The Bank reached an annualised ROAE of 17.4% in 1H 2013, compared to 19.9% delivered in the same period of the previous year, reflecting a 12.1% increase in net income and a comparatively significant 28.3% increase in average total equity to GEL 634.3 due to the additional capital injection from existing shareholders in the amount of GEL 25 million in December 2012.

#### Quarterly Comparison

##### 2Q 2013 and 2Q 2012 Comparison

In the second quarter of 2013, the net profit increased by GEL 11.4 million, or 47.9%. The increase in net profit along with the 28.1% YoY increase in the average total equity drove the Bank's ROAE to 21.7%, up 2.9 percentage points, compared to 18.9% delivered in the same quarter of 2012.

##### 2Q 2013 and 1Q 2013 Comparison

On a quarter-on-quarter basis, the profit increased by 15.5 million, or 79.1%, compared to the first quarter of 2013 where we had to undertake high one off provision charges. The significant increase in net income drove the Bank's return on average equity up 8.8 percentage points.

## Net Interest Income

<i>In millions of GEL</i>	1H 2013	1H 2012	Change (%)	2Q2013	1Q2013	2Q2012	2Q13 vs. 2Q12	2Q13 vs. 1Q13
Loans and advances to customers	213.1	199.0	7.1%	105.0	108.1	103.9	1.1%	-2.9%
Investment securities available for sale	15.4	12.8	20.3%	8.0	7.4	6.7	19.3%	8.4%
Due from other banks	1.8	4.9	-64.6%	0.5	1.2	2.0	-73.3%	-55.3%
Investments in leases	3.4	2.8	23.8%	1.8	1.7	1.5	21.5%	7.1%
Investment securities held to maturity	0.0	1.5	NMF	0.0	0.0	0.7	NMF	NMF
Other	0.0	0.2	NMF	0.0	0.0	0.1	NMF	NMF
<b>Interest income</b>	<b>233.7</b>	<b>221.1</b>	<b>5.7%</b>	<b>115.3</b>	<b>118.4</b>	<b>114.9</b>	<b>0.4%</b>	<b>-2.6%</b>
Due to other banks	1.9	3.1	-39.5%	0.4	1.5	0.5	-26.8%	-76.4%
Customer accounts	75.0	73.6	1.9%	36.7	38.3	35.9	2.3%	-4.3%
Other borrowed funds	16.8	19.6	-14.3%	8.4	8.5	11.5	-26.9%	-0.9%
Subordinated debt	6.1	6.9	-12.2%	3.0	3.1	3.2	-4.8%	-0.7%
Other	0.1	0.0	NMF	0.1	0.0	0.0	NMF	NMF
<b>Interest expense</b>	<b>100.0</b>	<b>103.4</b>	<b>-3.3%</b>	<b>48.6</b>	<b>51.4</b>	<b>51.0</b>	<b>-4.8%</b>	<b>-5.5%</b>
<b>Net interest income</b>	<b>133.7</b>	<b>117.8</b>	<b>13.5%</b>	<b>66.8</b>	<b>66.9</b>	<b>63.9</b>	<b>4.5%</b>	<b>-0.3%</b>
<b>Net Interest Margin</b>	<b>8.1%</b>	<b>8.0%</b>	<b>0.2%</b>	<b>8.1%</b>	<b>8.3%</b>	<b>8.4%</b>	<b>-0.3%</b>	<b>-0.2%</b>

### 1H 2013 to 1H 2012 Comparison

In the first half of 2013, the net interest income was GEL 133.7 million, up GEL 15.9 million, or 13.5%, compared to GEL 117.8 million achieved in the same period of the previous year. The increase was a result of 5.7% growth in interest income to GEL 233.7 million from GEL 221.1 million and the decrease of 3.3% in interest expense to GEL 100.0 million from GEL 103.4 million.

The growth in interest income was primarily due to the increase in interest income from loans by GEL 14.1 million, or 7.1%, to GEL 213.1 million as a result of 5.4% increase in gross loan portfolio to GEL 2,584.8 million. During the first half of 2013, loan yields decreased by 0.6 percentage points to 16.9%. As the average gross loan portfolio accounted for 77% of the total average interest earning assets, the interest yield on average interest earning assets also decreased by 0.7 percentage points to 14.2%.

The 3.3% YoY decrease in interest expense reflected the reduced interest expense on borrowed funds from financial institutions and subordinated loans by 14.3% and 12.2% respectively, reflecting the reduced portfolios both in other borrowed funds from foreign financial institutions and subordinated loans due to their repayment. The other significant factor was reduced cost of deposits. Even though the customer deposit portfolio increased by 22.7%, the interest expense on customer deposits was up only by 1.9%, which was associated with the intentional cuts in effective rates on deposits to 6.1%, down 1.1 percentage points, compared to 7.2% in the first half of 2012.

As the growth in both net interest income by 13.5% and in average interest earning assets by 11.4% were broadly aligned, the Bank's net interest margin (NIM) was slightly up 0.2 percentage points to 8.1% as of the first half of 2013.

## Quarterly Comparison

### **2Q 2013 and 2Q 2012 Comparison**

In the second quarter of 2013, the net interest income increased to GEL 66.8 million, up GEL 2.9 million, or 4.5%, compared to the second quarter of 2012, resulting from a 0.4% increase in interest income and 4.8% decrease in interest expense.

In the second quarter of 2013, the interest income was GEL 115.3 million, slightly up GEL 0.4 million, or 0.4%, compared to GEL 114.9 million achieved in the second quarter of 2012, primarily driven by GEL 1.1 million, or 1.1%, increase in interest income from loans, which more than offset the GEL 1.5 million, or 73.3%, decrease in interest income from due from other banks. During the second quarter of 2013, loan yields decreased by 1.3 percentage points to 16.5% aligned with the general trend of declining interest rates. Decreased loan yields during the second quarter of 2013 contributed to the decrease in the interest yield on average interest earning assets by 1.1 percentage points to 14.0%, compared to the second quarter of 2012.

