IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the "**Prospectus**"), and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from TBC Bank as a result of such access. You acknowledge that this electronic transmission and the delivery of the Prospectus is confidential and intended for you only and **you agree that you will not forward, reproduce or publish this electronic transmission or the Prospectus to any other person.**

NOTHING IN THE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES (AS DEFINED IN THE PROSPECTUS) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THIS PROSPECTUS IS ONLY ADDRESSED TO AND DIRECTED AT PERSONS OUTSIDE THE EUROPEAN ECONOMIC AREA (THE "**EEA**"), OR THOSE WHO, IF LOCATED IN MEMBER STATES OF THE EEA, ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC AND AMENDMENTS THERETO, INCLUDING DIRECTIVE 2010/73/EU, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE) ("**QUALIFIED INVESTORS**"). AS REGARDS PERSONS LOCATED IN THE UNITED KINGDOM, THIS PROSPECTUS IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, QUALIFIED INVESTORS (I) WHO ARE INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "**ORDER**") OR (II) WHO ARE HIGH NET WORTH ENTITIES FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER AND OTHER PERSONS TO WHOM IT MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS PROSPECTUS MUST NOT BE ACTED ON OR RELIED UPON (I) IN THE UNITED KINGDOM, BY PERSONS WHO ARE NOT RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EEA OTHER THAN THE UNITED KINGDOM, BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS PROSPECTUS RELATES IS AVAILABLE ONLY TO (I) IN THE UNITED KINGDOM, RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EEA OTHER THAN THE UNITED KINGDOM, QUALIFIED INVESTORS, AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the GDRs (as defined in the Prospectus), you must have represented to TBC that (i) you are or are acting on behalf of (a) a "qualified institutional buyer" (as defined in Rule 144A) or (b) outside the United States; (ii) if you are in the United Kingdom, you are a relevant person, and/or a relevant person who is acting on behalf of relevant persons in the United Kingdom and/or Qualified Investors to the extent you are acting on behalf of persons or entities in the United Kingdom and/or the EEA; (iii) if you are in any Member State of the EEA other than the United Kingdom, you are a Qualified Investor and/or a Qualified Investor acting on behalf of Qualified Investors or relevant persons, to the extent that you are acting on behalf of persons or entities in the EEA and/or the United Kingdom; (iv) you are an institutional investor that is eligible to receive this document and (v) you consent to delivery by electronic transmission.

The GDRs (as defined below) are not eligible for "placement", "public circulation", "offering" or "advertising" (each as defined in Georgian law) in Georgia except as permitted by Georgian law. The Prospectus and information provided herein are not an advertisement, an offer, or an invitation to make offers, sell, exchange or otherwise transfer the GDRs in Georgia or to or for the benefit of any Georgian person or entity. This Prospectus is not intended to be, and must not be, distributed or circulated in Georgia unless and to the extent otherwise permitted or required under Georgian law.

The Prospectus may only be provided to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply to TBC Bank.

You are reminded that you are accessing the Prospectus on the basis that you are a person by whom the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus, electronically or otherwise, to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Global Coordinators or Joint Bookrunners (both as named in the Prospectus), or any affiliate of any such person, is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such person or such affiliate on behalf of TBC in such jurisdiction.

Restrictions: Nothing in this electronic transmission constitutes an offer of securities for sale to persons other than specified qualified institutional buyers to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither TBC nor any of the Joint Global Coordinators or Joint Bookrunners, or any person who controls any of them, nor any director, officer, employee or agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from TBC or the Joint Global Coordinators or Joint Bookrunners.

TBC Bank Joint Stock Company

(incorporated in Georgia with limited liability)

Offering of 20,200,000 Global Depositary Receipts
Offer Price: U.S.$13.00 per Global Depositary Receipt

This is a global offer by TBC Bank Joint Stock Company ("**TBC Bank**"), a joint stock company incorporated in Georgia, of 7,692,308 ordinary shares with a par value of GEL 0.4 per share (the "**Shares**") and by certain of TBC Bank's shareholders (the "**Selling Shareholders**") of 12,507,692 Shares (collectively the "**Global Offer**") in the form of global depositary receipts representing Shares (the "**GDRs**"). One GDR represents an interest in one Share.

This document (the "**Prospectus**") has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**") in accordance with the prospectus rules (the "**Prospectus Rules**") of the FCA made under Section 73A of the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), solely in relation to an admission to trading on a regulated market of the GDRs. This document constitutes a prospectus relating to TBC Bank prepared in accordance with the Prospectus Rules and will be made available to the public in accordance with the Prospectus Rules. Application has been made (1) to the FCA, in its capacity as competent authority (the U.K. Listing Authority, or "**UKLA**") under the FSMA, for a listing of up to 49,248,308 GDRs consisting of (i) 18,363,636 GDRs to be issued on or about 11 June 2014 (the "**Closing Date**"), (ii) up to 1,836,364 additional GDRs to be issued in connection with the Overallotment Option, and (iii) up to 29,048,308 additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with a custodian acting on behalf of The Bank of New York Mellon (the "**Depositary**"), to be admitted to the official list of the FCA (the "**Official List**") and (2) to the London Stock Exchange plc (the "**London Stock Exchange**"), for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities (the "**Regulated Market**") through its International Order Book (the "**IOB**"), which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Conditional trading in the GDRs on the London Stock Exchange through the IOB is expected to commence on an if-and-when-issued basis on or about 6 June 2014. Admission to the Official List and unconditional trading on the London Stock Exchange (collectively, "**Admission**") is expected to take place on or about 11 June 2014. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The Shares are not, and are not expected to be, listed on any stock exchange.** The GDRs are expected to be traded on the Regulated Market under the symbol "TBCB".

The Global Offer comprises an offering of GDRs outside of Georgia. The GDRs are being offered outside the United States in reliance on Regulation S ("**Regulation S**", and such GDRs, the "**Regulation S Offering**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and within the United States to certain qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A ("**Rule 144A**", and such GDRs, the "**Rule 144A Offering**") under the Securities Act. See "*Plan of Distribution*".

In connection with the Global Offer, some of the Selling Shareholders will grant to the Joint Global Coordinators (as defined under "*Plan of Distribution*") on behalf of the Managers (as defined under "*Plan of Distribution*") an option (the "Overallotment Option") to call for such Selling Shareholders to sell up to 1,836,364 additional GDRs at the Offer Price for the purposes of meeting overallotments in connection with the Global Offer, if any.

Investing in the GDRs involves a high degree of risk. See "Risk Factors" beginning on page 16.

The Global Offer does not constitute an offer to sell, or solicitation of an offer to buy, GDRs in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the GDRs, see "*Terms and Conditions of the Global Depositary Receipts*" and "*Selling and Transfer Restrictions*".

The GDRs will be issued in master form. The GDRs offered and sold in the United States (the "**Rule 144A GDRs**") will be evidenced by a master Rule 144A global depositary receipt (the "**Rule 144A Master GDR**") deposited with The Bank of New York Mellon in New York as custodian for The Depository Trust Company ("**DTC**"), and registered in the name of Cede & Co., as nominee for DTC, and the GDRs offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a master Regulation S global depositary receipt (the "**Regulation S Master GDR**" and, together with the Rule 144A Master GDR, the "**Master GDRs**") registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank SA/NV ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream**"). The Shares represented by the GDRs will be held by The Bank of New York Mellon, London Branch (using BNY (Nominees) Limited as its nominee), as custodian (the "**Custodian**"), for the Depositary. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through the records of DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream with respect to the Regulation S GDRs, and their direct and indirect participants, as applicable. It is expected that delivery of the GDRs will be made against payment therefor in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See "*Settlement and Delivery*".

Joint Global Coordinators and Joint Bookrunners

Barclays **UBS Investment Bank**

Joint Bookrunner

Renaissance Capital

Co-Manager

Peel Hunt

Prospectus dated 6 June 2014

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PROSPECTUS SUMMARY

Summaries are made up of disclosure requirements known as 'Elements'. These elements are numbered in Sections A–E (A.1–E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of 'not applicable'.

	Section A—Introduction and Warnings	
A.1	*Warning*	This summary should be read as an introduction to the prospectus (the "**Prospectus**"); any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor; where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	*Consent by the issuer for drawing up and use of the prospectus*	Not applicable; TBC Bank has not consented to the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries.

	Section B—Issuer	
B.1	*The legal and commercial name*	TBC Bank Joint Stock Company ("**TBC Bank**"). In this Summary, references to "**TBC**" mean TBC Bank and its subsidiaries.
B.2	*Legal form/ country of incorporation/ domicile*	TBC Bank is a joint stock company incorporated under the laws of Georgia.
B.3	*Key factors relating to current operations, principal activities and main services offered*	TBC is a leading universal banking group in Georgia, with a total market share of 26.4% of loans and 28.1% of deposits in Georgia as at 31 March 2014, according to data published by the National Bank of Georgia (the "**NBG**"). It holds the number one position in deposits of individuals, the number two position in loans (both to individuals and to legal entities) and in deposits of legal entities, according to NBG data, and has a particular expertise in the fast-growing small and medium enterprise ("**SME**") and micro sectors. TBC offers a wide range of banking products and services to its retail, corporate, SME and micro clients. TBC's lending activities include providing business, mortgage, consumer and micro loans, as well as guarantees, letters of credit and overdrafts. TBC also offers current and savings accounts and term deposits, credit and debit cards, currency exchange facilities and other products. Apart from its core activities, TBC offers certain leasing, brokerage and other services through its subsidiaries. In addition, TBC has credit operations in Azerbaijan and operations in Israel focused on deposit collection.

