TBC BANK

TBC Bank Announces FY 2014 and 4Q 2014 IFRS Consolidated Results; Profit for 2014 up 27.5% YoY to GEL 158.5 million

Financial Highlights

- Total operating income in 2014 up 20.2% YoY to GEL 458.3 million (4Q 2014: GEL 132.3 million, up 26.9% YoY)
- Underlying cost to income ratio improved to 47.0% (49.4% including one-off charges), compared to 52.1% in 2013 (4Q 2014: 51.2% and 50.6% without one-offs, compared to 53.5% in 4Q 2013)
- Profit for 2014 up 27.5% YoY to GEL 158.5 million (4Q 2014: GEL 40.0 million, up 13.0% YoY), delivering ROAE of 18.4% (4Q 2014: 16.0%)
- NIM (net interest margin) at 8.5% in 2014, compared to 8.4% in 2013 (4Q 2014: 8.5%, stable compared to 4Q 2013)
- Total assets reached GEL 5,423.5 million as of 31 December 2014, up 21.8% YoY and 7.5% QoQ
- Gross loans and advances to customers increased to GEL 3,706.3 million as of 31 December 2014, up 25.3% YoY and 14.7% QoQ:
    - retail gross loans reached GEL 1,666.9 million, up 38.0% YoY and 15.3% QoQ
    - SME gross loans reached GEL 533.9 million, up 36.0% YoY and 15.9% QoQ
    - micro gross loans reached GEL 273.7 million, up 36.0% YoY and 14.5% QoQ
    - corporate gross loans reached GEL 1,231.7 million, up 6.4% YoY and 13.6% QoQ
- Total customer deposits increased to GEL 3,322.4 million as of 31 December 2014, up 15.1% YoY and 10.6% QoQ
- Total equity was GEL 1,019.5 million as of 31 December 2014, up 39.8% YoY and 4.6% QoQ

Operational Highlights

- TBC Group became the largest retail bank in the country as of 31 December 2014
    - The Bank maintained its longstanding leadership in individual deposits with a market share of 33.7%
    - TBC Bank reached the leading position in retail loans with a market share of 29.7%
- Market share in total loans increased by 0.7pp to 27.7% QoQ
    - Market share in legal entity loans increased by 0.3pp to 25.8%
- Market share in total deposits increased by 0.6pp to 28.4% QoQ
    - Market share in legal entity deposits increased by 0.6pp to 23.0%
- Bank Constanta was fully merged with TBC Bank in January 2015

Letter from the Chief Executive Officer

"2014 has been a year of great success and achievement for TBC Bank. The Bank secured a listing on the London Stock Exchange, resulting in the largest ever IPO from Georgia and the largest ever off-index IPO from the EMEA region, an important milestone for both TBC Bank and the Georgian economy at large.

We closed the year with a record profit, having delivered on our strategic objectives.

In 2014 the Georgian economy grew by 4.7%, slightly below the projected 5.0%. While the Georgian Lari depreciated by 7.3% against the U.S. Dollar during 2014, it appreciated against most of Georgia's trade-partners' currencies; that is, by 5.3% against the Euro, 1.3% against Turkish Lira, 38.0% against the Ruble, and 7.7% against the Armenian Dram.

The depreciation of the Georgian Lari against the U.S. Dollar and the slightly lower than forecasted GDP growth rate were partially a result of regional trends, including a slower growth rate in tourism and a slight decline in exports and remittances. However, we saw strong growth in FDI of 29.1% during the first nine months of the year, while inflation stood at 2% in December 2014, well below the NBG target of 6%. Finally, it is widely expected that decreasing oil prices will have further positive effects on the economy.

In this environment, the Georgian banking sector delivered robust growth with total loans increasing by 23.7% YoY and 12.0% QoQ.

We continued to outperform the market and delivered strong growth across our portfolios. As of 31 December 2014, our gross loan portfolio reached GEL 3,706.3 million, up 25.3% YoY or 14.7% QoQ, driven by growth across all segments. The fastest growing segments were retail on a YoY basis, and SME on a QoQ basis. As of the same date, our retail banking share of total gross loans was 45.0%, followed by corporate with 33.2%, SME with 14.4% and micro with 7.4%.

As of the same date, total customer deposits reached GEL 3,322.4 million, up 15.1% YoY or 10.6% QoQ. The strong increase in total customer deposits was primarily driven by growth in the retail segment. In 4Q and full-year 2014, we successfully managed to further reduce our cost of funding to 4.4% and 4.6%, respectively.

During 4Q 2014, we became the largest retail bank in the country with a market share of 33.7% in retail deposits and 29.7%[1] in retail loans. Our market share in total assets and total loans stood at 26.3% and 27.7%[2], respectively.

We are pleased to have met all the performance targets that were set out at the time of our IPO.

NIM was 8.5% (8.4% excluding one-off interest income) in 2014, compared to 8.4% in 2013. Total non-interest income reached GEL 119.7 million in 2014, up 21.1% YoY. Our cost of risk on loans was 1.6% in 2014, in line with our guidance despite the above-mentioned currency devaluation. On the cost efficiency side, we managed to further decrease our cost to income ratio to 49.4% or 47.0% excluding one-off charges, compared to 52.1% in 2013. As a result, we delivered strong profit for the year at GEL 158.5 million, up 27.5% YoY, and 18.4% return on average equity (ROAE).

Our strong capital base, reinforced through our IPO and solid net income for the year, further supported our growth strategy. The Bank's total capital adequacy ratio (CAR) per Basel I stood at 30.4%, and the total CAR per recently implemented Basel II/III regulation stood at 15.0%, against the minimum requirement of 10.5% (or 13.5% including the capital buffer).

[1] Figures include Bank Constanta.
[2] Figures include Bank Constanta.

Outlook

Despite ongoing geopolitical uncertainty and economic slowdown, the Georgian economy remains one of the top performers in the region.

The high diversification of the economy, decreasing oil prices, and the signed EU Association Agreement (AA), which includes the Deep and Comprehensive Free Trade Area (DCFTA) agreement, further strengthen the country's foundation for continuous development in the coming years.

Through continued implementation of our strategy based on a balanced approach to growth and profitability, our focus remains on delivering continued returns for our shareholders. Furthermore, we expect significant benefits from the merger with Bank Constanta, which was completed in January 2015. The merger will enable us to offer TBC Bank's products in an additional 60 branches and to further expand our business in the fast-growing microfinance segment of the market.

Our medium term targets:

- Despite an expected temporary slowdown in the short term, our medium term target for loan growth remains at 20%;
- Return on equity remains above 18%+;
- Our cost to income ratio (net of one-off costs) is on a decreasing trend towards the 45% target
- We have revised our Capital Adequacy ratio to better utilize our capital and to partially reflect the reduction in the respective requirements per NBG's current regulation. We intend to maintain a solid capital buffer with a targeted 10.5% equity Tier I capital ratio;
- We reiterate our target dividend payout ratio of 25%.

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

Vakhtang Butskhrikidze
Chief Executive Officer

TBC Bank Fourth Quarter and Full Year 2014 Financial Results Conference Call

Wednesday, 18 February 2015

14.00 (GMT) / 15.00 (CET) / 09.00 (EDT)

Hosts:

Vakhtang Butskhrikidze, CEO, and Giorgi Shagidze, CFO

TBC Bank, a leading bank in Georgia, will release its fourth quarter and full year 2014 financial results on Wednesday, 18 February 2015 at 7am GMT (11am GET).