In the second quarter of 2013, the interest expense was GEL 48.6, down GEL 2.4 million, or 4.8%, compared to the second quarter of 2012. The decrease was primarily due to the deposit rate cuts attributable to general trends of declining interest rates and the Management's decision to decrease the Bank's total funding costs. In the first half of 2013, deposit rates were down 0.9 percentage points to 5.9%, compared to 6.4% in the second quarter of 2012. Due to the reduced deposit rates and the reduced cost of borrowed funds by 1.2 percentage points, cost of funding ratio reduced to 6.2%, down 0.7 percentage points compared 6.9% in the second quarter of 2012.

As a results, the net interest margin (NIM) was 8.1%, only slightly down by 0.3 percentage points in the second quarter of 2013, compared to the same quarter of the previous year.

### **2Q 2013 and 1Q 2013 Comparison**

On a quarter-on-quarter basis, the net interest income decreased by 0.3% as a result of a 2.6% decrease in interest income and a 5.5% decrease in interest expense.

The 2.6% QoQ decrease in interest income mainly resulted from the GEL 3.1 million, or 2.9%, decrease in interest income from loans associated with one-off interest income write down of a corporate customer and the general cuts in loan interest rates in the second quarter of 2012. In Q2 2013, loan yields reduced by 0.8 percentage points QoQ. Similarly, interest yields on average interest earning assets decreased by 0.6 percentage points.

The 5.5% QoQ decrease in interest expense was primarily attributable to the reduced interest expense on customer accounts by 4.3%, despite the increased deposit portfolio by 7.4%, due to the cuts in deposit rates. The latter reduced by 0.4 percentage points, which influenced our cost of funding ratio and brought it down by the 0.3 percentage points.

### Provision & Impairment Charges

<i>In millions of GEL</i>	1H 2013	1H 2012	Change (%)	2Q2013	1Q2013	2Q2012	2Q13 vs. 2Q12	2Q13 vs. 1Q13
<b>Total provision &amp; impairment charges</b>	<b>20.5</b>	<b>20.6</b>	<b>-0.5%</b>	<b>0.8</b>	<b>19.7</b>	<b>17.2</b>	<b>-95.3%</b>	<b>-95.8%</b>
<i>Out of which:</i>								
<i>Provision for loan impairment</i>	17.0	18.6	-9.1%	-2.3	19.2	19.4	-111.6%	-111.7%
<b>Cost of Risk Ratio</b>	<b>1.3%</b>	<b>1.6%</b>	<b>-0.3%</b>	<b>-0.4%</b>	<b>3.1%</b>	<b>3.3%</b>	<b>-3.7%</b>	<b>-3.4%</b>

#### 1H 2013 to 1H 2012 Comparison

In the first half of 2013, the Bank's provision and impairment charges remained largely flat at 20.5 million, down 0.5%, compared to GEL 20.6 million in the same period of the previous year. The slight decrease in impairment and provisioning charges was primarily due to the decrease in loan impairment charges by GEL 1.7 million, or 9.1%, which was mainly due to the reduction in impairment charges on the corporate loan portfolio that offset one off impairment charge in Q1 2013.

Due to the decrease in loan impairment charges, the Bank's cost of risk ratio decreased to 1.3% down 0.3 percentage points, compared to 1.6% in the first half of 2012.

#### Quarterly Comparison

##### 2Q 2013 and 2Q 2012 Comparison

In the second quarter of 2013, the Bank's total provision and impairment charges were GEL 0.8 million, down 16.4 million, compared to GEL 17.2 million in the second quarter of 2012. The decrease in provision and impairment charges were primarily attributable to the decrease in loan impairment charges, which reduced by GEL 21.7 million to negative GEL 2.3 million.

The significant decrease in provision for loan impairment charges drove the Bank's cost of risk ratio down 3.7 percentage points to the negative 0.4% in 2Q 2013.

#### Quarterly Comparison

##### 2Q 2013 and 1Q 2013 Comparison

On a quarter-on-quarter basis, the Bank's provision and impairment charges decreased by GEL 18.9 million, primarily due to the QoQ decrease in loan impairment charges by GEL 21.5 million. The decrease in loan impairment charges were due to the reduced loan impairment charges in 2Q 2013 resulted from the one-off loan impairments charge in Q1 2013.

The decrease in provision for loan impairment drove the Bank's cost of risk ratio down 3.4 percentage points QoQ.

### Total Non-interest Income

<i>In millions of GEL</i>	1H 2013	1H 2012	Change (%)	2Q2013	1Q2013	2Q2012	2Q13 vs. 2Q12	2Q13 vs. 1Q13
Fee and Commission Income	31.3	26.3	18.9%	16.4	14.9	13.8	18.5%	9.8%
Fee and Commission Expense	-12.7	-8.2	54.0%	-7.2	-5.5	-4.4	65.2%	30.7%
<b>Net Fee and Commission income</b>	<b>18.6</b>	<b>18.1</b>	<b>2.9%</b>	<b>9.2</b>	<b>9.4</b>	<b>9.5</b>	<b>-2.9%</b>	<b>-2.4%</b>
Gains less losses from trading in foreign currencies and foreign exchange translations	15.9	16.0	-0.3%	8.0	7.9	8.4	-4.4%	2.0%
Gains less losses/(losses less gains) from derivative financial instruments	1.1	-1.5	171.8%	1.5	-0.5	0.4	302.1%	434.7%
Other operating income	12.5	9.3	34.3%	8.7	3.8	6.2	40.5%	129.6%
<b>Total non-interest income</b>	<b>48.1</b>	<b>41.8</b>	<b>15.0%</b>	<b>27.5</b>	<b>20.6</b>	<b>24.4</b>	<b>12.4%</b>	<b>33.2%</b>