B.4a	*Significant recent trends*	TBC operates primarily in Georgia, therefore its business, financial condition and results of operations are, and will continue to be, highly dependent on the general economic conditions in Georgia. There has been continued growth in the Georgian economy during the periods under review. Growth in the Georgian economy during the periods under review has had a positive impact on the Georgian banking sector. TBC derives the majority of its total income from net interest income. Consequently, TBC's net interest margin is a significant factor in determining TBC's profitability. Although net interest margins in Georgia remain generally higher than those in most Western European countries, they have been generally declining over the past few years. The cost at which TBC is able to obtain funding for its operations directly impacts TBC's interest expense, which in turn directly affects TBC's profitability. TBC's cost of funding has been impacted by a decrease in the effective interest expense of customer deposits reflecting a trend of decreasing interest rates on customer deposits in the market generally. In 2013, interest rates on savings accounts and term deposits decreased by 1% to 2%, depending on the maturity and currency of the deposits. Competition in the Banking sector affects how TBC operates. As at 31 March 2014, there were 21 commercial banks registered in Georgia, all of which have general banking licences issued by the NBG enabling them to perform banking transactions. The banking system is entirely privately owned and relatively concentrated, with the two largest banks, Bank of Georgia and TBC, controlling approximately 60% of both loans and deposits, nearly six times more than that of the next largest bank. Increasing competition in the Georgian banking sector creates increased downward pressures on TBC's net interest margin by forcing TBC to offer lower interest rates on loans, and higher interest rates on deposits, in order to remain competitive. Despite significant competition in the market, TBC's management ("**Management**") believes that TBC continues to strengthen its market position among the top banks in Georgia that offer a wide range of corporate and retail products and services. In the periods under review, TBC has benefitted from a growing loan portfolio with relatively strong credit quality. TBC's provision expense for loan impairment has increased as a result of, and in line with, the growth of TBC's loan portfolio. The key drivers of fee and commission income are card operations, guarantees issued and settlement transactions. In recent years TBC has benefitted from increases in fees received from all three sources, reflecting TBC's overall strategy to increase its fee and commission income generating capabilities by growing fees from existing sources, such as debit and credit card operations, guarantees, settlement transactions and trade finance, and by introducing new commission-based products and services related to TBC's core banking business.
B.4b	*Known trends*	TBC's business has been impacted by several factors in recent years, including (i) the increased scale of TBC's business generally over those periods; (ii) the integration of Bank Constanta following its acquisition in 2011 (including higher staff costs as salary expenses of Bank Constanta's employees were reflected in TBC's consolidated results); (iii) the establishment and implementation of various medium and long-term cost efficiency initiatives undertaken by TBC; and (iv) the continued development of TBC's multichannel distribution platform and remote access capabilities, such as internet banking and mobile phone banking (including via SMS and smartphone banking applications) and including the opening of nine new branches of TBC Bank (and 30 new branches of Bank Constanta) between 2011 and 2013; The importance of remote access channels for TBC's operations is significant.

B.5	*Group*	As at 31 March 2014, the TBC group comprised 10 companies, of which five, TBC Bank, Bank Constanta, TBC Kredit, TBC Leasing, and TBC Broker, operated in the financial services industry, with the remaining five companies operating in related industries in order to support TBC's main activities. TBC Bank is the parent company and the largest of the TBC group, accounting for 88.3% of total assets as at 31 March 2014.
B.6	*Shareholders and voting rights*	**Shareholders** The following table sets out certain information with respect to the ownership of TBC Bank's outstanding Shares (as defined below), as at the date of this Prospectus and after the Global Offer (as defined below), assuming that the Overallotment Option (as defined below) is exercised in full:

	Number of Shares owned before the Global Offer		Number of Shares owned after the Global Offer	
	Number	**(%)**	**Number**	**(%)**
International Finance Corporation[(1)]	8,165,750	19.7%	2,852,807	5.8%
European Bank for Reconstruction and Development[(1)]	8,165,500	19.7%	6,056,869	12.3%
TBC Holdings Ltd.[(2)]	7,922,750	19.1%	7,922,750	16.1%
DEG—Deutsche Investitions- und Entwicklungsgesellschaft mbH[(1)]	4,667,000	11.2%	1,630,475	3.3%
Liquid Crystal International N.V. LLC[(3)]	2,706,250	6.5%	2,706,250	5.5%
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.[(1)]	2,171,000	5.2%	2,171,000	4.4%
J.P. Morgan Securities plc[(4)]	2,045,750	4.9%	714,708	1.5%
Ashmore Cayman SPC No. 2 Ltd. re TBC Bank Segregated Portfolio[(4)]	1,732,750	4.2%	1,299,561	2.6%
Individuals	3,977,250	9.6%	3,691,888	7.5%
Depositary	—	—	20,200,000	41.0%
Total	**41,554,000**	**100.0%**	**49,246,308**	**100.0%**

Notes:

(1) IFI Investor.

(2) TBC Holdings Ltd. is a Cayman Islands exempted company, which is 42.4% owned by Mr. Mamuka Khazaradze, the founder of TBC Bank and Chairman of the Supervisory Board, and 39.1% owned by Mr. Badri Japaridze, Vice Chairman of the Management Board. The remaining 18.5% is owned by Rike B.V., a private company with limited liability incorporated and existing under the laws of the Netherlands, which is majority-owned by Mr. Mamuka Khazaradze, with the remaining shareholdings held by, among others, certain members of the Supervisory Board and the Management Board. Following the Global Offer, it is intended that the individuals holding shares in TBC Holdings Ltd. (other than Mr. Mamuka Khazaradze and Mr. Badri Japaridze) will cease to hold shares in TBC Holdings Ltd. and will instead hold Shares and/or GDRs of TBC Bank directly.

(3) Liquid Crystal International N.V. LLC, which is wholly owned by Mr. Mamuka Khazaradze, is a corporation organised and existing under the laws of the Netherlands Antilles.

(4) ICI Investor.

In addition to the table above, TBC Bank and its subsidiaries held 2,000 Shares in treasury.

None of TBC Bank's shareholders have voting rights different from any other holders of Shares, with the exception of certain "bonus" Shares awarded to management under a share-based compensation scheme, for which voting rights are restricted until certain conditions have been met. As at the date of this Prospectus, 307,250 Shares were subject to such restrictions.

B.7	*Selected historical key financial information*	*The selected consolidated statement of profit or loss and other comprehensive income data and selected consolidated statement of financial position data presented below as at 31 December 2013, 2012 and 2011 have been derived from the Audited Consolidated Financial Statements, which appear elsewhere in this Prospectus. The selected consolidated statement of profit or loss and other comprehensive income data and selected consolidated statement of financial position data presented below as at and for the three months ended 31 March 2014 and 2013 have been derived from the Unaudited Consolidated Interim Financial Statements, which appear elsewhere in this Prospectus. The additional financial data includes non-IFRS measures and was derived from data derived from the Audited Consolidated Financial Statements, Unaudited Consolidated Interim Financial Statements and unaudited consolidated management accounts.*

Selected consolidated statement of profit or loss and other comprehensive income data

	For the three months ended 31 March		For the year ended 31 December		
	2014	**2013**	**2013**	**2012**	**2011**
			(GEL thousands)		
Interest income	122,767	118,150	474,796	456,545	360,215
Interest expense	(42,347)	(51,467)	(192,146)	(217,895)	(151,134)
Net interest income	**80,420**	**66,683**	**282,650**	**238,650**	**209,081**
Fee and commission income	15,809	14,906	66,497	58,140	43,802
Fee and commission expense	(6,464)	(5,688)	(24,301)	(18,830)	(15,094)
Net fee and commission income	**9,345**	**9,218**	**42,196**	**39,310**	**28,708**
Gains less losses from trading in foreign currencies	9,493	4,890	37,894	25,240	25,419
Foreign exchange translation of (losses less gains)/gains less losses	(1,701)	2,993	(5,901)	7,617	394
Gains less losses/(losses less gains) from derivative financial instruments	(177)	(462)	613	(3,804)	(4,987)
Other operating income	5,981	3,892	24,000	19,772	9,923
Other operating non-interest income	**13,596**	**11,313**	**56,606**	**48,825**	**30,749**
Provision for loan impairment	(14,586)	(19,652)	(32,971)	(23,154)	(16,049)
(Provision for) / recovery of provision for impairment of investments in finance lease	(9)	(24)	(98)	(42)	174
Provision for performance guarantees and credit related commitments	1,799	(95)	(6,459)	(1,606)	(1,353)
Provision for impairment of other financial assets	(190)	(370)	(2,236)	(4,132)	(397)
Impairment / (recovery of impairment) of investment securities available for sale	(22)	(5)	(1,142)	(10)	116
Recovery of impairment for assets classified as held for sale	—	—	—	—	1,519
Operating income after provisions for impairment	**90,353**	**67,068**	**338,546**	**297,841**	**252,548**
Staff costs	(26,984)	(25,748)	(108,613)	(92,289)	(78,426)
Depreciation and amortisation	(5,295)	(5,505)	(19,993)	(22,103)	(15,088)
Provision for liabilities and charges	—	—	(1,315)	(1,700)	(200)
Administrative and other operating expenses	(16,970)	(13,041)	(68,692)	(69,440)	(51,744)
Operating expenses	**(49,249)**	**(44,294)**	**(198,613)**	**(185,532)**	**(145,458)**
Profit before tax	**41,104**	**22,774**	**139,933**	**112,309**	**107,090**
Income tax expense	(5,165)	(3,031)	(15,663)	(14,498)	(15,465)
Profit for the period	**35,939**	**19,743**	**124,270**	**97,811**	**91,625**
Other comprehensive income for the period	(8,414)	2,860	8,901	9,304	1,349
Total comprehensive income for the period	**27,525**	**22,603**	**133,171**	**107,115**	**92,974**
Profit for the period	**35,939**	**19,743**	**124,270**	**97,811**	**91,625**

Selected consolidated statement of financial position data

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Assets				
Cash and cash equivalents	329,568	390,465	398,587	374,153
Due from other banks	2,619	1,708	29,542	40,942
Mandatory cash balances with the NBG	294,990	295,332	316,061	250,067
Loans and advances to customers	2,772,629	2,801,712	2,370,200	2,008,745
Investment securities available for sale	568,865	500,651	407,733	266,436
Investment securities held to maturity	—	—	—	28,956
Investments in finance leases	38,548	35,613	26,377	21,979
Investment properties	83,331	83,383	34,305	27,082
Current income tax prepayment	4,858	6,202	10,135	—
Goodwill	2,726	2,726	2,726	2,726
Intangible assets	26,672	23,491	18,817	10,064
Premises and equipment	199,171	199,668	192,556	163,879
Other financial assets	44,092	45,049	25,301	11,339
Other assets	69,822	65,075	67,354	93,653
Total assets	**4,437,891**	**4,451,075**	**3,899,694**	**3,300,021**
Liabilities				
Due to credit institutions	687,731	565,806	627,123	628,150
Customer accounts	2,753,884	2,886,883	2,486,944	1,999,256
Current income tax liability	—	—	—	14,162
Debt securities in issue	4,517	4,474	—	—
Deferred income tax liability	27,882	27,814	20,143	8,048
Provisions for liabilities and charges	10,581	12,380	6,174	8,434
Other financial liabilities	30,619	24,850	19,462	11,305
Other liabilities	22,955	31,305	20,744	19,405
Subordinated debt	172,787	168,274	115,080	142,480
Total liabilities	**3,710,956**	**3,721,786**	**3,295,670**	**2,831,240**
Equity				
Share capital	16,499	16,499	16,143	15,171
Share premium	241,231	242,624	231,501	203,308
Retained earnings	410,935	402,627	298,880	201,826
Share based payment reserve	2,658	2,032	4,142	6,180
Other reserves	42,426	50,840	41,939	33,162
Net assets attributable to owners	**713,749**	**714,622**	**592,605**	**459,647**
Non-controlling interest	**13,186**	**14,667**	**11,419**	**9,134**
Total equity	**726,935**	**729,289**	**604,024**	**468,781**
Total liabilities and equity	**4,437,891**	**4,451,075**	**3,899,694**	**3,300,021**