On that day, Vakhtang Butskhrikidze, CEO, and Giorgi Shagidze, CFO, will host a conference call to discuss the results.

Date & time: Wednesday, 18 February at 14.00 (GMT) / 15.00 (CET) / 09.00 (EDT)

Dial in number: **+44 (0)20 3003 2666** (Standard International Access)
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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 4Q and FY 2014

Income Statement Highlights

in thousands of GEL	FY 2014	FY 2013	*Change in %*	4Q'14	3Q'14	4Q'13	*Change YoY*	*Change QoQ*
Net interest income	338,648	282,650	*19.8%*	92,276	85,351	75,985	*21.4%*	*8.1%*
Net fee and commission income	58,682	50,061	*17.2%*	17,620	15,393	15,284	*15.3%*	*14.5%*
Other operating non-interest income	61,004	48,741	*25.2%*	22,416	13,539	13,014	*72.2%*	*65.6%*
Provisioning charges	(49,104)	(42,906)	*14.4%*	(18,652)	(5,361)	(10,912)	*70.9%*	*247.9%*
Operating income after provisions for impairment	**409,229**	**338,546**	***20.9%***	**113,659**	**108,923**	**93,372**	***21.7%***	***4.3%***
Operating expenses	(226,310)	(198,613)	*13.9%*	(67,694)	(56,321)	(55,819)	*21.3%*	*20.2%*
Profit before tax	**182,919**	**139,933**	***30.7%***	**45,965**	**52,602**	**37,553**	***22.4%***	***-12.6%***
Income tax expense	(24,468)	(15,663)	*56.2%*	(5,940)	(7,028)	(2,147)	*176.7%*	*-15.5%*
Profit for the period	**158,451**	**124,270**	***27.5%***	**40,026**	**45,574**	**35,406**	***13.0%***	***-12.2%***

Balance Sheet and Capital Highlights

	31-Dec-14		**30-Sep-14**		**Change QoQ**	**31-Dec-13**		**Change YoY**
In millions of GEL	GEL	USD	GEL	USD		GEL	USD	
Total assets	5,423.5	2,910.2	5,043.6	2,878.1	*7.5%*	4,451.1	2,563.5	*21.8%*
Gross loans	3,706.3	1,988.8	3,230.2	1,843.3	*14.7%*	2,958.6	1,704.0	*25.3%*
Customer deposits	3,322.4	1,782.8	3,002.8	1,713.5	*10.6%*	2,886.9	1,662.7	*15.1%*
Total equity	1,019.5	547.0	974.7	556.2	*4.6%*	729.3	420.0	*39.8%*
Basel I tier 1 capital	967.5	519.2	926.1	528.5	*4.5%*	675.7	389.2	*43.2%*
Basel I risk weighted assets	3,910.8	2,098.5	3,456.3	1,972.3	*13.2%*	3,135.5	1,805.9	*24.7%*
Basel II/III Tier 1 capital	783.4	420.3	743.6	424.3	*5.3%*	526.2	303.1	*48.9%*
Basel II/III risk weighted assets	6,296.7	3,378.8	5,486.8	3,131.0	*14.8%*	4,901.0	2,822.7	*28.5%*

Key Ratios

	FY 2014	FY 2013	*Change YoY*	4Q'14	3Q'14	4Q'13	*Change YoY*	*Change QoQ*
ROAE	18.4%	18.7%	*-0.2pp*	16.0%	19.2%	19.8%	*-3.8pp*	*-3.2pp*
ROAA	3.3%	3.1%	*0.2pp*	3.1%	3.7%	3.4%	*-0.3pp*	*-0.6pp*
Pre-provision ROAE	24.2%	25.3%	*-1.1pp*	23.5%	21.4%	26.0%	*-2.5pp*	*2.0pp*
Cost to income	49.4%	52.1%	*-2.7pp*	51.2%	49.3%	53.5%	*-2.4pp*	*1.9pp*
Cost of risk	1.6%	1.3%	*0.3pp*	1.9%	0.7%	1.3%	*0.6pp*	*1.2pp*
NPL to gross loans	0.5%	1.1%	*-0.5pp*	0.5%	0.9%	1.1%	*-0.5pp*	*-0.4pp*
Basel I total CAR	30.4%	28.6%	*1.7pp*	30.4%	33.0%	28.6%	*1.7pp*	*-2.6pp*
Basel II/III total CAR	15.0%	14.4%	*0.7pp*	15.0%	16.7%	14.4%	*0.7pp*	*-1.6pp*
Leverage (times)	5.3	6.1	*-0.8*	5.3	5.2	6.1	*-0.8*	*0.1*

Income Statement Discussion

Net Interest Income

in thousands of GEL	FY 2014	FY 2013	*Change in %*	4Q'14	3Q'14	4Q'13	*Change YoY*	*Change QoQ*
Loans and advances to customers	465,520	433,968	*7.3%*	124,022	116,506	110,908	*11.8%*	*6.5%*
Investment securities available for sale	30,361	30,442	*-0.3%*	7,676	7,951	7,118	*7.8%*	*-3.5%*
Due from other banks	6,211	3,030	*105.0%*	1,949	1,563	442	*341.2%*	*24.7%*
Investments in leases	10,265	7,356	*39.6%*	3,133	2,566	2,242	*39.7%*	*22.1%*
Interest income	**512,357**	**474,796**	***7.9%***	**136,780**	**128,585**	**120,710**	***13.3%***	***6.4%***
Customer accounts	110,041	139,913	*-21.4%*	28,075	27,154	30,838	*-9.0%*	*3.4%*
Due to credit institutions	43,384	38,645	*12.3%*	10,771	10,782	10,692	*0.7%*	*-0.1%*
Subordinated debt	19,069	13,182	*44.7%*	5,136	4,965	3,044	*68.8%*	*3.4%*
Debt Securities in issue	928	237	*292.2%*	436	259	87	*401.8%*	*68.3%*
Other	287	169	*69.8%*	86	73	64	*33.9%*	*17.6%*
Interest expense	**173,709**	**192,146**	***-9.6%***	**44,505**	**43,234**	**44,725**	***-0.5%***	***2.9%***
Net interest income	**338,648**	**282,650**	***19.8%***	**92,276**	**85,351**	**75,985**	***21.4%***	***8.1%***
Net interest margin	**8.5%**	**8.4%**	***0.1pp***	**8.5%**	**8.3%**	**8.5%**	***-0.1pp***	***0.2pp***

2014 to 2013 Comparison

Net interest income increased by 19.8% to GEL 338.6 million, compared to 2013, driven by 7.9% higher interest income and 9.6% lower interest expense.

The 7.9% YoY increase in interest income to GEL 512.4 million in 2014 was mainly due to the increase in interest income from loans to customers, primarily related to the average gross loan portfolio increase by 19.6% YoY, which more than offset the decline in loan yields over the same period from 16.6% to 14.9%, aligned with declining interest rates in the country. The second largest increase in interest income in absolute terms came from interest income from due from other banks, primarily due to an increase in the size of the respective average portfolio as well as the increased yields on such placements. Yields on average interest earning assets decreased by 1.3pp to 12.8%, compared to 14.1% in 2013.

Interest expense decreased by 9.6% YoY to GEL 173.7 million in 2014, mainly due to lower interest expense on customer accounts. The latter decreased primarily due to the lower cost of client deposits at 3.7% (2013: 5.5%), which resulted from the management's efforts to optimize the 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 15.2% increase in the average customer deposit portfolio. As a result of reduced interest rates on clients' deposits and other borrowed funds (6.9% in 2014 compared to 7.6% in 2013), the Bank's cost of funding ratio declined by 1.3pp to 4.6% in 2014, compared to 5.9% in 2013.