### 1H 2013 to 1H 2012 Comparison

The total non-interest income in the second half of 2013 was GEL 48.1 million, up GEL 6.3 million, or 15.0%, versus the same period of the previous year, mainly due to the increase in other operating income by GEL 3.2 million, or 34.3%, mostly reflecting the increased gain from sale of repossessed assets by GEL 2.6 million and the increased revenues from cash-in terminals by GEL 1.3 million. The growth in total non-interest income was also attributable to the increase in fair valuation of interest rate swap aimed at hedging negative effect of Libor increase on the floating interest rate of one of our subordinated loans by GEL 2.6 million, which are reported under gains from derivative financial instruments. The net fee and commission income increased slightly by GEL 0.5 million, or 2.9% resulting from the GEL 2.6 million decrease in net fee and commission income from guarantees. Other than guarantees, the net fee and commission income from card operations increased by 8.7%, issuance of letter of credit by 139.4%, settlement transactions by 3.7%, FOREX operations by 13.1% and cash transactions by 8.3%.

### Quarterly Comparison

#### 2Q 2013 and 2Q 2012 Comparison

Total non-interest income in the second quarter of 2013 was GEL 27.5 million, up GEL 3.0 million, or 12.4%, primarily reflecting the increase in other operating income by GEL 2.5 million, mainly resulting from the increase in the gain from the sale of the repossessed assets by GEL 2.4 million due to the increased gain from the sale of repossessed assets in the second quarter of 2013. The increase in total non-interest income also resulted from the increased gain from the fair valuation of interest rate swaps as described above by GEL 1.2 million in 2Q 2013, reported under derivative financial instruments. The increase was partially offset by the decrease in net fee and commission income by GEL 0.3 million, or 2.9%, resulting from the reduction in net fee and commission income from guarantees and settlement transactions by GEL 2.1 million and GEL 0.3 million respectively aligned with the reduced business activities in the country. The negative net fee and commission income was partially offset by the increase in net fee and commission income from card operations by 8.6%, FOREX operations by 44.8% and issuance of letters of credit by 189.4%. Gains from trading in foreign currencies and foreign exchange translations also reduced by GEL 0.4 million, or 4.4%.

#### 2Q 2013 and 1Q 2013 Comparison

On a quarter-on-quarter basis, the total non-interest income increased by GEL 6.9 million, or 33.2%, primarily reflecting the increase in other operating income by GEL 4.9 million, principally due to the increase in gain from inventory by GEL 4.0 million, resulting from the sale of repossessed assets. The increase in total non-interest income also resulted from the increase in the fair valuation of interest rate swaps as described above, reported

under derivative financial instruments by GEL 2.0 million and the increase in gains from trading in foreign currencies and foreign exchange translations by GEL 0.2 million. The increase in total non-interest income was slightly offset by the decrease in net fee and commission income by GEL 0.2 million, or 2.4%, resulting from the reduction in net fee and commission income from guarantees and cash transactions by GEL 1.4 million and GEL 0.2 million respectively aligned with the reduced business activities in the country. The negative net fee and commission income was partially offset by the increase in net fee and commission income from card operations by 10.4%, FOREX operations by 20.1% and issuance of letters of credit by 68.2%.

### Non-interest Expenses

<i>In millions of GEL</i>	1H 2013	1H 2012	Change (%)	2Q2013	1Q2013	2Q2012	2Q13 vs. 2Q12	2Q13 vs. 1Q13
Staff costs	51.4	44.1	16.5%	25.6	25.7	22.4	14.3%	-0.5%
Depreciation and amortisation	10.3	8.7	18.0%	4.8	5.5	4.5	7.3%	-12.7%
Administrative and other operating expenses	35.4	31.0	14.0%	21.5	13.8	17.4	23.4%	55.6%
<b>Non-interest Expenses</b>	97.0	83.9	15.7%	51.9	45.1	44.3	17.2%	15.2%
Profit before tax	64.2	55.1	16.6%	41.5	22.8	26.8	54.9%	82.1%
Income tax expense	-9.4	-6.2	51.8%	-6.3	-3.1	-3.0	110.1%	100.4%
<b>Profit for the period</b>	54.8	48.9	12.1%	35.2	19.6	23.8	47.9%	79.1%
<b>Cost to Income Ratio</b>	<b>53.4%</b>	<b>52.5%</b>	<b>0.8%</b>	<b>55.1%</b>	<b>51.5%</b>	<b>50.2%</b>	<b>4.9%</b>	<b>3.6%</b>

### 1H 2013 to 1H 2012 Comparison

Non-interest expenses during the first half of 2013 increased by GEL 13.2 million, or 15.7%, to GEL 97.0 million. The increase in non-interest expenses was partially attributable to our micro focused subsidiary, Bank Constanta, which accounted for GEL 6.4 million, or 48.4%, increase of the total growth in non-interest expenses, which in its end is increasing in scale and further improving performance results including C/I and ROE.