Additional financial data

Selected Financial Ratios	For the three months ended 31 March 2014	For the years ended 31 December 2013	2012	2011
	(GEL thousands except percentages)			
Average total assets	4,444,483	4,014,274	3,622,598	2,776,431
Average total equity	728,112	664,212	526,346	420,222
Average total equity/ average total assets	16.4%	16.5%	14.5%	15.1%
Return on assets[1]	3.3%	3.1%	2.7%	3.3%
Return on equity[2]	20.0%	18.7%	18.6%	21.8%
Net interest margin[3]	8.8%	8.4%	7.7%	8.8%
Net interest spread[4]	8.6%	8.2%	7.5%	8.5%
Dividend payout ratio[5]	21.3%	18.3%	—	25.3%

Notes:

(1) Annual return on assets is (x) profit for the year, divided by (y) quarterly average total assets. Quarterly return on assets is (a) profit for the period, divided by (b) average of total assets for the current and previous quarter and annualised.

(2) Annual return on equity is (x) profit for the year, divided by (y) quarterly average total equity. Quarterly return on equity is (a) profit for the period, divided by (b) average of total equity for the current and previous quarter and annualised.

(3) Net interest margin is (x) net interest income, divided by (y) the monthly average of interest-earning assets and annualised (where applicable).

(4) Net interest spread is (x) total interest income divided by monthly averages of total interest earning assets, minus (y) total interest expense divided by monthly averages of total interest bearing liabilities and annualised (where applicable).

(5) Dividend payout ratio is (x) dividends declared, divided by (y) consolidated profit for the previous year.

TBC's net interest income increased by GEL 13.7 million, or 20.6%, to GEL 80.4 million for the three months ended 31 March 2014 from GEL 66.7 million for the three months ended 31 March 2013. TBC's net interest income increased by GEL 44.0 million, or 18.4%, to GEL 282.7 million for the year ended 31 December 2013 from GEL 238.7 million for the year ended 31 December 2012. Net interest income increased by GEL 29.6 million, or 14.2%, to GEL 238.7 million for the year ended 31 December 2012 from GEL 209.1 million for the year ended 31 December 2011. These increases were principally driven by increases in interest income from loans to customers in line with the growth of TBC's loan portfolio.

TBC's net fee and commission income increased by GEL 0.1 million, or 1.4%, to GEL 9.3 million for the three months ended 31 March 2014 from GEL 9.2 million for the three months ended 31 March 2013. TBC's net fee and commission income increased by GEL 2.9 million, or 7.3%, to GEL 42.2 million for the year ended 31 December 2013 from GEL 39.3 million for the year ended 31 December 2012. Net fee and commission income increased by GEL 10.6 million, or 36.9%, to GEL 39.3 million for the year ended 31 December 2012 from GEL 28.7 million for the year ended 31 December 2011. These increases were primarily the result of increases in fees and commissions from the majority of TBC's fee and commission generating operations, particularly card operations and settlement transactions.

		Total other operating non-interest income increased by GEL 2.3 million, or 20.2%, to GEL 13.6 million for the three months ended 31 March 2014 from GEL 11.3 million for the three months ended 31 March 2013. Total other operating non-interest income increased by GEL 7.8 million, or 15.9%, to GEL 56.6 million for the year ended 31 December 2013 from GEL 48.8 million for the year ended 31 December 2012. Total other operating non-interest income increased by GEL 18.1 million, or 58.8%, to GEL 48.8 million for the year ended 31 December 2012 from GEL 30.7 million for the year ended 31 December 2011. TBC's total provision charges for impairment decreased by GEL 7.1 million, or 35.4%, to GEL 13.0 million for the three months ended 31 March 2014, from GEL 20.1 million for the three months ended 31 March 2013. For the year ended 31 December 2013, TBC's total provision charges for impairment increased by GEL 14.0 million, or 48.2%, to GEL 42.9 million from GEL 28.9 million for the year ended 31 December 2012. Provision charges for impairment in 2012 increased by GEL 13.0 million, or 81.0%, to GEL 28.9 million from GEL 16.0 million for the year ended 31 December 2011. The increases were primarily driven by increases in provisions for loan impairment. Total operating expenses increased by GEL 5.0 million, or 11.2%, to GEL 49.2 million for the three months ended 31 March 2014 from GEL 44.3 million for the three months ended 31 March 2013. Total operating expenses increased by GEL 13.1 million, or 7.1%, to GEL 198.6 million for the year ended 31 December 2013 from GEL 185.5 million for the year ended 31 December 2012. Total operating expenses increased by GEL 40.1 million, or 27.6% to GEL 185.5 million for the year ended 31 December 2012 from GEL 145.5 million for the year ended 31 December 2011. The increases were principally due to an increase in staff costs. Other than as described above, there have been no significant changes in TBC's financial condition and operating results during or subsequent to the periods covered by the Unaudited Consolidated Interim Financial Statements.
B.9	*Profit forecast*	Not applicable; the Prospectus does not include a profit forecast or estimate.
B.10	*Qualifications in audit report*	Not applicable; there are no qualifications in the audit reports on the historical financial information.
B.32	*Name/legal form/domicile of the issuer of the depositary receipts*	The depositary is The Bank of New York Mellon (the "**Depositary**"), a state-chartered New York banking corporation and a member of the United States Federal Reserve System subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. It is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a Delaware bank holding company. The principal office of the Depositary is located at One Wall Street, New York, NY 10286. Its principal administrative offices are located at 101 Barclay Street, New York, NY 10286.

Section C—Securities		
C.1	*Type and the class of the securities and security identification number.*	This is a global offer by TBC Bank of 7,692,308 ordinary shares with a par value of GEL 0.4 per share (the "**Shares**") and by certain of TBC Bank's shareholders (the "**Selling Shareholders**") of 12,507,692 Shares (collectively the "**Global Offer**") in the form of global depositary receipts representing Shares (the "**GDRs**"). One GDR represents an interest in one Share. The GDRs offered and sold in the United States (the "**Rule 144A GDRs**") will be evidenced by a master Rule 144A global depositary receipt (the "**Rule 144A Master GDR**") and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a master Regulation S global depositary receipt (the "**Regulation S Master GDR**") each to be issued pursuant to the Deposit Agreement.

		Application has been made for the GDRs to be traded on the London Stock Exchange through its International Order Book. The security identification numbers for the GDRs offered hereby are as follows: Rule 144A GDRs: ISIN: US87217U1097 Common Code: 107236503 CUSIP: 87217U 109 SEDOL: BMQX501 Regulation S GDRs: ISIN: US87217U2087 Common Code: 107237402 CUSIP: 87217U 208 SEDOL: BMQX512 The London Stock Exchange trading symbol for the GDRs is "TBCB".
C.2	*Currency*	The currency of TBC Bank's Shares is GEL. The GDRs are denominated in U.S. dollars.
C.3	*Issued share capital*	As of the date of this Prospectus, TBC Bank's authorised share capital is GEL 21,236,254.80 consisting of 53,090,637 ordinary Shares with par value of GEL 0.4 each. TBC Bank's issued share capital as of the date of this Prospectus consists of 41,556,000 ordinary Shares, all of which are fully paid. Prior to the Closing Date (as defined below), TBC Bank expects to issue 7,692,308 additional ordinary Shares in connection with the Global Offer.
C.4	*Description of the rights attached to securities*	A holder of TBC Bank's ordinary Shares has the right: • to subscribe for Shares, pro rata to its shareholding, with respect to any increase of TBC Bank's share capital or the issuance of any new shares or securities convertible into, exchangeable for, or otherwise granting the right to acquire shares (including options, warrants and other rights); • to attend and vote personally or through proxy at the General Meeting of Shareholders; • to inspect TBC Bank's financial statements and annual accounts; • to receive dividends paid in accordance with TBC Bank's dividend policy; • to receive a pro rata share of TBC Bank's assets (following repayment of creditors) in the event of TBC Bank's liquidation; Each GDR represents an interest in one Share on deposit with The Bank of New York Mellon, London Branch (using BNY (Nominees) Limited as its nominee), as custodian (the "**Custodian**") for the Depositary (the "**Deposited Shares**"). A holder of GDRs (each, a "**Holder**") will have the rights set out in the terms and conditions of the GDRs (as endorsed on each GDR certificate) and the Regulation S Master GDR and a Rule 144A Master GDR (together, the "**Master GDRs**"), which may be summarised as: • the right to withdraw the Shares and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares;

		• the right to receive payment in U.S. dollars from the Depositary of an amount equal to cash dividends or other cash distributions received by the Depositary from the Company in respect of the Deposited Shares; • the right to receive from the Depositary additional GDRs representing additional Shares received by the Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the Depositary not to be reasonably practicable or to be unlawful, the net proceeds in U.S. dollars of the sale of such Shares); • the right to receive from the Depositary any dividend or distribution in the form of property other than Shares or cash received by the Depositary from the Company (or if such distribution is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful, the net proceeds in U.S. dollars of the sale of such property); • the right to request the Depositary to exercise subscription or similar rights made available by the Company to holders of Shares (or if such process is deemed by the Depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in U.S. dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); • the right to instruct the Depositary regarding the exercise of any voting rights notified by the Company to the Depositary subject to conditions; and • the right that the Depositary will make available copies received by it of notices provided by the Company to holders of Shares or other material information, in each case subject to applicable law, and the detailed terms set out in the terms and conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs.
C.5	*Restrictions on transferability*	The GDRs are freely transferable (subject, to the clearing and settlement rules of The Depository Trust Company (in the case of the GDRs represented from time to time by the Rule 144A Master GDR) and Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**") (in the case of the GDRs represented from time to time by the Regulation S Master GDR), as applicable and the terms and conditions of the GDRs), subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the European Economic Area (the "**EEA**") and Georgia and contractual lock-up arrangements applicable to the Selling Shareholders, TBC Bank and certain other shareholders of TBC Bank.
C.6	*Admission to trading on a regulated market*	Application has been made (1) to the FCA, in its capacity as competent authority (the U.K. Listing Authority, or "**UKLA**") under the FSMA, for a listing of up to 49,248,308 GDRs consisting of (i) 18,363,636 GDRs to be issued on or about 11 June 2014 (the "**Closing Date**"), (ii) up to 1,836,364 additional GDRs to be issued in connection with the Overallotment Option, and (iii) up to 29,048,308 additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with a custodian holding on behalf of The Bank of New York Mellon, as Depositary, to be admitted to the official list of the FCA (the "**Official List**") and (2) to the London Stock Exchange plc (the "**London Stock Exchange**"), for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities (the "**Regulated Market**") through its International Order Book, which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Conditional trading in the GDRs on the London Stock Exchange through the International Order Book is expected to commence on an if-and-when-issued basis on or about 6 June 2014. The Shares are not, and are not expected to be, listed on any stock exchange.