Consequently, NIM was 8.5% in 2014, compared to 8.4% in 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, 2014 NIM would have been unchanged on 2013 at 8.4%.

4Q 2014 and 4Q 2013 Comparison

In 4Q 2014, net interest income increased by 21.4% to GEL 92.3 million, compared to 4Q 2013, driven by 13.3% higher interest income and 0.5% lower interest expense.

The interest income increase of GEL 16.1 million, or 13.3%, to GEL 136.8 million in 4Q 2014 was mainly due to the increase in interest income from loans to customers, primarily related to the average gross loan portfolio increase by 25.1% YoY, which more than offset the decline in loan yields over the same period from 16.0% to 14.3%, aligned with the declining interest rates in the country that were mentioned above. This more than offset the increase in average rates on due from other banks and investment securities available for sale. As a result, yields on average interest earning assets decreased to 12.6% from 13.6% in 4Q 2013.

The slight YoY decrease in interest expense by GEL 0.2 million, or 0.5%, was primarily driven by the reduced interest expense on customer deposits by GEL 2.8 million, or 9.0%, which mainly resulted from the reduction in the cost of client deposits by 1.0pp to 3.5% in 4Q 2014 (4Q 2013: 4.5%). The reduced deposit rates more than offset the increase in the average customer deposit portfolio by 17.9% YoY. The decrease in interest expense on customer deposits was partially offset by an increase in interest expense on subordinated debt by GEL 2.1 million, mainly due to the increase in the rates on subordinated loans.

As a result, NIM was broadly flat in 4Q 2014 compared to the same quarter of the previous year at 8.5%.

4Q 2014 and 3Q 2014 Comparison

On a QoQ basis, net interest income increased by 8.1% as a result of 6.4% higher interest income and 2.9% higher interest expense.

The GEL 8.2 million, or 6.4%, QoQ increase in interest income mainly resulted from the increase in interest income on loans, which in turn was due to the 10.7% QoQ increase in the average gross loan portfolio and which was partially offset by 0.6pp QoQ decrease in average loan yields. The increase in interest income was also driven by an increase in interest income from investments in leases, which resulted from from the 14.7% QoQ increase in the respective average portfolio and the increase in its yields by 1.6pp to 25.8%. Yields on average interest earning assets increased by 0.1pp in 4Q 2014, compared to the previous quarter.

The GEL 1.3 million, or 2.9% QoQ, increase in interest expense was due to the increase in interest expense on customer accounts by GEL 0.9 million, or 3.4%, mainly due to the 7.0% QoQ increase in the average customer deposits portfolio. The increase in interest expense was also due to the increase in interest expense from debt securities in issue and subordinated debt, which resulted from the exchange rate effect and the increased interest rate on subordinated debt. As a result, the cost of funding reduced by 0.1pp QoQ.

On a QoQ basisi, NIM increased by 0.2pp.

Reclassification of income from Other Operating Income to Fee and Commission Income

The bank has reclassified operating income of its subsidiaries TBC Pay and UFC from Other Operating Income to Fee and Commission Income. The following table gives appropriate details of the adjustment.

in thousands of GEL	Financial statement line item	As previously reported	As reclassified
2013 Year	**Fee and Commission Income**		
	Fee and commission income from settlement	11,856	18,543
	Fee and commission income from card operations	31,834	33,012
	Other Operating Income		
	Revenues from cash-in terminal services	7,446	759
	Other operating income	4,576	3,398
Q3 2014	**Fee and Commission Income**		
	Fee and commission income from settlement	5,738	6,108
	Fee and commission income from card operations	7,009	9,121
	Other Operating Income		
	Revenues from cash-in terminal services	579	210
	Other operating income	2,592	479
Q4 2013	**Fee and Commission Income**		
	Fee and commission income from settlement	4,963	5,335
	Fee and commission income from card operations	7,174	9,132
	Other Operating Income		
	Revenues from cash-in terminal services	523	152
	Other operating income	3,448	1,491

Fee and Commission Income

in thousands of GEL	FY 2014	FY 2013	*Change in %*	4Q'14	3Q'14	4Q'13	*Change YoY*	*Change QoQ*
Card operations	35,247	33,012	*6.8%*	10,723	9,121	9,132	*17.4%*	*17.6%*
Settlement transactions	23,893	18,543	*28.9%*	6,653	6,108	5,335	*24.7%*	*8.9%*
Guarantees issued	9,140	6,271	*45.7%*	2,665	2,114	1,060	*151.4%*	*26.1%*
Issuance of letters of credit	6,889	6,769	*1.8%*	1,954	1,729	1,939	*0.8%*	*13.0%*
Cash transactions	6,507	5,040	*29.1%*	2,121	1,845	1,440	*47.3%*	*15.0%*
Foreign exchange operations	1,169	1,550	*-24.6%*	308	279	419	*-26.5%*	*10.3%*
Other	5,359	3,177	*68.7%*	1,773	1,425	1,005	*76.4%*	*24.4%*
Fee and commission income	**88,204**	**74,362**	***18.6%***	**26,198**	**22,621**	**20,329**	***28.9%***	***15.8%***
Card operations	16,053	13,143	*22.1%*	5,151	3,769	3,630	*41.9%*	*36.7%*
Guarantees received	1,173	769	*52.6%*	287	378	(1,888)	*-115.2%*	*-24.2%*
Cash transactions	2,592	1,544	*67.9%*	635	696	463	*37.2%*	*-8.7%*
Settlement transactions	2,594	2,157	*20.3%*	877	538	593	*47.9%*	*63.1%*
Foreign exchange operations	62	70	*-11.2%*	16	15	16	*2.5%*	*6.2%*
Letters of credit	2,988	3,279	*-8.9%*	663	749	1,159	*-42.8%*	*-11.4%*
Other	4,061	3,339	*21.6%*	949	1,083	1,073	*-11.5%*	*-12.4%*
Fee and commission expense	**29,523**	**24,301**	***21.5%***	**8,578**	**7,228**	**5,045**	***70.1%***	***18.7%***
Net Fee and Commission Income	**58,682**	**50,061**	***17.2%***	**17,620**	**15,393**	**15,284**	***15.3%***	***14.5%***

2014 to 2013 Comparison

In 2014, net fee and commission income reached GEL 58.7 million, up by GEL 8.6 million, or 17.2% compared to 2013. This mainly resulted from an increase in net fee and commission income from settlement transactions by GEL 4.9 million and from guarantees by GEL 2.5 million, driven by the growing scale of the business. The net fee and commission income from card operations decreased by GEL 0.7 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 2.7 million in 2014, the net fee and commission income would have increased by GEL 11.3 million, or 22.6%, compared to the previous year.

4Q 2014 and 4Q 2013 Comparison

In 4Q 2014, net fee and commission income increased by GEL 2.3 million, or 15.3%, compared to 4Q 2013, mainly due to an increase of GEL 1.0 million in net fee and commission income from settlement transactions. In addition, net fee and commission incomes from issuance of letter of credit and from cash transactions increased by GEL 0.5 million each. Net fee and commission income from card operations increased by GEL 0.1 million. Excluding the GEL 0.4 million card fee deferral recorded in 4Q 2014, net fee and commission income would have increased by GEL 2.7 million, or 17.9%, compared to the same quarter of the previous year.