Excluding Bank Constanta, total non-interest expenses increased by 9.5%, out of which staff costs increased by 9.8% to GEL 41.7 million from GEL 37.9 million aligned with a growing scale of business and new branch openings and corresponding increases in salaries and the number of staff on a YoY basis. In the same way, without Bank Constanta, administrative and other operating expenses increased by GEL 1.9 million, or 7.6%, to GEL 27.4 million compared to GEL 25.5 million in the first half of 2012. Revaluation of repossessed assets increased expenses by GEL 7.1 million. This was partially offset by the decrease in professional services expenses by GEL 2.3 million in the first half of 2013 and the decrease in marketing and advertising services by GEL 0.9 million, due to the higher marketing expenses associated with the Bank's 20<sup>th</sup> anniversary in 2012. Depreciation and amortization expenses increased by GEL 1.1 million, or 14.6%, compared to the same period of the previous year. The increase was attributable to the increase in fixed and intangible assets by GEL 37.4 million, or 15.0%, compared to 30 June 2012 that was partially offset by the positive effect of the re-assessment of the useful life of some of the fixed assets of the Bank. This assessment was conducted by an independent valuator as part of the fixed assets valuation process for year end 2012 financial statements.

**Quarterly Comparison*****2Q 2013 and 2Q 2012 Comparison***

In the second quarter of 2013, non-interest expenses was GEL 51.9 million, up GEL 7.6 million, or 17.2%, compared to GEL 44.3 million in the second quarter of 2012. The increase in non-interest expenses was mainly due to the increase in administrative and other operating expenses by GEL 4.1 million, or 23.4%, compared to the previous year quarter. The increase was mainly due to the increase in the above mentioned revaluation of repossessed assets, which was partially offset by the decrease in professional services expenses by GEL 2.5 million. Non-interest expenses were only slightly affected by an increase in depreciation and amortisation expenses by GEL 0.3 million, or 7.3% caused from the increased fixed assets which was partially offset by the above mentioned fixed assets usefull life re-assessment process.

***2Q 2013 and 1Q 2013 Comparison***

In the second quarter of 2013, non-interest expenses increased by GEL 6.9 million, or 15.2% QoQ. The increase was again attributable to the revaluation of repossessed assets by GEL 7.7 million, or 55.6% QoQ. The increase in administrative and other operating expenses was partially offset by the decrease in depreciation and amortization expenses by GEL 0.7 million, or 12.7% QoQ as a result of the positive effect of the above mention usefull life re-assessment process.

## Balance Sheet Discussion

<i>In millions of GEL</i>	<b>30-Jun-13</b>	<b>31-Mar-13</b>	<b>31-Dec-12</b>	<b>QoQ Change %</b>	<b>YTD Change %</b>
Cash and due from banks	652.2	516.1	744.2	26.4%	-12.4%
Loans and advances to customers (Net)	2,416.2	2,347.2	2,370.2	2.9%	1.9%
Financial securities	490.5	468.8	407.7	4.6%	20.3%
Fixed and intangible assets & investment property	281.7	245.1	245.7	14.9%	14.7%
Other assets	147.3	141.1	131.9	4.4%	11.7%
<b>Total assets</b>	<b>3,987.9</b>	<b>3,718.3</b>	<b>3,899.7</b>	<b>7.3%</b>	<b>2.3%</b>
Due to other banks	32.8	52.5	76.2	-37.5%	-56.9%
Customer accounts	2,563.7	2,387.8	2,486.9	7.4%	3.1%
Debt Securities in issue	4.2	-	-	NMF	NMF
Borrowed funds & Subordinated Debt	644.4	583.7	666.0	10.4%	-3.2%
Other liabilities	71.6	66.4	66.5	7.9%	7.6%
<b>Total Liabilities</b>	<b>3,316.8</b>	<b>3,090.3</b>	<b>3,295.7</b>	<b>7.3%</b>	<b>0.6%</b>
<b>Total equity</b>	<b>671.1</b>	<b>627.9</b>	<b>604.0</b>	<b>6.9%</b>	<b>11.1%</b>

### Assets

As of June 30, 2013, the total assets were GEL 3,987.9 million, up 7.3% QoQ and 2.3% YTD. The increase on a quarter-on-quarter basis was primarily due to the increase in liquid assets by 16.1% QoQ, driven mainly by the increase in cash and due from banks and investment securities available for sale by GEL 136.1 million and GEL 21.4 million respectively. Total assets growth is also attributable to the increase in net loan portfolio by GEL 69.0 million, or 2.9% QoQ.

On a year-on-year basis, the 2.3% increase in total assets was mainly attributable to the increase in net loan book by GEL 46.0 million and a GEL 9.9 million, or 0.9%, decrease in liquid assets.

At the end of the first half of 2013, the gross loan portfolio reached 2,584.8 million, up 2.2% QoQ and 1.9% YTD. The slight increase in gross loan book is aligned with the reduced loan demand especially from the corporate customers. As of June 2013, the gross loans denominated in foreign currency accounted for 73.1% of total loans, compared to 74.5% as of June 2012, which corresponds to 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 1.4%, up 0.1 percentage point QoQ and 0.4 percentage point YTD.

### Liabilities

At the end of the first quarter of 2013, total liabilities were GEL 3,316.8 million, up 7.3% QoQ and 0.6% YTD. On a quarter-on-quarter basis, the increase in total liabilities was attributable to the increase in total customer deposits by GEL 175.9 million, or 7.4%, while on a year-to-date basis, the increase in total customer deposits was offset by the reduction in other borrowed funds and subordinated loans based on the Management's intention to decrease liquidity. As of June 30, 2013, total customer deposits accounted for 77.3% of total liabilities, compared to the same 77.3% and 75.5% as of March 31, 2013 and December 31, 2012, respectively.



As of June 30, 2013, borrowed funds and subordinated debt were GEL 644.4 million, up 10.4% QoQ and down 3.2% YTD, mainly attributable to the repayment of borrowed funds as well as subordinated loans in the first quarter of 2013.

### ***Liquidity***

The Bank's liquidity ratio defined by the National Bank of Georgia (NBG) decreased to 34.1% as of June 2013, compared to 34.6% and 36.6% as of March 31, 2013 and December 31, 2012 respectively.