C.7	*Dividend policy*	Distributions of profits and payments of dividends by TBC Bank may only be made in compliance with the Georgian Law on Entrepreneurs and TBC Bank's Charter (the "**Charter**"). Any promise to unconditionally pay dividends is invalid under the Law on Entrepreneurs. Dividends may be paid out only after the adoption of the annual financial statements by the General Meeting of Shareholders, showing that the distribution of dividends is permissible and will be paid out of net profits of TBC Bank. On 8 April 2009 the Management Board adopted, and the Supervisory Board approved, the Capital Management and Dividend Planning Policy of TBC Bank (the "**Dividend Policy**") in order to ensure current capital adequacy, to plan for future capital needs and project efficient dividend payouts. The general objective of the Dividend Policy is to manage the capital position with the regular dividend payouts in the amount that will not only ensure compliance with internal regulations but also ensure capital adequacy for TBC's future expansion. On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net profit for the previous year (IFRS) attributable to the owners of TBC Bank as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution. TBC's dividend strategy is based on two major priorities: (i) maintaining adequate capital for TBC Bank; and (ii) ensuring consistency of dividend payment to shareholders in sufficient amounts. Excessive dividends will not be paid out if it jeopardizes TBC's current capital adequacy or future growth opportunities. Dividend payments are made only when: (a) the dividends are in compliance with TBC Bank's approved capital plan; (b) the dividend amounts are in accordance with all regulatory requirements and internal regulations of TBC Bank, thus not putting in jeopardy future expansion; and (c) the dividend payments do not adversely impact TBC's capital structure and related regulatory capital ratio requirements.
C.13	*Information about the underlying shares*	Please see C.1, C.2, C.3, C.4, C.5, C.6 and C.7.
C.14	*Information about the depositary receipts*	Please see C.1, C.2, C.4, and C.5. The Terms and Conditions of the GDRs set out the provisions relating to the exercise of and benefit from the rights attaching to the ordinary Shares. The following summarises relevant provisions of the Terms and Conditions of the GDRs relating to the exercise of and benefit from rights attaching to the underlying Shares. **Voting Rights** The rights of Holders of GDRs regarding voting rights arising in respect of the Shares represented by GDRs may be summarised as follows: Each Holder, following receipt from the Depositary of copies of the information provided by TBC Bank (including notice and agenda for a meeting of shareholders of TBC Bank) has the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares and is entitled to give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting. Each voting instruction from a Holder must be in the form required by the Depositary.

		Exercise of voting rights from Holders will be subject in each case to Georgian law and the Depositary's determination of what is reasonably practicable, which may mean that in some cases the Depositary can only procure the exercise of the number of votes representing the net positive difference between total votes in favour of a resolution and total votes opposed to such resolution, or cannot procure the exercise of any votes. **Rights issues** The rights of Holders of GDRs regarding subscription or similar rights arising in respect of the shares represented by GDRs may be summarised as follows: Each Holder of GDRs is entitled, subject in each case to applicable law and to the provision by the Holder of relevant information required by the Depositary and relevant payments (including fees, taxes, duties, charges, costs and expenses required under the Deposit Agreement), and to the extent determined reasonably practicable by the Depositary, either: (i) to request the Depositary to exercise rights to subscribe for or to acquire Shares, securities or other assets where such rights are made available by TBC Bank to Holders of Shares (and where applicable, to subscribe for additional rights not subscribed by other Holders of GDRs); or (ii) to receive a distribution of such rights or the net proceeds of any sale thereof. TBC Bank has agreed it will, unless prohibited by applicable law or regulation, give its consent to and if requested use all reasonable endeavours to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to the terms and conditions of the GDRs. **Payment entitlements** The only cash amounts to which a Holder of GDRs are entitled are: • a United States dollar amount equal to: (i) the amount of any cash dividend or other cash distribution on or in respect of the Shares represented by the Holder's GDRs (including any amounts received in the liquidation of TBC Bank) or otherwise in connection with such Shares received by the Depositary; or (ii) the net proceeds of sale of any Shares received by the Depositary from TBC Bank by way of dividend or free distribution where issuance of GDRs representing such Shares is deemed by the Depositary not to be lawful or reasonably practicable; or (iii) the net proceeds of sale of assets (other than Shares or cash) received by the Depositary from TBC Bank where distribution of such assets to GDR Holders is deemed by the Depositary not to be lawful or reasonably practicable; or (iv) the net proceeds of sale of subscription or other rights made available to the Depositary as a holder of Shares by TBC Bank (or the sale of the assets resulting from the exercise of such rights) where the exercise of such rights by the GDR Holders is deemed not to be lawful or reasonably practicable; and • on cancellation of GDRs or termination of the Deposit Agreement, amounts equal to the cash amounts currently held by the Depositary for the Holder of each cancelled GDR or GDR in issue at the time of termination of the Deposit Agreement; in each case subject to applicable law, and the detailed terms set out in the terms and conditions of the GDRs and the Master GDRs.
	Guarantee	Not applicable; there are no bank or other guarantees attached to the depositary receipts.

Section D—Risks		
D.2/4	*Key information on key risks of the issuer*	There are a number of key risks relating to TBC: • Any decline in TBC's net interest income or net interest margin could lead to a reduction in profitability. TBC derives the majority of its total income from net interest income, and the results of TBC's banking operations depend on the management of key factors that affect TBC's net interest margin, such as underlying interest rates, competition for loans and deposits, customer demand and costs of funding. These key factors are influenced by factors beyond TBC's control, and any decline in TBC's net interest margin caused by changes in these key factors, or otherwise, could have a material adverse effect on TBC's net interest income, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations. • Regional tensions and disruptions in nearby markets may have a material adverse affect on the Georgian economy. Since the restoration of its independence in 1991, Georgia has had ongoing disputes with Russia. Geopolitical tensions between Ukraine and Russia may also have an adverse impact on the Georgian economy and TBC's business. The political instability of Ukraine or any prolonging or further escalation of the conflict between Russia and Ukraine and/or an increased level of regional, political or economic instability may have a significant and adverse impact on the neighboring countries, including Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs. • TBC faces significant competition, which may increase in the future and have an adverse impact on its business. Increased competition may have a negative impact on TBC's market share in deposits and loans to customers, as well as its ability to grow its deposit and loan portfolios in the future. Increased competition may also have a negative impact on TBC's ability to sustain its net interest margin and fee and commission levels by leading to increased pricing pressures on TBC's products and services, which could have a material adverse effect on TBC's net interest income, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations. • TBC may not be able to maintain the quality of its loan portfolio, which may deteriorate for various reasons, including factors beyond TBC's control (such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of TBC's customers or the unavailability or limited availability of credit information concerning certain customers) and factors dependent on TBC's management and strategy, such as a failure of TBC's risk management procedures or an expansion of TBC's loan portfolio. Increases in the level of non-performing loans could require TBC to take additional provisions, which would impair TBC's capital and, if significant, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

		• Collateral values may decline, which could adversely affect TBC's asset quality. The main forms of collateral taken by TBC in its lending to business entities are charges over real estate, equipment and inventory. The main form of collateral taken by TBC in its lending to individuals is a mortgage over residential property. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions may result in illiquidity and a decline in the value of the collateral securing TBC's loans, including a decline to levels below the outstanding principal balance of those loans. If the value of the collateral held by TBC declines significantly in the future, TBC could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans. • TBC's loan portfolio concentration in Georgia may subject it to risks of default by its largest borrowers and exposure to particular sectors of the Georgian economy. As a result, TBC is sensitive to downturns in the Georgian economy and, in particular, in the sectors in which it has high industry concentration or its largest borrowers operate, as well as adverse changes to such borrowers' business and financial condition. A downturn in the business, financial condition, results of operations and/or prospects of TBC's largest borrowers or in the sectors to which TBC is particularly exposed may adversely affect the relevant customers' ability to repay their loans, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. • TBC may not be successful in implementing its strategic plans or these plans may have less growth or profit potential than TBC anticipates, and these initiatives may not improve profitability to the extent that TBC desires or at all. • TBC may not be able to successfully integrate the operations of Bank Constanta into TBC Bank, which may negatively affect TBC's operations, efficiency and reputation and could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. • TBC's multichannel distribution platform depends heavily on information systems, particularly its remote access channels such as internet banking and mobile banking, and a significant or sustained disruption to TBC's information systems that impacts these remote distribution channels may affect TBC's reputation with banking customers, which could damage TBC's brand and position in the Georgian banking market.
D.3/5	*Key information on key risks of the depository receipts*	There are a number of key risks relating to the investments in GDRs: • An investment in the GDRs carries a high degree of risk and many factors could have a material adverse effect on the value of the GDRs, and an active and liquid market for the GDRs may not develop, which could cause the price of the GDRs to be more volatile and make it more difficult to complete a buy or sell order for the GDRs. • The sale or availability for sale of substantial amounts of TBC's securities could adversely affect the price of the GDRs or impair TBC's ability to obtain further capital through an offering of equity securities. • TBC Bank may decide not to pay dividends in the future, and holders of GDRs may be subject, in any event, to limitations or delays in repatriating their earnings from distributions made on the GDRs, which may adversely affect the price of the GDRs. • Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and the relevant requirements of Georgian law, resulting in practical limitations upon the ability of the holders of the GDRs to exercise their voting rights.