4Q 2014 and 3Q 2014 Comparison

On a QoQ basis, net fee and commission income increased by GEL 2.2 million, or 14.5%, compared to 3Q 2014, resulting from the increase in most of its components. Net fee and commission income from guarantees, letters of credit, cash transactions, card operations and settlement transactions increased by GEL 0.6 million, GEL 0.3 million, GEL 0.3 million, GEL 0.2 million and GEL 0.2 million respectively. Net fee and commission income from foreign exchange operations remained broadly stable on a QoQ basis.

Other Operating Non-interest Income

In 4Q 2014 the Bank reclassified other operating income to fee and commission income as described above.

in thousands of GEL	**FY 2014**	**FY 2013**	***Change in %***	**4Q'14**	**3Q'14**	**4Q'13**	***Change YoY***	***Change QoQ***
Gains less losses from trading in foreign currencies and foreign exchange translations	42,090	31,993	*31.6%*	15,782	10,144	8,103	*94.8%*	*55.6%*
Gains less losses/(losses less gains) from derivative financial instruments	(683)	613	*NMF*	(299)	162	(57)	*NMF*	*NMF*
Revenues from sale of cash-in terminals	851	759	*12.0%*	239	210	152	*57.6%*	*14.0%*
Revenues from operational leasing	6,997	2,980	*134.8%*	1,957	1,806	1,193	*64.1%*	*8.4%*
Gain from sale of investment properties	5,795	5,835	*-0.7%*	2,699	63	1,139	*137.0%*	*4197.2%*
Gain from sale of inventories of repossessed collateral	1,644	1,519	*8.2%*	550	415	546	*0.8%*	*32.6%*
Administrative fee income from international financial institutions	982	1,268	*-22.6%*	252	199	362	*-30.4%*	*26.5%*
Revenues from non-credit related fines	236	339	*-30.4%*	183	35	50	*264.3%*	*418.6%*
Gain on disposal of premises and equipment	126	37	*241.9%*	41	26	37	*11.0%*	*55.3%*
Other	2,966	3,398	*-12.7%*	1,012	479	1,491	*-32.1%*	*111.3%*
Other operating income	**19,598**	**16,135**	***21.5%***	**6,934**	**3,233**	**4,969**	***39.5%***	***114.5%***
Other operating non-interest income	**61,004**	**48,741**	***25.2%***	**22,416**	**13,539**	**13,014**	***72.2%***	***65.6%***

2014 to 2013 Comparison

Total other operating non-interest income increased by GEL 12.3 million, or 25.2% to GEL 61.0 million in 2014, compared to the previous year. This increase was mainly driven by the GEL 10.1 million increase in gains from trading in foreign currencies and foreign exchange translations related to increased volumes of currency exchange operations and the increased margins on such operations, partially driven by the currency exchange rate volatility in 4Q 2014. Total other operating non-interest income was also supported by the increase in revenues from operational leasing (rental income from investment property) by GEL 4.0 million. These increases were partially offset by the loss of GEL 0.7 million from the fair valuation of interest rate swaps (reported under gains less losses from derivative financial instruments) entered for purposes of hedging interest rate increases in TBC's banking book. This loss compares to a gain of GEL 0.6 million in 2013.

4Q 2014 and 4Q 2013 Comparison

In 4Q 2014, other operating non-interest income increased by GEL 9.4 million, or 72.2%, primarily driven by the GEL 7.7 million higher gains from trading in foreign currencies and foreign exchange translations in 4Q 2014 described above. The increases in other operating non-interest income also came from the increased gains from sale of investment properties, up GEL 1.6 million due to higher sales of investment properties in Q4 2014 compared to Q4 2013 and from revenues from operational leasing, up GEL 0.8 million. These increases were partially offset by the loss in derivative financial instruments described above of GEL 0.3 million in 2014, compared to the loss of GEL 0.1 million in 4Q 2013.

4Q 2014 and 3Q 2014 Comparison

On a QoQ basis, other operating non-interest income increased by GEL 8.9 million, or 65.6%, primarily reflecting the GEL 5.6 million increase in gains from trading in foreign currencies and foreign exchange translations in 4Q 2014 described above, as well as the increase in the gains from sale of investment properties due to the higher sales of such properties in 4Q 2014. These increases were partially offset by the loss in derivative financial instruments described above of GEL 0.3 million in 4Q 2014, compared to the gain of GEL 0.2 million in 3Q 2014.

Provision for Impairment

in thousands of GEL	**FY 2014**	**FY 2013**	***Change in %***	**4Q'14**	**3Q'14**	**4Q'13**	***Change YoY***	***Change QoQ***
Provision for loan impairment	48,672	32,971	*47.6%*	16,198	5,521	9,026	*79.5%*	*193.4%*
Provision for impairment of investments in finance lease	77	98	*-21.9%*	-89	56	27	*-428.6%*	*-259.9%*
Provision for/ (recovery of provision) performance guarantees and credit related commitments	-902	6,459	*-114.0%*	1,875	-164	-679	*-376.1%*	*-1245.0%*
Provision for impairment of other financial assets	1,236	2,236	*-44.7%*	669	-52	1,401	*-52.3%*	*-1396.7%*
Impairment of investment securities available for sale	22	1,142	*-98.1%*	0	0	1,137	*-100.0%*	*-100.0%*
Total provision charges for impairment	**49,104**	**42,906**	***14.4%***	**18,652**	**5,361**	**10,912**	***70.9%***	***247.9%***
Operating income after provisions for impairment	**409,229**	**338,546**	***20.9%***	**113,659**	**108,923**	**93,372**	***21.7%***	***4.3%***
Cost of Risk	**1.6%**	**1.3%**	***0.3pp***	**1.9%**	**0.7%**	**1.3%**	***0.6pp***	***1.2pp***

2014 to 2013 Comparison

In 2014, total provision charges increased by GEL 6.2 million, or 14.4%, compared to 2013. The increase was driven by the increased charges on loans, due to the portfolio growth in 2014 and currency rate devaluation against U.S. Dollar (63% of our gross loan book is denominated in foreign currency, of which USD loans represent 96%).

The increase in provision charges was partially offset by the recovery of provisions on performance guarantees and credit related commitments in 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 in 2014.

In 2014, the cost of risk on loans was 1.6%, compared to 1.3% in the previous year.

4Q 2014 and 4Q 2013 Comparison

In 4Q 2014, total provision charges increased by GEL 7.7 million to GEL 18.7 million, compared to 4Q 2013. The increase was principally driven by the GEL 7.2 million higher provision charges on loans, affected by the currency rate devaluation mentioned above and the recovery of provisions on retail loans in 4Q 2013.

As a result, the cost of risk on loans increased to 1.9% in 4Q 2014, compared to 1.3% in 4Q 2013.

4Q 2014 and 3Q 2014 Comparison

On a QoQ basis, total provision charges increased by GEL 13.3 million, primarily resulting from a GEL 10.7 million increase in loan provision charges, which was due to the portfolio growth in 4Q 2014 as well as local currency depreciation against U.S. Dollar. As a result, the cost of risk on loans increased by 1.2pp, compared to the 0.7% cost of risk in 3Q 2014.