Starting from the first quarter 2013, the Management has been gradually decreasing liquidity.

### ***Total Equity***

Total equity was GEL 671.1 million, up 6.9% QoQ and 11.1% YTD. The increase in total equity was primarily due to the increase in retained earnings by GEL 34.6 million QoQ and GEL 53.6 million YTD as well as the increase in investments by individual shareholders in an amount of GEL 3 million as a result of the capital raising transaction in December 2012.

### **Regulatory Capital**

As of June 30, 2013, the Bank's NBG tier 1 and total capital ratios stayed fairly stable at 12.2% and 14.8% respectively, compared to 12.3% and 14.5% as of March 2013 and 11.2% and 13.7% as of December 2012.

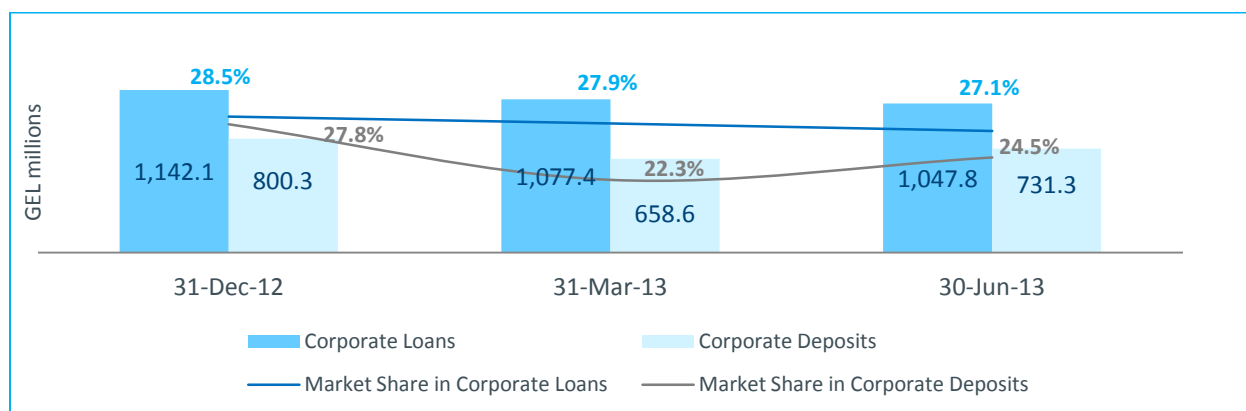
The Bank's BIS tier 1 capital ratio was 22.5%, up from 21.1% and 20.3% on March 31, 2013 and December 31, 2012 respectively. The tier 1 capital ratio was positively impacted by the increase in equity and reached GEL 623.1 million as of June 30, 2013, up GEL 42.7 million QoQ and GEL 63.7 million YTD. Risk weighted assets were GEL 2,766.6 million as of June 30, 2013, up 0.5% QoQ and 0.2% YTD.

## Results by Segments and Subsidiaries

### Corporate Banking

As of June 30, 2013, TBC Bank was the second largest bank in terms of corporate loans and corporate deposits in the Georgian banking sector, accounting for the market share of 27.1% and 24.5% respectively.

The corporate segment represented the Bank's largest segment in total loan portfolio, accounting for 40.5% of TBC Bank's total loan portfolio as of 30 June 2013. In terms of customer deposits, the corporate segment remained the Bank's second largest segment, accounting for 28.5% of the total customer deposits portfolio. The corporate segment served 4,562 accounts and 1,531 customers, offering a wide range of products, including balance sheet finance, trade finance, asset finance, project finance, working capital, and syndicated loans.



#### **Corporate loans and advances to customers**

As of June 30, 2013, corporate loans amounted to GEL 1,047.8 million, down 2.7% QoQ and 8.3% YTD. Due to the government transition period in the country, business activity for corporate customer decreased, which led to a reduction in the corporate loan portfolio. Ultimately, market share in corporate loans reached 27.1%, down 0.7 percentage points QoQ and 1.4 percentage points YTD.

#### **Corporate customer deposits**

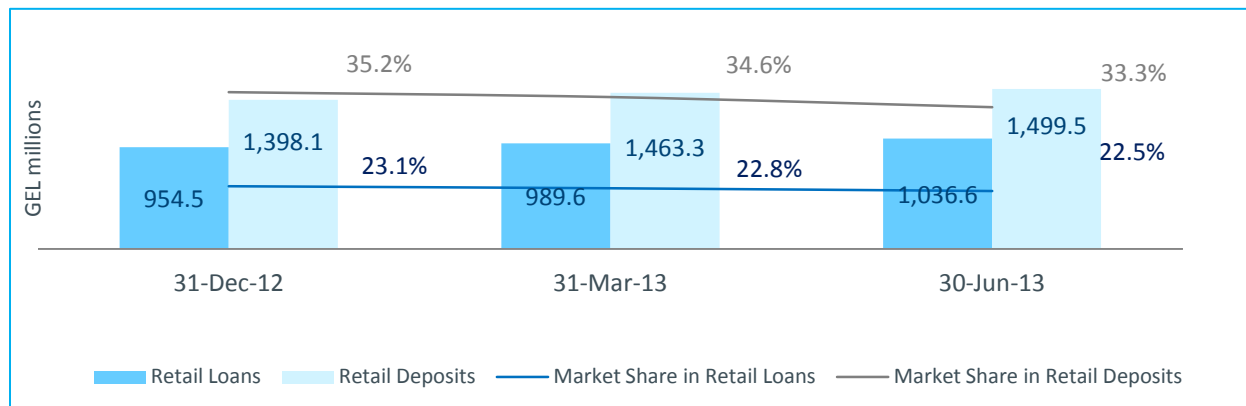
As of June 30, 2013, corporate deposits were GEL 731.3 million, up 11.0% QoQ and down 8.6% YTD. As of the same period, the market shares in corporate deposits reached 24.5%, up 2.2 percentage points QoQ and down 3.3 percentage points YoY.