		• Holders of the GDRs may not be able to exercise their pre-emptive rights in certain jurisdictions that restrict holders' ability to exercise such rights with respect to any new equity issuances by TBC. • Investors may face difficulties enforcing judgements, including foreign judgements and arbitral awards, in respect of the GDRs, significantly delaying the enforcement of any such judgement or potentially depriving a claimant of effective legal recourse for claims. • Holders of GDRs may be subject to Georgian taxes on Georgian-source capital gains upon the deposit and withdrawal of Shares with and from the custodian of the Depositary. Additionally, a 5% Georgian withholding tax may apply to the payment of dividends on the Shares or GDRs.

Section E—Offer		
E.1	*Total net proceeds and estimate of the total expenses of the issue/offer*	The gross proceeds of the Global Offer to TBC Bank will be U.S.$100 million and to the Selling Shareholders will be approximately U.S.$138.7 million (assuming no exercise of the Overallotment Option) or U.S.$162.6 million (asssuming the Overallotment Option is exercised in full). The total underwriting commissions, fees and expenses payable by TBC Bank in connection with the Global Offer are expected to be approximately U.S.$3.9 million; no commissions, fees or expenses in connection with the Global Offer will be charged to investors by TBC Bank. The net proceeds that TBC Bank will receive from the Global Offer after deduction of underwriting commissions, fees and expenses will be approximately U.S.$96.1 million. TBC Bank will not receive any proceeds from the sale of GDRs by the Selling Shareholders.
E.2a	*Reasons for the offer, use of proceeds, estimated net amount of the proceeds*	TBC is undertaking the Global Offer in order to raise additional capital to fund its growth objectives, to provide the Selling Shareholders with a liquid market for their Shares, to provide TBC with a liquid investor base through being a listed entity and to enhance TBC's image and perception in Georgia and abroad. TBC plans to use all the net proceeds that it receives from the Global Offer (estimated to be approximately U.S.$96.1 million) to strengthen its capital position (in particular its capital ratios), which will enable it to (i) fund the intended growth of its loan portfolio, particularly within its retail, SME and micro segments and (ii) capture potential growth opportunities.
E.3	*Terms and conditions of the offer*	The Global Offer comprises an offering of GDRs outside of Georgia. The GDRs are being offered outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended and within the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act. The offer price is U.S.$13.00 per GDR. The GDRs are expected to be issued, and payment for them to be made, on or about 11 June 2014. Some of the Selling Shareholders will grant to Barclays Bank PLC and UBS Limited as joint global coordinators (together the "**Joint Global Coordinators**") on behalf of Barclays Bank PLC, UBS Limited and Reneissance Capital (Cyprus) Limited as joint bookrunners (together the "**Joint Bookrunners**") and Peel Hunt LLP as co-manager (the "**Co-Manager**") an Overallotment Option to to call for such Selling Shareholders to sell up to 1,836,364 additional GDRs at the Offer Price for the purpose of covering overallotments and other short positions, if any, in connection with the Global Offer. The Overallotment Option is exercisable upon written notice by UBS Limited, as the Stabilising Manager (on behalf of the other Joint Bookrunners

		and the Co-Manager), to the relevant Selling Shareholders at any time on or before the thirtieth day following commencement of conditional dealings in the GDRs. If the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) exercise the Overallotment Option, the relevant Selling Shareholders will be obligated to sell and each Manager will be severally obligated, subject to the conditions contained in the Selling Shareholders Agreement, to purchase, a number of additional Shares in the form of GDRs proportionate to that Manager's initial amount of underwriting commitment. The Overallotment Option is granted to the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) as part of the Selling Shareholders Agreement for no additional consideration to relevant Selling Shareholders from the Managers.
E.4	*Material interests in the offer*	Not applicable.
E.5	*Name of entity offering to sell the security and lock-up agreements/ details*	The securities are being offered by TBC Bank and the Selling Shareholders. Subject to certain exceptions, each of the Selling Shareholders, TBC Bank, certain other shareholders of TBC Bank and the members of the Management Board has agreed with the Joint Bookrunners and the Co-Manager that neither it, nor, with respect to TBC Bank, any of its subsidiaries, affiliates, nor any person acting on its or their behalf will, from the date hereof until (i) 180 days after the Closing Date (in the case of the IFI Investors, ICI Investors, the individual Selling Shareholders and certain other individual shareholders), or (ii) 360 days after the Closing Date (in the case of TBC Bank, members of the Management Board, Mr. Mamuka Khazaradze, Mr. Badri Japaridze, TBS Holdings Ltd. and Liquid Crystal International N.V. LLC), without the prior written consent of the Joint Global Coordinators: (i) issue, offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell, issue, transfer, charge, pledge, grant any option, right or warrant to purchase or otherwise transfer, lend, or dispose of, directly or indirectly, any Shares, GDRs, or any interest therein, of TBC Bank or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Shares or GDRs, or any interest therein, of TBC Bank; (ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Shares or GDRs of TBC Bank, whether any such swap or transaction described in (i) or (ii) is to be settled by delivery of Shares or GDRs of TBC Bank or such other securities, in cash or otherwise; or (iii) enter into any other disposal or agreement to dispose of any Shares or GDRs of TBC Bank, or make any announcement or other publication of the intention to do any of the foregoing.
E.6	*Dilution resulting from offer*	Prior to the Global Offer, TBC Bank had 41,556,000 Shares outstanding. Following the Global Offer, which will include GDRs representing 7,692,308 newly issued Shares, TBC Bank expects to have 49,248,308 Shares outstanding and the Shares currently outstanding will comprise only 84% of TBC Bank's total issued share capital.
E.7	*Estimated expenses*	Not applicable. No commissions, fees or expenses in connection with the Global Offer will be charged to investors by TBC Bank. As described in the terms and conditions of the GDRs, the Depositary will be entitled to charge certain fees to the holders of the GDRs.

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Potential investors should carefully review this entire Prospectus and, in particular, should consider, among other things, all risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. If any of the following risks actually occur, TBC's business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of the GDRs could also decline and investors could lose all or part of their investment.

TBC believes that the factors described below represent the principal risks inherent in investing in the GDRs but there may be additional risks and uncertainties that TBC currently considers immaterial or of which TBC is currently unaware, and any of these risks and uncertainties could have similar effects to those set forth below.

Risks Relating to TBC's Business

TBC may not be successful in implementing its strategic plans

The strategy of TBC's management ("**Management**") includes growth in each of TBC's retail, corporate, small and medium enterprise ("**SME**") and micro segments, a specific focus on improving profitability by increasing income and reducing costs and a continued drive to build upon TBC's current business strengths. See "*Business Description—Strategy*". The further development of TBC's business, particularly the implementation of these strategies, may be subject to a number of risks and challenges, including that:

- TBC may not be able to attract new retail, SME or micro customers, whether from its competitors or otherwise, in order to achieve the growth necessary to grow its market share in the retail, SME and micro finance markets in Georgia, or those segments may experience less growth or profit potential than TBC anticipates;
- TBC may fail in its attempts to identify and offer attractive new products and services to corporate clients, or may otherwise be unable to retain or expand its corporate client base in order to maintain its current position as a market leader in banking services to large corporate businesses;
- TBC may be unable to optimise its income growth by increasing the proportion of its fee and commission income relative to its total income, or the new initiatives it undertakes to increase fee and commission income may not be as successful or as profitable as TBC expects;
- TBC may be unable to further develop or enhance the capability of its multichannel distribution platform in order to grow its client base and more efficiently serve customers, or may be unable to do so in a profitable manner;
- TBC may not be able to maintain the superior customer experience that Management believes is one of the differentiators underlying its position as one of the most well-known and trusted brands in Georgia, which could weaken TBC's ability to generate and retain the customer loyalty and adversely affect its ability to grow its share in the Georgian banking market and improve profitability; and
- the cost efficiency initiatives currently planned or being implemented by TBC, such as the core banking system transformation project and the integration of the administrative and other functions of TBC Bank and Bank Constanta, may not succeed, or may not achieve the level of savings or cost optimisation anticipated by TBC.

These strategic plans may have less growth or profit potential than TBC anticipates, and there can be no assurance that any of these initiatives will improve profitability to the extent that TBC desires or at all. Furthermore, although TBC believes that these strategies will enable it to achieve a greater return on equity ("**ROE**") in future periods, there can be no assurance that this will occur, or that its ROE will not decline.

Any of the foregoing may have a negative impact on TBC's ability to meet its future growth plans, as well as on its business, results of operations and/or prospects.

Any decline in TBC's net interest income or net interest margin could lead to a reduction in profitability

TBC derives the majority of its total income from net interest income. Consequently, TBC's results of operations are affected by fluctuations in its net interest margin, which is its net interest income divided by its average interest-earning assets. In particular, the results of TBC's banking operations depend on the management of key factors that affect TBC's net interest margin, such as underlying interest rates,

competition for loans and deposits, customer demand and costs of funding. These key factors are influenced by factors beyond TBC's control, such as (among others) global and local economic conditions, the resources of TBC's competitors and business and consumer confidence. Moreover, interest rates and TBC's cost of funding are highly sensitive to many factors beyond TBC's control, including monetary policies and domestic and international economic and political conditions and the reserve policies of the National Bank of Georgia (the "**NBG**"). Any decrease in interest rates on TBC's loans to its customers, alone or in combination with increases in rates payable on deposits or other interest-bearing liabilities, could have a material adverse effect on TBC's future net interest income, net interest margin and, accordingly, its future profitability.

TBC's net interest margin was 8.8%, 8.4%, 7.7% and 8.8% in the three months ended 31 March 2014 and the years ended 31 December 2013, 2012 and 2011, respectively. The decrease between 2011 and 2012 reflected increasing competitive pressures and although TBC's net interest margin increased slightly in 2013, net interest margins in Georgia have generally declined in recent years, and this downward trend may continue. There can be no assurance that TBC will be able to protect itself from the negative effects of future declines in its net interest margin. Any reduction in TBC's net interest margin caused by changes in the key factors outlined above, or otherwise, could have a material adverse effect on TBC's net interest income, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations.