Operating Expenses

in thousands of GEL	**FY 2014**	**FY 2013**	***Change in %***	**4Q'14**	**3Q'14**	**4Q'13**	***Change YoY***	***Change QoQ***
Staff costs	**122,835**	**108,613**	***13.1%***	**37,260**	**29,575**	**30,891**	***20.6%***	***26.0%***
Depreciation and amortisation	**24,427**	**19,993**	***22.2%***	**8,194**	**5,541**	**4,954**	***65.4%***	***47.9%***
Provision for liabilities and charges	**5,500**	**1,315**	***318.3%***	**720**	**4,780**	**1,315**	***-45.2%***	***-84.9%***
Professional services	*11,969*	*6,247*	*91.6%*	*3,519*	*1,251*	*3,696*	*-4.8%*	*181.2%*
Advertising and marketing services	*14,121*	*13,211*	*6.9%*	*4,701*	*3,027*	*2,924*	*60.8%*	*55.3%*
Rent	*11,943*	*10,809*	*10.5%*	*3,143*	*3,010*	*2,760*	*13.9%*	*4.4%*
Utility services	*3,680*	*3,369*	*9.2%*	*942*	*900*	*839*	*12.2%*	*4.7%*
Intangible asset enhancement	*4,371*	*3,767*	*16.0%*	*1,025*	*1,353*	*1,236*	*-17.1%*	*-24.3%*
Taxes other than on income	*3,899*	*3,043*	*28.1%*	*979*	*974*	*1,084*	*-9.7%*	*0.5%*
Communications and supply	*3,455*	*3,103*	*11.3%*	*994*	*861*	*842*	*18.1%*	*15.4%*
Stationary and other office expenses	*2,632*	*2,360*	*11.5%*	*805*	*624*	*633*	*27.3%*	*29.1%*
Insurance	*1,898*	*1,496*	*26.9%*	*433*	*554*	*386*	*12.3%*	*-21.9%*
Security services	*1,578*	*1,597*	*-1.2%*	*424*	*399*	*388*	*9.3%*	*6.1%*
Premises and equipment maintenance	*1,893*	*2,484*	*-23.8%*	*694*	*465*	*580*	*19.5%*	*49.1%*
Business trip expenses	*1,610*	*1,230*	*30.9%*	*539*	*297*	*577*	*-6.7%*	*81.4%*
Transportation and vehicles maintenance	*1,216*	*1,215*	*0.1%*	*330*	*314*	*318*	*3.9%*	*5.3%*
Charity	*898*	*905*	*-0.8%*	*141*	*259*	*268*	*-47.4%*	*-45.5%*
Personnel training and recruitment	*919*	*902*	*1.9%*	*405*	*254*	*403*	*0.6%*	*59.7%*
Write-down of current assets to fair value less costs to sell	*190*	*6,178*	*-96.9%*	*-48*	*337*	*-723*	*-93.3%*	*-114.3%*
Loss on disposal of Inventory	*208*	*221*	*-5.8%*	*7*	*5*	*221*	*-97.1%*	*38.2%*
Loss on disposal of investment properties	*0*	*76*	*-100.0%*	*0*	*-1*	*76*	*-100.6%*	*-23.3%*
Loss on disposal of premises and equipment	*18*	*54*	*-65.9%*	*5*	*9*	*28*	*-83.9%*	*-49.3%*
Other	*7,047*	*6,425*	*9.7%*	*2,484*	*1,531*	*2,124*	*17.0%*	*62.2%*
Administrative and other operating expenses	**73,548**	**68,692**	***7.1%***	**21,520**	**16,424**	**18,659**	***15.3%***	***31.0%***
Operating expenses	**226,310**	**198,613**	***13.9%***	**67,694**	**56,321**	**55,819**	***21.3%***	***20.2%***
Profit before tax	**182,919**	**139,933**	***30.7%***	**45,965**	**52,602**	**37,553**	***22.4%***	***-12.6%***
Income tax expense	**24,468**	**15,663**	***56.2%***	**5,940**	**7,028**	**2,147**	***176.7%***	***-15.5%***
Profit for the period	**158,451**	**124,270**	***27.5%***	**40,026**	**45,574**	**35,406**	***13.0%***	***-12.2%***
Cost to income ratio	**49.4%**	**52.1%**	***-2.7pp***	**51.2%**	**49.3%**	**53.5%**	***-2.4pp***	***1.9pp***
ROAE	**18.4%**	**18.7%**	***-0.2pp***	**16.0%**	**19.2%**	**19.8%**	***-3.8pp***	***-3.2pp***
ROAA	**3.3%**	**3.1%**	***0.2pp***	**3.1%**	**3.7%**	**3.4%**	***-0.3pp***	***-0.6pp***

2014 to 2013 Comparison

In 2014, total operating expenses increased by GEL 27.7 million, or 13.9% YoY, of which GEL 10.7 million represented one-off charges related to the IPO (GEL 5.2 million), the settlement of Bank Constanta claims[3] (GEL 4.8 million) and the costs associated with the merger with Bank Constanta (GEL 0.7 million).

Without these one-off costs, total operating expenses would have increased by GEL 17.0 million, or 8.6% in 2014, compared to the previous year. The GEL 17.0 million increase was mainly due to the increase in staff costs by GEL 14.2 million, or 13.1% YoY (Bank Constanta accounted for GEL 3.4 million, or 24.2%, 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). The increase in operating expenses was also due to the increase in depreciation and amortization expenses that was partially driven by the change in accounting practices of Bank Constanta during premerger preparation, and partially by assets growth at large. These increases were partially offset by the reduced loss on revaluation of repossessed assets, which amounted to GEL 0.2 million loss in 2014, compared to GEL 7.1 million loss in 2013.

As a result, the cost to income ratio was 49.4% (47.0% without one-off charges) in 2014, compared to 52.1% in 2013.

4Q 2014 and 4Q 2013 Comparison

In 4Q 2014, operating expenses increased by GEL 11.9 million, or 21.3%, to GEL 67.7 million, compared to 4Q 2013. This increase was primarily effected by a GEL 6.4 million increase in staff costs, which was primarily related to a 14.5% increase in staff numbers and increased salaries and bonuses and various HR management associated costs on a TBC Group level (Bank Constanta accounted for GEL 1.0 million, or 15.7% of the total staff cost increase aligned with the growth of Bank Constanta's business). The increase in operating expenses also came from depreciation and amortization expenses due to the merger preparation period described above and one-off charges of GEL 0.7 million associated with the merger with Bank Constanta.

4Q 2014 and 3Q 2014 Comparison

On a QoQ basis, operating expenses increased by GEL 11.4 million, or 20.2%, compared to 3Q 2014. Without the one off-costs in 3Q 2014 related to the Constanta settlement case (GEL 4.8 million) and IPO expenses (GEL 0.3 million) and one-off costs in 4Q 2014 related to the Bank Constanta merger, total operating expenses would have increased by GEL 15.8 million, or 30.8% mainly due to the seasonally high cost Q4. More specifically, the increase was due to a GEL 7.7 million increase in salaries, depreciation and amortization expenses associated with the merger preparation period of GEL 2.7 million, as well as higher professional services and marketing expenses in Q4.

As a result, the cost to income ratio was up 1.9pp QoQ, and up 5.8pp QoQ excluding one-off charges in 3Q and 4Q 2014.