### Retail Banking

As of June 30, 2013, 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 22.5% of the market shares respectively.

The retail segment represented the Bank's largest segment in total deposit portfolio, accounting for 58.5% of TBC Bank's total deposit portfolio as of June 30, 2013. In terms of total customer loans, the retail segment remained the Bank's second largest segment, accounting for 40.1% of the total loan portfolio. The retail segment served 880,591 accounts and 802,594 customers, offering its clients a wide range of products, including consumer loans, mortgage loans, credit cards, installment loans, child deposits, term plus, my safe, golden deposit and others. As of

June 30, 2013, the number of outstanding cards was around 845k, out of which credit cards accounted for 39.1% of the total number of cards. The number of credit cards increased by 27.5% on a year-on-year basis.



**Retail loans and advances to customers**

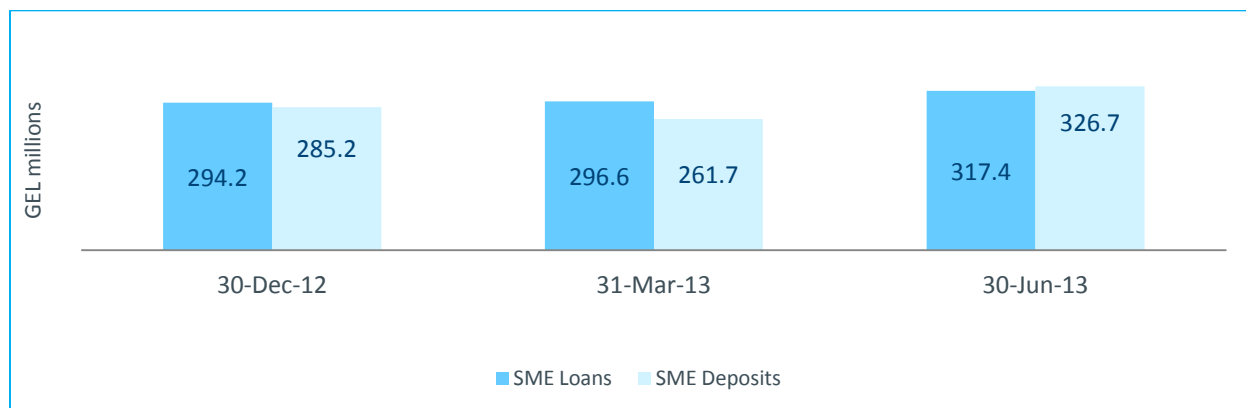
As of June 30, 2013, retail loans increased to GEL 1036.6 million, up 4.7% QoQ and 8.6% YTD. During the same period, TBC Bank’s market share in retail loans was 22.5%.

**Retail customer deposits**

As of June 30, 2013, retail deposits increased to GEL 1,499.5 million, up 2.5% QoQ and 7.3% YTD. TBC Bank’s market share in retail deposits was 33.3% as of the first half of 2013.

**SME Banking<sup>4</sup>**

As of June 30, 2013, the SME segment accounted for 12.3% and 12.7% of the Bank’s total loan portfolio and total customer deposits respectively. The segment offers various types of loan and deposit products to its clients including trade finance, assets finance, project finance, and working capital loans. As of the end of the first half of 2013, TBC Bank served 58,510 accounts, 42,349 customers, through the SME business line and had 2,367 SME outstanding loans. Transactions performed by SME customers via e-channels accounted for 81% of the total non-cash transactions.



<sup>4</sup> 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 loans and advances to customers***

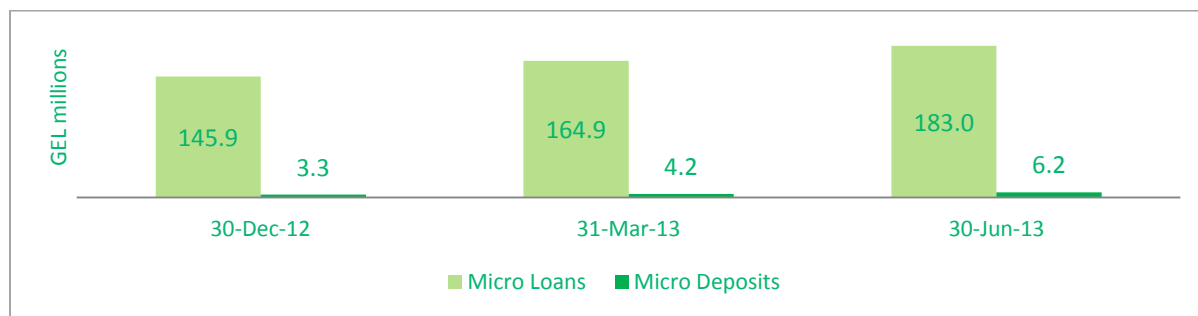
As of June 30, 2013, SME loans increased to GEL 317.4 million, up 7.0% QoQ and 7.9% YTD. Despite the absence of the SME market information, the Management believes that TBC Bank is one of the leading banks in the market, demonstrated by its large number of loyal customers with a continuously growing trend.

### ***SME customer deposits***

As of June 30, 2013, SME deposits were GEL 326.7 million, up 24.9% QoQ and 14.6% YTD. In regards to SME deposits, the Management also believes that TBC Bank has one of the largest shares on the market, demonstrated by its strong customer base.