TBC faces significant competition, which may increase in the future and have an adverse impact on its business

The Georgian banking sector is very competitive, and TBC is subject to competition from both domestic and foreign banks. According to the NBG, as at 31 March 2014 there were 21 commercial banks operating in Georgia. TBC competes with a number of these banks, including Bank of Georgia, Liberty Bank, ProCredit Bank, Bank Republic and VTB Georgia. See "*Business Description—Competition*".

Increased competition may have a negative impact on TBC's market share in deposits and loans to customers, as well as its ability to grow its deposit and loan portfolios in the future. Although TBC believes that it is well-positioned to compete in the Georgian banking sector, TBC's market position may suffer if competitors deploy greater financial resources, have access to lower-cost funding or are able to offer a broader suite of products than TBC. TBC may be unable to introduce new products or services ahead of its competitors or before competitors stabilise their share of new markets, or may not be as successful as its competitors in syndicating loans for demanding corporate customers.

Increased competition may also have a negative impact on TBC's ability to sustain its net interest margin and fee and commission levels. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on TBC's products and services, which could have a material adverse effect on TBC's net interest income, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations. See "*—Any decline in TBC's net interest income or net interest margin could lead to a reduction in profitability*".

Furthermore, there can be no assurance that TBC's current regulatory environment with respect to competition and anti-monopoly matters will not be subject to significant change in the future. The Georgian Law on Competition (the "**Competition Law**") restricts certain actions by economic agents, including, *inter alia*, abuse of a dominant position on the market, bad faith competition, certain concerted agreements and practices amongst economic agents aimed at the restriction or prohibition of competition, and concentrations having a material negative effect on effective competition. Recent amendments to the Competition Law, which came into force on 31 March 2014, have clarified that although the Competition Law applies to commercial banks, the primary competition regulatory authority (the "**Competition Agency**"), which was established on 15 April 2014, will not have authority to enforce the law against or apply sanctions to commercial banks in Georgia. According to the Competition Law, in case of an alleged breach of the law by a commercial bank, the Competition Agency would be required to refer the matter to the NBG, which would have the exclusive authority to act on the matter in such cases. Although there are currently no anti-monopoly regulations in Georgia that establish market share limits for banks, there can be no assurance that such anti-monopoly limitations will not be introduced in Georgia in the future. TBC cannot predict whether the Georgian parliament will seek to introduce such legislation or, if it does, whether such laws or regulations would extend to commercial banks. In addition, TBC cannot predict whether it would be able to comply with any or all such laws or regulations. Given the current high market share maintained by TBC, the introduction of any anti-monopoly restrictions may have an effect on the

growth rates of TBC, restrict TBC's ability to make future acquisitions or lead to TBC being required to sell some of its assets or to exit or reduce its presence in some or all of its market segments.

TBC may not be able to maintain the quality of its loan portfolio

The quality of TBC's loan portfolio is affected by changes in the creditworthiness of its customers, their ability to repay their loans on time, TBC's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of TBC's loan portfolio may deteriorate due to other reasons, including factors beyond TBC's control (such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of TBC's customers or the unavailability or limited availability of credit information concerning certain customers) and factors dependent on TBC's management and strategy, such as a failure of TBC's risk management procedures or an expansion of TBC's loan portfolio.

Although Management believes that TBC's growth plan is sustainable and aligned with overall expectations for growth in the Georgian banking sector generally, there can be no assurance that the quality of TBC's loan portfolio will not be adversely affected by the increase in TBC's loan portfolio and in its customer base. In particular, although Management considers the micro segment to be lucrative, TBC may be exposed to increased risks from growth in its micro loan portfolio due to micro customers being typically of lower financial strength than more affluent customers. In addition, the quality of TBC's loan portfolio may deteriorate due to internal factors such as failure of risk management procedures.

TBC's provision expense for loan impairment amounted to GEL 14.6 million for the three months ended 31 March 2014, as compared to GEL 19.7 million for the three months ended 31 March 2013. TBC's provision expense for loan impairment amounted to GEL 33.0 million in 2013, as compared to GEL 23.2 million in 2012 and GEL 16.0 million in 2011. TBC's provision for loan impairment could increase if a single large borrower defaults or a material concentration of smaller borrowers default. Also, as at 31 March 2014, 31 December 2013, 2012 and 2011, non-performing loans (in respect of which any portion of principal or interest is overdue by more than 90 days) ("**Non-performing Loans**") accounted for 1.0%, 1.1%, 1.0% and 0.6% of the total outstanding principal amount of TBC's gross loans and advances to customers (before provision for loan impairment) ("**gross loans**"), respectively. Loans that would otherwise be overdue or impaired, but whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay ("**Restructured Loans**"), accounted for 3.8%, 3.9%, 3.6% and 4.1% of total gross loans as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively. For more information regarding the credit quality of Restructured Loans, see "*Lending Policies and Procedures—Loan Classification and Provisioning Policy—Non-performing and restructured loans and overdue finance leases*".

Although TBC believes that it has created adequate provisions for loan impairment in respect of its loan portfolio, further increases in the level of Non-performing Loans could require TBC to take additional provisions, which would impair TBC's capital and, if significant, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

Collateral values may decline, which could adversely affect TBC's asset quality

As at 31 March 2014, TBC held collateral against its loan portfolio amounting to GEL 2,506.6 million, corresponding to 85.8% of TBC's total gross loans. The main forms of collateral taken by TBC in its lending to business entities are charges over real estate, equipment and inventory. The main form of collateral taken by TBC in its lending to individuals is a mortgage over residential property. See "*Lending Policies and Procedures—Collateral Policies*".

As at 31 March 2014, 62.4% of TBC's total gross loans were secured by real estate collateral. With respect to mortgage loans, TBC generally imposes a loan to value (based on a market value of the real estate used as collateral) ratio of no higher than 70% at the time the loan is advanced, although the ratio may be higher for clients with a very good risk profile. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions, such as that which occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing TBC's loans, including a decline to levels below the outstanding principal balance of those loans.

In addition, declining or unstable prices of collateral in Georgia may make it difficult for TBC to accurately value collateral held by it. The value of any collateral ultimately realised by TBC will depend on

the value of that collateral TBC is able to realise upon foreclosure, which may be different from the current or estimated value. If the value of the collateral held by TBC declines significantly in the future, TBC could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans that are more than 90 days past due. Further, changes to laws or regulations may impair the value of such collateral. See "*—TBC's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are difficult to predict*". If any of these risks materialise, they could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC's loan portfolio concentration in Georgia may subject it to risks of default by its largest borrowers and exposure to particular sectors of the Georgian economy

As at 31 March 2014, 96.5% of TBC's total gross loans were to residents of Georgia. As at 31 March 2014, loans to TBC's ten largest borrowers amounted to GEL 315.5 million, representing 10.8% of TBC's total gross loans and 43.7% of TBC's total equity. As at 31 March 2014, TBC's exposure to its single largest borrower was GEL 45.9 million and constituted 1.6% of TBC's total gross loans and 6.4% of TBC's total equity. Furthermore, TBC's loan portfolio is exposed to certain economic sectors. As at 31 March 2014, the individual, services, agriculture, consumer goods and automobile services and real estate sectors accounted for 38.8%, 17.3%, 6.2%, 4.9% and 4.5%, respectively, of TBC's total gross loans. As a result, TBC is sensitive to downturns in the Georgian economy and, in particular, in the sectors in which it has high industry concentration or its largest borrowers operate, as well as adverse changes to such borrowers' business and financial condition. See "*—Risk Relating to Georgia—Economic instability in Georgia could have a material adverse effect on TBC's business*".

A downturn in the business, financial condition, results of operations and/or prospects of TBC's largest borrowers or in the sectors to which TBC is particularly exposed may adversely affect the relevant customers' ability to repay their loans, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC may not be able to successfully integrate the operations of Bank Constanta into TBC Bank

In May 2011, TBC significantly expanded its micro lending operations by acquiring 80% of the share capital of Bank Constanta, a well-established bank in the micro lending market with branches in many rural areas of Georgia where other banks do not have a significant presence. To improve operational efficiency and leverage synergies, in 2014 TBC launched a large-scale project intended to integrate Bank Constanta fully into TBC Bank. As a result, TBC intends to legally merge Bank Constanta into TBC Bank, and is currently in the process of integrating the main administrative functions of TBC Bank and Bank Constanta (including information technology, human resources and finance operations) in order to optimise staff costs and back office processes. TBC also plans to rebrand all existing Bank Constanta branches under a TBC-linked brand and upgrade the suite of products offered at those branches. Although TBC believes that it has the required resources, skills and expertise to successfully execute this integration, there can be no assurance that these efforts will be successful, or if successful, that planned synergies will be realised. Failure to integrate Bank Constanta fully into TBC's operations or failure to realise the expected synergies from this integration may negatively affect TBC's operations, efficiency and reputation and could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

In addition, on 17 March 2014, a claim was filed in the Tbilisi City Court by the non-entrepreneurial (non-commercial) Legal Entity Fund Constanta (the "**Fund**") against TBC Bank and the board members of the Fund relating to the sale by the Fund of its shares in Bank Constanta (which currently comprise 38.8% of Bank Constanta's total share capital) (the "**Disputed Shares**") to TBC Bank in May 2011. In the claim, the Fund, which is effectively controlled by two individuals, one of whom also serves as Bank Constanta's Supervisory Board Chairman and one who has served as Bank Constanta's CEO but who left Bank Constanta as of 1 June 2014, alleged a breach of duty of the named board members by taking action in excess of their authority in agreeing to the sale of the Disputed Shares to TBC Bank and that the sale price did not reflect the actual price of Bank Constanta shares at the time, and requested that the court annul the sale. The Tbilisi City Court granted a preliminary injunction on 18 March 2014 preventing the transfer or encumbrance of the Disputed Shares and a separate injunction on 11 April 2014 preventing TBC's planned legal merger of Bank Constanta into TBC Bank. Although TBC Bank has filed an appeal requesting that the injunction be lifted pending the resolution of the case, unless the court removes the injunction, TBC Bank may be unable to proceed with the merger of Bank Constanta into TBC Bank until

the claim is resolved, which may take up to 18 months. TBC is currently in discussions with the Fund to settle the claim, but there can be no assurance that TBC will be able to agree a commercially acceptable settlement. Furthermore, if the claim is decided in favour of the Fund, TBC Bank would likely be required to return the Disputed Shares to the Fund for the value of the original sale price as determined by the court (which TBC believes is likely to be less than the current market value of the Disputed Shares). This could have a negative effect on TBC's results of operations and financial position in the applicable period. See "*Business Description—Legal Proceedings*".