[3] In July 2014, TBC 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 millions of GEL	31-Dec-14	30-Sep-14	31-Dec-13	*Change QoQ*	*Change YoY*
Cash, due from banks and mandatory cash balances with NBG	901.9	895.1	687.5	*0.8%*	*31.2%*
Loans and advances to customers (Net)	3,556.5	3,084.1	2,801.7	*15.3%*	*26.9%*
Financial securities	466.5	567.2	500.7	*-17.7%*	*-6.8%*
Fixed and intangible assets & investment property	322.7	306.0	306.5	*5.4%*	*5.3%*
Other assets	175.9	191.2	154.7	*-8.0%*	*13.7%*
Total assets	**5,423.5**	**5,043.6**	**4,451.1**	***7.5%***	***21.8%***
Due to credit institutions	749.3	760.3	565.8	*-1.5%*	*32.4%*
Customer accounts	3,322.4	3,002.8	2,886.9	*10.6%*	*15.1%*
Debt Securities in issue	20.4	14.7	4.5	*38.6%*	*356.5%*
Subordinated Debt	188.0	180.7	168.3	*4.0%*	*11.7%*
Other liabilities	123.8	110.3	96.3	*12.3%*	*28.5%*
Total Liabilities	**4,404.0**	**4,068.9**	**3,721.8**	***8.2%***	***18.3%***
Total equity	**1,019.5**	**974.7**	**729.3**	***4.6%***	***39.8%***

Assets

As of 31 December 2014, TBC had total assets of GEL 5,423.5 million, up by GEL 972.4 million, or 21.8% YoY. This increase in total assets was mainly due to the increase in net loans to customers by GEL 754.8 million, or 26.9%. The YoY increase in total assets was also due to a GEL 176.0 million, or 14.9% 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), compared to 31 December 2013.

On a QoQ basis, total assets increased by GEL 379.9 million, or 7.5%, primarily due to a GEL 472.4 million, or 15.3%, increase in net loans and advances to customers to GEL 3,556.5 million. This increase was in turn driven mainly by growth in retail and corporate net portfolios, along with the growth in SME and micro segments. This trend was partially offset by a decrease in liquid assets by 5.9% to GEL 1,358.6 million. As a result, our liquid assets to liability ratio decreased to 30.8%, compared to 35.5% as of 30 September 2014.

As of 31 December 2014, the gross loan portfolio reached 3,706.3 million, up 25.3% YoY and 14.7% QoQ. At the same time, gross loans denominated in foreign currency accounted for 63.2% of total gross loans, compared to 69.3% at 31 December 2013 and 64.1% at 30 September 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 0.5%, compared to 1.1% and 0.9% as of 31 December 2013 and 30 September 2014, respectively. The NPL+restructured ratio was 3.7%, compared to 4.8% and 4.1% as of 31 December 2013 and 30 September 2014, respectively, and the NPL+restructured loans coverage ratio was 109.4%, compared to 110.6% as of 31 December 2013 and 111.6% as of 30 September 2014.

Liabilities

As of 31 December 2014, TBC had total liabilities of GEL 4,404.0 million, up 18.3% YoY and 8.2% QoQ.

On a YoY basis, the GEL 682.2 million, or 18.3%, increase in total liabilities was primarily due to the GEL 435.5 million, or 15.1%, increase in customer deposits, which was primarily driven by the increase in retail deposits, as well as due to a GEL 183.5 million increase in due to credit institutions, which resulted from increases in other borrowed funds by GEL 144.7 million and in due to other banks by GEL 38.7 million. The increase in total liabilities was also driven by the issuance of bonds in 2014 by our subsidiaries TBC Kredit and TBC Leasing in the amounts of USD 5.0 million and USD 2.0 million, respectively.

On a QoQ basis, the GEL 335.1 million, or 8.2% increase in total liabilities was primarily due to the GEL 319.6 million, or 10.6% increase in customer accounts.

Liquidity

The Bank's liquidity ratio, as defined by the National Bank of Georgia, was 31.1%, compared to 34.0% and 37.7% as of 31 December 2013 and 30 September 2014, respectively.

Total Equity

As of 31 December 2014, TBC had total equity of GEL 1,019.5 million, compared to GEL 729.3 million as of 31 December 2013 and GEL 974.7 million as of 30 September 2014. The YoY increase in total equity was primarily driven by the net income attributable to owners of the bank of GEL 157.5 million and the IPO gross proceeds of GEL 175.6 million. These increases were partially offset by the 2013 dividend payout in Q1 2014 of GEL 26.5 million.

Regulatory Capital

As of 31 December 2014, the Bank's Basel II/III[4] tier 1 and total capital adequacy ratios (CAR) were 12.4% and 15.0%, respectively, compared to 10.7% and 14.4% as of 31 December 2013, and 13.6% and 16.7% as of 30 September 2014. The decrease in CAR ratios on a QoQ basis was due to the 14.8% increase in risk weighted assets associated with the increased gross loans and the local currency devaluation. 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 783.4 million, compared to GEL 526.2 million as of 31 December 2013 and GEL 743.6 million as of 30 September 2014. Risk weighted assets were GEL 6,296.7 million as of 31 December 2014, up GEL 1,395.7 million YoY and up GEL 809.9 million QoQ.

The Bank's Basel I tier 1 capital ratio was 24.7%, compared to 21.6% and 26.8%% as of 31 December 2013 and 30 September 2014, respectively. Tier 1 capital reached GEL 967.5 million, compared to 675.7 million and 926.1 million as of 31 December 2013 and 30 September 2014, respectively. Risk weighted assets were GEL 3,910.8 million as of 31 December 2014, up GEL 775.3 YoY and GEL 454.5 million QoQ.

[4] Starting from June 2014 National Bank of Georgia enforced Basel II/III regulation

Market Shares[5]

Asset Market Shares

TBC Bank’s market share in total assets increased by 1.0pp YoY and 0.4pp QoQ, attaining 26.3% as of 31 December 2014.

Loans Market Shares

TBC Bank’s market share in total loans was 27.7% as of 31 December 2014, up 0.4pp YoY and 0.7pp QoQ.

In terms of individual loans, the Bank became the largest bank in individual loans with 29.7% of market share as of 31 December 2014, up 2.0pp YoY and 1.1pp QoQ. The market share in legal entity loans was 25.8%, down 1.1pp YoY and up 0.3pp QoQ.

Deposits Market Shares

TBC Bank’s market share in total deposits was 28.4% as of 31 December 2014, down 1.1pp YoY and up 0.6pp QoQ.

The Bank maintains its longstanding leadership in individual deposits with a market share of 33.7%, up 0.7pp YoY and up 0.5pp QoQ. In terms of legal entity deposits, TBC Bank had market share of 23.0%, down 2.9pp YoY and up 0.6pp QoQ. The Bank uses corporate deposits mainly for liquidity management purposes.