## **Micro Banking/ Bank Constanta**

Since the acquisition of Bank Constanta in May 2011, the Group classifies its Micro customers as customers of Bank Constanta that do not fall under the Bank's definition of corporate, SME and retail customers. The Micro segment is the smallest but the fastest growing segment of TBC Bank, accounting for 7.1% and 0.2% of the total loans and total customer deposits portfolios respectively. The Micro segment offers various types of loan and deposit products tailored to the needs of its client. As of June 30, 2013, TBC Bank served 375,599 accounts through its Micro segment and had 69,493 outstanding loans.



### ***Micro loans and advances to customers***

Micro loans and advances to customers reached GEL 183.0 million as of June 30, 2013 with a growth rate of 11.0% QoQ and 25.4% YTD. Despite the absence of the 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.

### ***Micro customer deposits***

Micro customer deposits grew by 47.9% QoQ and 86.9% YTD, amounting to GEL 6.2 million as of June 30, 2013. Bank Constanta received a license for attracting deposits in August 2011, which explains the significant growth rate in customer deposits on both QoQ and YoY basis.

## TBC Kredit

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

<i>In millions of GEL</i>	<b>30-Jun-13</b>	<b>31-Mar-13</b>	<b>31-Dec-12</b>	<b>QoQ Change %</b>	<b>YTD Change %</b>
Net loans	61.6	59.6	59.6	3.3%	3.3%
<b>Total assets</b>	<b>65.5</b>	<b>63.2</b>	<b>62.2</b>	<b>3.7%</b>	<b>5.4%</b>
Borrowed funds	34.0	36.3	24.0	-6.2%	41.7%
<b>Total liabilities</b>	<b>42.9</b>	<b>41.3</b>	<b>41.2</b>	<b>3.7%</b>	<b>4.1%</b>
<b>Total equity</b>	<b>22.7</b>	<b>21.9</b>	<b>21.0</b>	<b>3.7%</b>	<b>7.9%</b>

### *Assets*

TBC Kredit's total assets reached GEL 65.5 million as of June 30, 2013, up 3.7% QoQ and 5.4% YTD. The increase was primarily attributable to the increase in net loans by 3.3% on both a quarter-on-quarter and year-to-date basis along with the increase in cash and cash equivalents to GEL 2.8 million, up 21.7% QoQ and 229.2% YTD.

### *Liabilities*

In line with total assets, TBC Kredit's total liabilities grew by 3.7% QoQ and 4.1% YTD, amounting to GEL 42.9 million as of June 30, 2013. The increase in total liabilities was largely due to the issued bond by TBC Kredit in the second quarter of 2013.

### *Equity*

TBC Kredit's total equity increased by 3.7% QoQ and 7.9% YTD to GEL 22.7 million as of June 30, 2013. On a quarter-on quarter basis, the increase was mainly due to the increase in net profit attributable to total equity by GEL 0.9 million, or 105.9%. The growth in total equity on a year-to-date basis was attributable to the increase in retained earnings by GEL 2.0 million, or 178.5%.

## Annexes

### Consolidated Income Statement

<i>In thousands of GEL</i>	<b>30-Jun-13 (Unaudited)</b>	<b>30-Jun-12 (Unaudited)</b>
Interest income	233,677	221,137
Interest expense	-99,981	-103,366
<b>Net interest income before provisions</b>	<b>133,696</b>	<b>117,771</b>
Provision for loan impairment	-16,954	-18,642
Provision for liabilities and charges	-2,876	-1,628
Provision for impairment of investments in finance lease	-67	-72
Provision for impairment of other financial assets	-619	-275
Impairment of investment securities available for sale	-5	-10
<b>Net interest income after provisions</b>	<b>113,175</b>	<b>97,144</b>
Fee and commission income	31,276	26,300
Fee and commission expense	-12,689	-8,240
<b>Net fee and commission income</b>	<b>18,587</b>	<b>18,060</b>
Gains less losses from trading in foreign currencies	14,045	13,247
Foreign exchange translation gains less losses	1,876	2,726
Gains less losses/(losses less gains) from derivative financial instruments	1,085	-1,512
Other operating income	12,497	9,305
<b>Other operating non-interest income</b>	<b>29,503</b>	<b>23,766</b>
Staff costs	-51,367	-44,109
Depreciation and amortisation	-10,311	-8,739
Administrative and other operating expenses	-35,356	-31,019
<b>Other operating expenses</b>	<b>-97,034</b>	<b>-83,867</b>
<b>Profit before tax</b>	<b>64,231</b>	<b>55,103</b>
Income tax expense	-9,427	-6,211
<b>Profit for the period</b>	<b>54,804</b>	<b>48,892</b>