If TBC were required by the Georgian courts to return the Disputed Shares to the Fund, TBC Bank's current shareholding of 99.6% of Bank Constanta's shares would decrease to 60.8%, although TBC would continue to control Bank Constanta. If TBC Bank decided to subsequently reacquire the Disputed Shares from the Fund, it would seek to do so on a negotiated basis. If TBC Bank were unable to do so, it could nevertheless proceed with the merger of Bank Constanta into TBC Bank as the holder of 60.8% of Bank Constanta's share capital, since under Bank Constanta's charter a merger may be approved by a simple majority of votes present at a general meeting of shareholders. Because Shares of TBC Bank would be issued as consideration to the shareholders of Bank Constanta that hold the Disputed Shares in connection with any such merger, other holders of TBC Bank's Shares or GDRs would be diluted by a number of Shares equivalent to the market value of the Disputed Shares at the time of the merger. If the court does not remove the preliminary injunctions or rules adversely on the claim, it will likely result in delays in the planned merger of Bank Constanta into TBC Bank, which would in turn delay TBC's ability to fully realise the synergies and cost savings anticipated in connection with the merger. This could, in turn, have a negative effect on TBC's performance and results of operations.

TBC's multichannel distribution platform depends heavily on information systems, particularly its remote access channels such as internet banking and mobile banking.

TBC relies heavily on information systems to conduct its business. TBC's information technology systems and the ability of those systems to keep pace with the expansion of TBC's business operations are crucial for TBC to meet its strategic objectives. TBC's award-winning multichannel distribution platform, which Management believes is one of TBC's distinguishing characteristics in the market, depends heavily on information systems, particularly its remote access channels such as internet banking and mobile banking. This platform, which includes the first ever banking applications on the Georgian market for iPhone and Android mobile devices and banking applications for PDA devices, represents a significant investment by TBC and is key to TBC's strategies of optimising costs and strengthening its brand name in the market. TBC is increasingly reliant on remote distribution channels, and in 2013, 81% of TBC's non-cash transactions were conducted through remote channels (compared to 76% in 2012). Any significant or sustained disruption to TBC's information technology systems that impacts these remote distribution channels may affect TBC's reputation with banking customers, which could damage TBC's brand and position in the Georgian banking market.

TBC's banking operations in Georgia use the local Georgian core banking system, heavily complemented by in-house developed solutions. All of TBC's information systems are centralised, focused on customer needs and highly customised to TBC's business requirements. Beginning in 2011, TBC initiated an IT transformation programme intended to improve the customer experience, better manage customer relationships, improve product and service capabilities and increase operational efficiency. The first step of this programme was the 2011 implementation of the multichannel project to provide remote banking services to TBC's customers. Beginning in 2012, TBC initiated the Oracle Siebel Customer Relationship Management ("**CRM**") implementation project to further enhance the customer experience and increase sales performance by improving cross-selling and up-selling capabilities. This project is planned to be implemented in multiple phases, including a core banking system transformation project to replace existing systems with more standardised, efficient systems by 2017. There can be no assurance that these improved information technology systems will be developed according to schedule or that the new systems will improve the current systems. Any disruption to the functionality of TBC's information technology systems, or delays in increasing the capacity of those systems, may lead to delays in TBC's decision-making processes and risk management procedures or a disruption in TBC's business activities, any of which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. In addition, a failure to update and develop TBC's existing information systems may result in a competitive disadvantage.

TBC is exposed to risk resulting from the granting of foreign currency denominated loans

As at 31 March 2014, 61.3% of TBC's total assets and 65.8% of TBC's total gross loans were denominated in foreign currencies, primarily U.S. dollars. The majority of retail customers who have mortgage loans denominated in foreign currencies earn their income in Lari. While the income of a number of Georgian citizens is paid in U.S. dollars from remittances from abroad and some customers hedge their exposure to some extent through the maintenance of savings in U.S. dollars, customers may not be protected against the significant fluctuations of the exchange rates of the Lari against the currency of the loan. Although TBC takes steps to mitigate the risk of depreciation of the Lari against the U.S. dollar by, *inter alia*, strict management of open currency positions and by holding higher capital for foreign currency loans than for Lari-denominated loans, significant depreciation of the Lari against the U.S. dollar or other foreign currency in which TBC's loans to customers are denominated may result in difficulties related to the repayment of such loans, which, in turn, may lead to a decrease in the quality of TBC's loan portfolio and an increase in impairment provisions for loans extended to TBC's customers, which could materially adversely affect TBC's business, financial condition, results of operations and/or prospects.

Liquidity risk is inherent in TBC's operations

While Management believes TBC currently has sufficient liquidity to meet its obligations, liquidity risk is inherent in banking operations and can be heightened by a number of factors, including an overreliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as, for example, financial market instability like that experienced in the recent global financial crisis. Credit markets worldwide have experienced during recent years, and may continue to experience, a reduction in liquidity and term-funding as a result of global economic and financial factors. The availability of credit to companies in emerging markets in particular is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings, central bank or state interventions or debt restructurings in a relevant industry) could affect the price or availability of funding for companies operating in any of these markets. For example, as the central banks in key economies such as the United States and United Kingdom begin to reduce the scale of their financial crisis bond and other asset purchases, liquidity is expected to tighten, particularly in emerging markets. It is the policy of Management to manage TBC's liquidity prudently for all currencies, focus on maintaining a diverse and appropriate funding strategy for its operations, control the mismatch of TBC's maturities and carefully monitor its undrawn commitments and contingent liabilities.

Although TBC has not defaulted on its indebtedness in the past and believes that it will be able to make required payments in respect of its indebtedness in the future, if it is unable to generate sufficient cash flow or otherwise obtain funds necessary to make such payments, it may be forced to default, following which TBC's creditors would be entitled to accelerate the maturity of such indebtedness. This could cause cross-defaults under, and potential acceleration of, certain of TBC's other indebtedness which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. For an analysis of the maturity profile of TBC's financing arrangements, see "*Asset, Liability and Risk Management—Funding and Liquidity Risk Management—Maturity analysis*". For an analysis of the maturity profile of TBC's subordinated debt, see "*Selected Statistical and Other Information—Funding Sources—Other sources of funding—Other borrowed funds—Subordinated debt—Subordinated debt by maturity*".

As at 31 March 2014, the ratio of TBC's liquid assets (comprising cash and cash equivalents, amounts due from other banks, mandatory cash balances with the NBG and investment securities (less corporate shares)) to total assets increased to 26.8% from 26.6%, 29.4% and 29.0% as at 31 December 2013, 2012 and 2011, respectively. As at 31 March 2014, TBC had total liabilities of GEL 3,711.0 million, of which GEL 860.5 million represented amounts due to credit institutions and subordinated debt and GEL 2,753.9 million represented amounts due to customers. As at 31 March 2014, 81.9% of the total liabilities of TBC Bank (on a standalone basis) had contractual maturities within one year, and an additional 5.6% had contractual maturities between one and two years. As at the same date, only 9.5% (GEL 325.2 million) of the total liabilities of TBC Bank (on a standalone basis) with a contractual maturity of one year or less consisted of liabilities other than customer accounts (referred to hereinafter as "**deposits**"). Although TBC expects to be able to repay these liabilities as they become due in the course of 2014, the failure or inability of TBC Bank to repay any of these liabilities would constitute a cross default under certain of TBC's other liabilities, and could result in the acceleration of other borrowed funds and

subordinated loans up to an aggregate amount of approximately GEL 480 million, which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

Customer deposits comprise the majority of TBC's total liabilities, and as at 31 March 2014, 88.4% of the total liabilities of TBC Bank (on a standalone basis) with a contractual maturity of one year or less consisted of deposits, and 53.3% of customer accounts comprised current and savings accounts that were contractually payable on demand. In addition, Georgian legislation requires TBC to repay term deposits of individuals upon demand unless otherwise agreed between the parties (although in case of early withdrawal, the interest on such deposit may be foregone or reduced). As at 31 March 2014, TBC's largest customer accounted for 3.2% of total deposits and TBC's 20 largest customers accounted for 14.2% of total deposits, compared to 3.6% and 18.2%, respectively, as at 31 December 2013, 4.9% and 19.7%, respectively, as at 31 December 2012 and 3.7% and 20.6%, respectively, as at 31 December 2011. Such concentration of deposits exposes TBC to liquidity risks if customers were to withdraw large amounts of deposits. Furthermore, the lack of a mandatory deposit insurance scheme in Georgia may exacerbate bank runs during times of financial instability. TBC believes that it has adequate liquidity to withstand significant withdrawals of customer deposits based on scenarios calculated from historic data including the levels of withdrawals seen during the 2008 Conflict (as defined below). See "*Risks Relating to Georgia—Economic instability in Georgia could have a material adverse effect on TBC's business*". However, the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. Circumstances in which clients are more likely to withdraw deposits rapidly in large volumes include, amongst others, circumstances beyond TBC's control, such as a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social or political instability.

TBC is subject to operational risk inherent to its business activities

TBC is exposed to operational risk. Operational risk is the risk of loss resulting from inadequacy or failure of internal processes or systems or from external events. This includes the risk of loss due to employees' lack of knowledge or wilful violation of laws, rules and regulations or other misconduct. Misconduct by employees happens in the financial services industry and could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines as well as serious reputational or financial harm. Misconduct by employees, including violation of TBC's own internal risk management policies, could also include binding TBC to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. TBC is susceptible to and has experienced in the past, among other things, fraud by employees or outsiders, unauthorised transactions by employees and operational errors, including clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems. In September 2013, Management discovered that an employee in TBC's corporate segment falsified credit committee approvals in order to issue guarantee letters to a borrower, resulting in one of the largest frauds in TBC's history. Although TBC believes that it has taken appropriate measures to prevent recurrence of this type of fraud, these measures may not be, in all instances, successful. In addition, in the ordinary course of its business TBC processes a number of transactions manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that may be difficult to detect.