[5] Market shares are based on National Bank of Georgia (NBG) and include Bank Constanta

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 2014:

In thousands of GEL	Retail	Corporate	SME	Micro	Corp. Center	Total
31-Dec-14						
interest income	237,804	116,404	53,739	57,573	46,837	**512,357**
interest expense	-80,808	-21,845	-7,196	-192	-63,668	**-173,709**
Intersegment interest income/(expense)	7,499	-42,246	-3,640	-18,468	56,855	**-**
Net interest income	**164,495**	**52,313**	**42,903**	**38,913**	**40,024**	**338,648**
Fee and commission income	46,368	18,093	9,268	3,498	10,976	**77,865**
Fee and commission expense	-26,230	-1,312	-906	-911	-164	**-29,523**
Net Fee and commission income	**20,138**	**16,781**	**8,362**	**2,587**	**10,812**	**58,680**
Gains less losses from trading in foreign currencies	9,932	12,456	13,286	1,820	2,236	**39,730**
Foreign exchange translation losses less gains	-	-	-	-	2,359	**2,359**
Net gain from derivative financial instruments	-	-	-	-	-683	**-683**
Other operating income	-	-	-	-	19,600	**19,600**
Other operating noninterest income	**9,932**	**12,456**	**13,286**	**1,820**	**23,512**	**61,006**
Provision for loan impairment	-22,046	-18,995	-1,625	-6,006	-	**-48,672**
Provision for performance guarantees and credit related commitments	-	885	17	-	-	**902**
Provision for impairment of investments in finance lease	-	-	-	-	-77	-77
Provision for impairment of other financial assets	-	-	-	-	-1,236	**-1,236**
Impairment of investment securities available for sale	-	-	-	-	-22	-22
Profit before administrative and other expenses and income taxes	**172,519**	**63,440**	**62,943**	**37,314**	**73,013**	**409,229**
Staff costs	-55,427	-11,826	-10,755	-15,808	-29,019	**-122,835**
Depreciation and amortisation	-13,132	-780	-1,915	-3,579	-5,021	**-24,427**
Provision for liabilities and charges	-	-	-	-	-5,500	**-5,500**
Administrative and other operating expenses	-36,026	-4,432	-4,981	-9,600	-18,509	**-73,548**
Operating expenses	**-104,585**	**-17,038**	**-17,651**	**-28,987**	**-58,049**	**-226,310**
Profit before tax	**67,934**	**46,402**	**45,292**	**8,327**	**14,964**	**182,919**
Income tax expense	-9,087	-6,207	-6,059	-1,114	-2,001	-24,468
Profit for the year	**58,847**	**40,195**	**39,233**	**7,213**	**12,963**	**158,451**

The following table sets out loans and customer deposits portfolios of TBC's segments as of 31 December 2014, 30 September 2014 and 31 December 2013:

In thousands of GEL	31-Dec-14	30-Sep-14	31-Dec-13
Loans and Advances to Customers			
Consumer	*781,043*	*676,337*	*603,434*
Mortgage	*716,868*	*627,531*	*499,428*
Pawn	*169,002*	*142,361*	*104,652*
Retail	1,666,913	1,446,229	1,207,514
Corporate	1,231,729	1,084,219	1,157,334
SME	533,919	460,727	392,446
Micro	273,699	239,034	201,287
Total loans and advances to customers (gross)	**3,706,261**	**3,230,209**	**2,958,581**
Less: Provision for loan impairment	-149,764	-146,145	-156,869
Total loans and advances to customers (net)	**3,556,496**	**3,084,064**	**2,801,712**
Customer Accounts			
Retail	1,977,173	1,788,244	1,610,676
Corporate	832,555	746,345	819,779
SME	507,816	463,078	451,985
Micro	4,884	5,142	4,443
Total customer accounts	**3,322,428**	**3,002,810**	**2,886,883**

Retail Banking

Retail Loans and Advances to Customers

As of 31 December 2014, retail loans stood at GEL 1,666.9 million, up by 38.0% YoY and 15.3% QoQ. As of this date, TBC Bank's market share in individual loans was 29.7%.

As of 31 December 2014, foreign currency loans represented 56.2% of total retail loan portfolio.

Retail Customer Deposits

As of 31 December 2014, retail deposits increased to GEL 1,977.2 million, up 22.8% YoY and 10.6% QoQ. TBC's market share in individual deposits was 33.7% as of the same date.

Term deposits represented 65.4% of the total retail deposit portfolio as of 31 December 2014. Foreign currency deposits represented 84.3% of total retail deposit portfolio.

Retail Segment Profitability

In 2014, retail loan yields and deposit rates stood at 17.4% and 4.6%, respectively, and the segment's cost of risk was 1.6%. The retail segment contributed to 37.1%, or GEL 58.8 million, to TBC's total net income in 2014.

Corporate Banking

Corporate Loans and Advances to Customers

As of 31 December 2014, corporate loans amounted to GEL 1,231.7 million, up by 6.4% YoY and 13.6% QoQ. As of the same date, foreign currency loans represented 69.6% of the total corporate loan portfolio.

Corporate Customer Deposits

As of 31 December 2014, corporate deposits were GEL 832.6 million, up 1.6% YoY and 11.6% QoQ. As of the same date, foreign currency corporate deposits represented 41.7% of the total corporate deposit portfolio.

Corporate Segment Profitability

In 2014, corporate loan yields and deposit rates stood at 10.7% and 3.0%, respectively. In the same period, the cost of risk was 1.8%. In terms of profitability, the corporate segment's net profit reached GEL 40.2 million, or 25.4% of TBCs total net income.

SME Banking

SME Loans and Advances to Customers

As of 31 December 2014, SME loans increased to GEL 533.9 million, up by 36.0% YoY and 15.9% QoQ. Despite the absence of SME market information[6], 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 31 December 2014, foreign currency loans represented 84.3% of the total SME portfolio.

SME Customer Deposits

As of 31 December 2014, SME deposits were GEL 507.8 million, up by 12.4% YoY and 9.7% 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 54.0% of total SME deposit portfolio.

SME Segment Profitability

In 2014, SME loan yields and deposit rates stood at 12.3% and 1.6%, respectively. In the same period, cost of risk was 0.4%. In terms of profitability, the SME segment net profit reached GEL 39.2 million, or 24.8%, of TBC's total net income.

Micro Banking

Micro Loans and Advances to Customers

Micro loans reached GEL 273.7 million as of 31 December 2014, up by 36.0% YoY and 14.5% QoQ. As of the same date, foreign currency loans represented 35.9% of the total micro loan portfolio.

Micro Customer Deposits

As of 31 December 2014, micro customer deposits amounted to GEL 4.9 million, up by 9.5% YoY and down 5.0% QoQ. The QoQ decrease was mainly due to the release of costly legal entity deposits aligned with the management's decision to optimize the cost of funding prior to the merger of TBC Bank and Bank Constanta, which was completed in January 2015.

Foreign currency micro deposits represented 26.3% of the total micro deposit portfolio.

Micro Segment Profitability

In 2014, micro loan yields and deposit rates stood at 24.8% and 4.2%, respectively. In the same period, the cost of risk was 2.6%. In terms of profitability, the micro segment's net profit reached GEL 7.2 million, or 4.6% of TBC's total net income.

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

Subsidiaries

Subsidiary	Ownership / voting % as of 31 December 2014	Country	Year of incorporation or acquisition	Industry	Total Assets (after elimination)	
					Amount GEL'000	% in TBC Group
United Financial Corporation JSC	98.7%	Georgia	1997	Card processing	6,666	0.12%
TBC Broker LLC	100.0%	Georgia	1999	Brokerage	228	0.00%
TBC Leasing JSC	99.5%	Georgia	2003	Leasing	71,099	1.31%
TBC Kredit LLC	75.0%	Azerbaijan	2008	Non-banking credit institution	91,165	1.68%
Banking System Service Company LLC	100.0%	Georgia	2009	Information services	494	0.01%
TBC Pay LLC	100.0%	Georgia	2009	Processing	23,089	0.43%
Real Estate Management Fund JSC	100.0%	Georgia	2010	Real estate management	1,129	0.02%
TBC Invest LLC	100.0%	Israel	2011	PR and marketing	99	0.00%
Bank Constanta JSC	100.0%	Georgia	2011	Financial institution	456,330	8.41%