## Consolidated Balance Sheet

<i>In thousands of GEL</i>	<b>30-Jun-13</b> <b>(Unaudited)</b>	<b>31-Mar-13</b> <b>(Unaudited)</b>	<b>31-Dec-12</b> <b>(Audited)</b>
Cash and cash equivalents	354,666	231,822	398,587
Due from other banks	297,531	284,284	345,603
Loans and advances to customers (Net)	2,416,174	2,347,157	2,370,200
Investment securities available for sale	490,469	468,812	407,733
Investments in finance leases	28,418	27,828	26,377
Investment properties	65,538	33,225	34,305
Current income tax prepayment	7,613	7,620	10,135
Goodwill	2,726	2,726	2,726
Intangible assets	20,546	19,599	18,817
Premises and equipment	195,595	192,237	192,556
Other financial assets	27,328	23,992	25,301
Other assets	81,259	78,961	67,355
<b>TOTAL ASSETS</b>	<b>3,987,863</b>	<b>3,718,263</b>	<b>3,899,695</b>
<b>LIABILITIES</b>	-	-	-
Due to other banks	32,841	52,521	76,204
Total Customer accounts	2,563,696	2,387,785	2,486,944
Debt Securities in issue	4,228	-	-
Other borrowed funds	517,313	466,503	550,917
Deferred income tax liability	26,602	20,775	20,143
Provisions for liabilities and charges	9,050	6,268	6,174
Other financial liabilities	18,150	19,939	19,462
Other liabilities	17,809	19,391	20,744
Subordinated debt	127,124	117,157	115,082
<b>TOTAL LIABILITIES</b>	<b>3,316,813</b>	<b>3,090,339</b>	<b>3,295,670</b>
<b>EQUITY</b>	-	-	-
Share capital	16,500	16,175	16,143
Share premium	242,651	232,431	231,501
Retained earnings	352,484	317,918	298,880
Share based payment reserve	987	4,142	4,142
Other reserves	45,215	44,799	41,939
<b>TOTAL EQUITY</b>	<b>657,837</b>	<b>615,466</b>	<b>592,605</b>
<b>Non-controlling interest</b>	<b>13,213</b>	<b>12,459</b>	<b>11,419</b>
<b>TOTAL EQUITY</b>	<b>671,050</b>	<b>627,925</b>	<b>604,024</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,987,863</b>	<b>3,718,264</b>	<b>3,899,694</b>

## Key Ratios

	H1 2013	H1 2012
ROAE, annualised <sup>1</sup>	17.4%	19.9%
ROAA, annualised <sup>2</sup>	2.9%	2.8%
Pre-provision ROAE, annualised	23.9%	28.3%
Pre-provision ROAA, annualised	3.9%	4.0%
Cost: Income <sup>3</sup>	53.4%	52.5%
Cost of Risk, annualised <sup>4</sup>	1.3%	1.6%
NIM, annualised <sup>5</sup>	8.1%	8.0%
Loan yields, annualised <sup>6</sup>	16.9%	17.5%
Deposit rates, annualised <sup>7</sup>	6.1%	7.2%
Interest rate earned on interest earning assets, annualised <sup>8</sup>	14.2%	15.0%
Interest rate paid on interest earning liabilities/Average Cost of Funds, annualised <sup>9</sup>	6.3%	7.2%
Spread <sup>10</sup>	7.9%	7.8%
NPL/Gross Loans <sup>11</sup>	1.4%	0.9%
NPL & Restructured Loans Coverage <sup>12</sup>	159.5%	166.3%
Leverage (times) <sup>13</sup>	5.9	7.0
NBG Tier 1 Capital Ratio <sup>14</sup>	12.2%	11.5%
NBG Total Capital Ratio <sup>15</sup>	14.8%	13.5%
BIS Tier 1 Capital Ratio <sup>16</sup>	22.5%	18.7%
Total BIS Capital Ratio <sup>17</sup>	29.1%	24.4%

## Ratio definitions

- Return on average total equity (ROAE) equals net income of the period divided by quarterly average total shareholders' equity for the same period; Pre-provision ROAE excludes all provision charges.
- Return on average total assets (ROAA) equals net income of the period divided by quarterly average total assets for the same period;
- Cost to Income ratio equals administrative and other operating non-interest expenses of the period divided by the sum of net interest (before provisions for loan impairment) and net non-interest income of the same period;
- Cost of risk equals provision for loan impairment divided by average loans and advances to customers (before provision for loan impairment);
- Net interest margin is net interest income (before provision for loan impairment), divided by average interest-earning assets;
- Loan yields equal interest income on loans and advances to customers divided by quarterly average gross loans and advances to customers;
- Deposit rates equal interest expense on customer accounts divided by quarterly average total customer deposits.
- Interest rate earned on interest earning assets/average cost of funds equals total interest income divided by quarterly average interest earning assets
- Cost of funding equals total interest expense divided by quarterly average interest bearing liabilities.
- Spread equals difference between Interest rate earned on interest earning assets and cost of funding
- Non-performing loans (NPL) ratio equals loans for which principal or interest repayment is overdue for 90 days or more divided by the gross loan portfolio for the same period;
- NPL & Restructured Loans Coverage equals loan loss provision over non-performing loans plus restructured loans and overdue  $\leq 90$  days;
- Leverage is defined as total assets over total equity
- NBG Tier I Capital Adequacy Ratio equals Tier I Capital divided by Total Risk Weighted Assets, both calculated in accordance with the requirements the National Bank of Georgia instructions;
- NBG Total Capital Adequacy Ratio equals Total Capital divided by Total Risk Weighted Assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
- BIS Tier 1 capital adequacy ratio equals Basel Tier 1 capital over total risk weighted assets;
- BIS total capital adequacy ratio equals total Basel capital over total risk weighted assets;



## Categorisation of Segments

**Corporate** - customers as legal entities which have annual revenues of GEL 8 million or more or have been granted a loan of USD 1,500,000 or more. However a few other legal entity customers that have attractive potential for the Bank might also be assigned the status of corporate customer.

**SME** - legal entity customers that are not included either in the Micro or Corporate segment. The vast majority of such customers have been granted loans between USD 1,500,000 and USD 150,000 or have an annual revenue of less than GEL 8 million.

**Retail** - all retail customers of the Group.

**Micro** - customers of Bank Constanta that do not fall in the above categories and have been granted loans of USD 150,000 or less.

## 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 June 30, 2013, March 31, 2013 and December 31, 2012. In the case of income statement items, we used the average of the daily rates reported by the NBG for the periods ending on June 30, 2013, and June 30, 2012.

### Exchange rates used:

June 30, 2013	1.6509
March 31, 2013	1.6577
December 31, 2012	1.6567
Average 1H 2013	1.6542
Average 1H 2012	1.6464

## 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 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.