Annexes

Consolidated Balance Sheet

In thousands of GEL	31-Dec-14	30-Sep-14	31-Dec-13
Cash and cash equivalents	532,118	548,286	390,465
Due from other banks	33,704	31,928	1,708
Mandatory cash balances with National Bank of Georgia	336,075	314,902	295,332
Loans and advances to customers (Net)	3,556,496	3,084,064	2,801,712
Investment securities available for sale	466,510	557,219	500,651
Repurchase receivables	0	9,965	0
Investments in finance leases	50,907	43,944	35,613
Investment properties	76,216	77,893	83,383
Goodwill	2,726	2,726	2,726
Intangible assets	37,756	30,244	23,491
Premises and equipment	208,692	197,859	199,668
Other financial assets	43,857	42,443	45,049
Deffered income tax asset	383	304	0
Current income tax prepayment	251	4,813	6,202
Other assets	77,776	96,978	65,075
TOTAL ASSETS	**5,423,466**	**5,043,567**	**4,451,075**
LIABILITIES			
Due to credit institutions	749,285	760,339	565,806
Customer accounts	3,322,428	3,002,810	2,886,883
Current income tax liability	12,433	1,158	0
Debt Securities in issue	20,423	14,732	4,474
Deferred income tax liability	23,187	34,225	27,814
Provisions for liabilities and charges	11,899	9,352	12,380
Other financial liabilities	41,346	36,062	24,850
Subordinated debt	188,015	180,737	168,274
Other liabilities	34,974	29,500	31,305
TOTAL LIABILITIES	**4,403,990**	**4,068,915**	**3,721,786**
EQUITY			
Share capital	19,576	19,576	16,499
Share premium	405,658	405,658	242,624
Retained earnings	532,992	492,135	402,627
Share based payment reserve	4,624	3,605	2,032
Other reserves	49,255	45,839	50,840
TOTAL EQUITY	**1,012,105**	**966,813**	**714,622**
Non-controlling interest	7,371	7,839	14,667
TOTAL EQUITY	**1,019,477**	**974,652**	**729,289**
TOTAL LIABILITIES AND EQUITY	**5,423,466**	**5,043,567**	**4,451,075**

Consolidated Income Statement

In thousands of GEL	FY 2014	FY 2013	4Q'14	3Q'14	4Q'13
Interest income	512,357	474,796	136,780	128,585	120,710
Interest expense	-173,709	-192,146	-44,505	-43,234	-44,725
Net interest income	**338,648**	**282,650**	**92,276**	**85,351**	**75,985**
Fee and commission income	88,204	74,362	26,198	22,621	20,329
Fee and commission expense	-29,523	-24,301	-8,578	-7,228	-5,045
Net Fee and Commission Income	**58,682**	**50,061**	**17,620**	**15,393**	**15,284**
Gains less losses from trading in foreign currencies	39,730	37,894	14,618	8,391	11,695
Foreign exchange translation gains less losses	2,359	-5,901	1,164	1,753	-3,592
Gains less losses/(losses less gains) from derivative financial instruments	-683	613	-299	162	-57
Other operating income	19,598	16,135	6,934	3,233	4,969
Other operating non-interest income	**61,004**	**48,741**	**22,416**	**13,539**	**13,014**
Provision for loan impairment	-48,672	-32,971	-16,198	-5,521	-9,026
Provision for impairment of investments in finance lease	-77	-98	89	-56	-27
Provision for/ (recovery of provision) performance guarantees and credit related commitments	902	-6,459	-1,875	164	679
Provision for impairment of other financial assets	-1,236	-2,236	-669	52	-1,401
Impairment of investment securities available for sale	-22	-1,142	0	0	-1,137
Operating income after provisions for impairment	**409,229**	**338,546**	**113,659**	**108,923**	**93,372**
Staff costs	-122,835	-108,613	-37,260	-29,575	-30,891
Depreciation and amortisation	-24,427	-19,993	-8,194	-5,541	-4,954
Provision for liabilities and charges	-5,500	-1,315	-720	-4,780	-1,315
Administrative and other operating expenses	-73,548	-68,692	-21,520	-16,424	-18,659
Operating expenses	**-226,310**	**-198,613**	**-67,694**	**-56,321**	**-55,819**
Profit before tax	**182,919**	**139,933**	**45,965**	**52,602**	**37,553**
Income tax expense	-24,468	-15,663	-5,940	-7,028	-2,147
Profit for the period	**158,451**	**124,270**	**40,026**	**45,574**	**35,406**
Profit attributable to owners of the bank	157,451	121,616	39,901	45,518	34,646

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)	FY 2014	FY 2013	4Q'14	3Q'14	4Q'13
ROAE[1]	18.4%	18.7%	16.0%	19.2%	19.8%
ROAA[2]	3.3%	3.1%	3.1%	3.7%	3.4%
Pre-provision ROAE	24.2%	25.3%	23.5%	21.4%	26.0%
Pre-provision ROAA	4.4%	4.2%	4.5%	4.1%	4.4%
Cost: Income[3]	49.4%	52.1%	51.2%	49.3%	53.5%
Cost of Risk[4]	1.6%	1.3%	1.9%	0.7%	1.3%
NIM[5]	8.5%	8.4%	8.5%	8.3%	8.5%
Loan yields[6]	14.9%	16.6%	14.3%	14.9%	16.0%
Deposit rates[7]	3.7%	5.5%	3.5%	3.6%	4.5%
Yields on interest earning assets [8]	12.8%	14.1%	12.6%	12.5%	13.6%
Cost of Funding[9]	4.6%	5.9%	4.4%	4.5%	5.3%
Spread[10]	8.2%	8.2%	8.2%	8.0%	8.3%
NPLs to gross loans[11]	0.5%	1.1%	0.5%	0.9%	1.1%
NPLs+restructured loans to gross loans[12]	3.7%	4.8%	3.7%	4.1%	4.8%
Provision Level to Gross Loans[13]	4.0%	5.3%	4.0%	4.5%	5.3%
NPLs+Restructured loans coverage ratio[14]	109.4%	110.6%	109.4%	111.6%	110.6%
BIS Tier 1[15]	24.7%	21.6%	24.7%	26.8%	21.6%
Total BIS CAR[16]	30.4%	28.6%	30.4%	33.0%	28.6%
NBG Basel II Tier 1 CAR[17]	12.4%	10.7%	12.4%	13.6%	10.7%
NBG Basel II Total CAR[18]	15.0%	14.4%	15.0%	16.7%	14.4%

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

Selected Ratios Calculated Based on Quarterly Averages

Ratios (based on quarterly averages where applicable)	FY 2014	FY 2013	4Q'14	3Q'14	4Q'13
ROAE	18.2%	18.7%	16.0%	19.2%	19.8%
ROAA	3.3%	3.1%	3.0%	3.7%	3.3%
Pre-provision ROAE	23.9%	25.3%	23.5%	21.4%	26.0%
Pre-provision ROAA	4.3%	4.2%	4.4%	4.1%	4.3%
Cost of Risk	1.5%	1.2%	1.9%	0.7%	1.3%
NIM	8.3%	8.3%	8.3%	8.2%	8.4%
Loan yields	14.6%	16.4%	14.2%	14.7%	15.8%
Deposit rates	3.7%	5.4%	3.5%	3.6%	4.4%
Yields on interest earning assets	12.6%	13.9%	12.3%	12.4%	13.4%
Cost of Funding	4.5%	5.8%	4.3%	4.4%	5.1%
Spread	8.1%	8.1%	8.1%	7.9%	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 31 December 2014, 30 September 2014, and 31 December 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.