Furthermore, any failure or interruption in, or breach of security of, TBC's information technology systems could result in failures or interruptions in TBC's risk management, deposit servicing or loan origination systems or errors in its accounting books and records. Although TBC has back-up systems in place, including central databases, core files and registry settings and central data storages, if TBC's information systems fail, even for a short period of time (such as following the occurrence of a natural disaster), TBC might be unable to serve some customers' needs on a timely basis and might lose their business. Likewise, a temporary shutdown of TBC's information systems may result in TBC incurring costs associated with information retrieval and verification. No assurance can be given that such failures or interruptions will not occur or that TBC will adequately address them if they do occur. Accordingly, the occurrence of any failures or interruptions and any failure to properly implement any systems could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC maintains a system of controls, developed with external consultants and based on Basel II/III requirements, that is designed to monitor and control operational risk. There can be no assurance, however, that TBC will not suffer losses from any failure of these controls to detect or contain operational

risk in the future. Consequently, the inadequacy of TBC's internal processes or systems may result in unauthorised transactions and errors not being detected and, particularly given TBC's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. Any failure of TBC's risk management system to detect unidentified or unanticipated risks in the future, or to correct operational risks, or any failure of third parties adequately to perform outsourced activities could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

Notwithstanding anything stated in this risk factor, nothing stated above should be taken as implying that TBC will be unable to comply with its obligations as a company with securities admitted to the Official List.

TBC's accounting and reporting systems and internal controls relating to the preparation of IFRS financial information are dependent on a limited number of accounting personnel and may not be as consistent and/or formalized as those of banks in more developed markets

Management relies on management information systems, financial reporting functions and systems of internal controls relating to the preparation of International Financial Reporting Standards ("**IFRS**") financial statements. TBC's internal review procedures over the IFRS financial statements preparation may not be, in some cases, as consistent and/or formalized as those of banks in more developed markets.

In addition, TBC's ability to generate accurate and complete IFRS financial information is dependent on a limited number of accounting personnel. Management plans to improve IFRS financial statements preparation procedures through a segregation of duties and internal reviews, increase the number of IFRS personnel and continue training key IFRS personnel for relevant certification and other qualifications. If for any reason TBC fails to train its IFRS personnel adequately, is unable to increase the number of IFRS personnel, is unable to retain its qualified personnel or fails to implement more enhanced controls over the preparation of IFRS financial statements, this could lead to misstatements in TBC's IFRS financial statements or otherwise affect TBC's financial reporting abilities.

Notwithstanding anything stated in this risk factor, nothing stated above should be taken as implying that TBC will be unable to comply with its obligations as a company with securities admitted to the Official List.

TBC's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks

Although TBC invests substantial time and effort in the development, implementation and monitoring of its risk management strategies and techniques (see "*Asset, Liability and Risk Management*"), it may nevertheless fail to adequately manage risks under certain circumstances, particularly when it is confronted with risks that it has not identified or anticipated. If circumstances arise that TBC has not identified or included those in its statistical models, its losses could be greater than expected. If its measures to assess and mitigate risk prove insufficient, or if its models yield inaccurate results or incorrect valuations, TBC may experience material unexpected losses.

For example, losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by TBC to mitigate credit risk and to protect against credit losses prove less effective than expected. TBC employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of TBC's loan portfolio.

Many businesses in Georgia have limited experience operating in competitive market conditions as compared to businesses in Western countries. Accordingly, the financial performance of Georgian businesses is generally more volatile, and the credit quality of Georgian businesses on average is less predictable, than that of similar companies doing business in more mature markets and economies. In addition, even though TBC requires regular financial disclosure by its corporate customers, customer financial statements may not always present a complete and accurate picture of each customer's financial condition. Furthermore, some of TBC's corporate customers may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding TBC's credit risk evaluation procedures, TBC may be unable to correctly evaluate the current financial condition of each prospective corporate borrower and to determine accurately the ability of such corporate borrower to repay its loans when due.

Furthermore, lending to SME, micro and retail customers carries with it greater credit risk exposure. These customers typically have less financial strength than large companies, and there is often less credit history available for such clients. Although TBC is a member of JSC Credit Information Georgia, a credit

bureau allowing major banks to exchange credit information on borrowers in Georgia, the financial condition of some private individuals transacting business with TBC is difficult to assess and predict, as some retail borrowers have no or very limited credit history. Negative developments in the Georgian economy could affect these borrowers more significantly than large companies. As a result, lending to these segments may represent a relatively higher degree of risk than lending to other groups, which may result in higher levels of past-due amounts. This, in turn, could result in higher levels of provisions for loan impairment. Moreover, lending to SME, micro and retail customers has required the implementation and application of credit policies and provisioning procedures that differ from those used for large corporate borrowers. The ability of TBC to grow its customer base and expand its loan portfolio in these segments will depend upon its ability to continue to implement successfully its credit policies and provisioning procedures. In addition, the retail lending sector is more susceptible to fraud than TBC's business lending segments and the system of credit bureaus in Georgia is not fully developed. Any failure to control fraud in TBC's retail lending portfolio could erode margins and could negatively affect TBC's financial condition.

Accordingly, the risk management systems employed by TBC may prove insufficient in measuring and managing risks and this may have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC is subject to financial covenants in its debt agreements that are broader than applicable regulatory requirements, the breach of which may cause TBC to be in default under those agreements

Most loans entered into between TBC and DEG, EBRD, FMO and IFC (together, "**IFI Investors**") are subject to the financial covenants set forth in the Common Terms Agreement (as defined in "*Selected Statistical and Other Information—Funding Sources—Other Sources of Funding—Subordinated debt—Common Terms Agreement*") and TBC is also party to other loan agreements that also contain financial covenants. The financial covenants in the Common Terms Agreement require TBC, in certain instances, to meet higher thresholds than are required under applicable Georgian banking regulations or to comply with additional financial metrics, such as loan to deposit ratios, net stable funding ratios or and other ratios governing overdue and non-performing loans, which may either not be regulated by the NBG or not measured in the same manner. For further details of these financial covenants, see "*Selected Statistical and Other Information—Funding Sources—Other Sources of Funding—Subordinated debt*". As at the date of this Prospectus, TBC is in compliance with all such financial covenants. Whilst TBC believes that it adequately manages its compliance with all applicable financial covenants in the Common Terms Agreement or its other loan agreements and is not at particular risk of breaching any of these, a failure by TBC to comply with these covenants in the future may constitute a default under the relevant agreements and could cause cross-defaults under, and potential acceleration of, certain of TBC's other indebtedness which could, in turn, materially adversely affect TBC's business, financial condition, results of operations and/or prospects.

Capital adequacy and regulatory ratios may constrain TBC's profitability and/or growth

TBC is required by the NBG, and the terms of various of its funding and other arrangements, to comply with certain capital adequacy ratios and other ratios. The capital adequacy regime in Georgia and globally has been subject to significant change in recent years. See "*Banking Sector and Banking Regulation in Georgia—Banking Supervision—Mandatory Prudential Ratios*". TBC's ability to maintain its ratios could be affected by a number of factors, including:

- an increase of TBC's risk-weighted assets;
- TBC's ability to raise capital;
- losses resulting from a deterioration in TBC's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;
- a decline in the values of TBC's securities portfolio;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and
- increases in minimum capital adequacy ratios imposed by the NBG.

As at 31 March 2014, TBC's total capital ratio stood at 28.1% calculated in accordance with the guidelines on capital adequacy standards for international banks contained in the July 1988 text of the Basel Capital Accord, published by the Basel Committee on Banking Supervision (as amended, updated or supplemented from time to time) ("**BIS Guidelines**"), and TBC Bank's total capital ratio stood at 14.5%

calculated in accordance with NBG guidelines and 14.3% calculated in accordance with NBG Basel II Pillar I guidelines (in excess of the minimum required levels of 8%, 12% and 10.5% set by BIS and the NBG, respectively).

Although Management believes that TBC currently has adequate capital, TBC may need to raise additional capital in the future. TBC's ability to raise capital may be limited by numerous factors, including general economic and financial conditions, the availability of funding in the capital markets generally or from TBC's shareholders, investor confidence, sentiment towards the Georgian economy and the credit rating and financial condition, performance and/or prospects of TBC. There can be no assurance that it will be able to obtain such capital on favourable terms, in a timely manner or at all. Any failure to raise additional capital in the future (whether on favourable terms or at all) may restrict TBC's growth plans including its ability to grow its loan portfolio.

In October 2013, the NBG introduced its new NBG version of the Basel II/III capital adequacy regulations. Georgian banks will be required to comply with this regulation beginning in June 2014. According to these new regulations, TBC will be required to maintain a ratio of total regulatory capital to risk-weighted assets at 10.5% or more calculated in accordance with the new regulations. In connection with the final version of its Basel II/III regulation, the NBG disclosed that it plans to introduce additional capital buffers. In order to reduce the uncertainty regarding minimum capital buffers, TBC received a non-binding letter from the NBG dated 28 February 2014, requesting that TBC implement a buffer of 3% over any minimum in the current NBG total capital requirements as calculated in accordance with both current NBG and NBG Basel Pillar 1 guidelines. The NBG emphasised in this letter that it will be consistent in its regulatory approach across banks (including with respect to capital buffers), and Management accordingly believes that the NBG's approach to capital would be applied to all Georgian banks over which the NBG exercises regulatory oversight. See "*Selected Statistical and Other Information—Capital and Capital Adequacy*". If in the future the NBG imposes more stringent prudential regulations concerning capital adequacy in order to meet the requirements of Basel II or Basel III, or for any other reason, there can be no assurance that TBC will be able to comply with these regulations if and when these become applicable to it.

Any breach of the NBG's regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in TBC breaching the covenants in its financing and other arrangements (see "*Selected Statistical and Other Information—Funding Sources—Other sources of funding—Other borrowed funds*") and TBC Bank or other entities in the TBC group being subject to administrative sanctions, which may result in an increase in the operating costs of TBC and/or, loss of reputation, or, in extreme cases, the revocation of TBC Bank's general banking licence, which would result in its inability to perform any banking operations and its liquidation. Any of these events could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are difficult to predict

TBC's banking operations in Georgia are required to comply with Georgian banking regulations. In addition to mandatory capital adequacy ratios, the NBG sets lending limits and other economic ratios for banks in Georgia. Under Georgian banking regulations, TBC Bank is required to, among other things, comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. In addition to its banking operations, TBC also provides other regulated financial services and offers financing products, including brokerage services, that are subject to governmental supervision. Furthermore, if regulations change or if TBC expands its businesses, TBC may become subject to additional rules and regulations at a national, international or supranational level, which may impact TBC's operations. See "*—Capital adequacy and regulatory ratios may constrain TBC's profitability and/or growth*".

In 2013 the Georgian parliament considered various initiatives related to enforcement measures over residential properties owned by individuals that are used as collateral in financing transactions and the imposition of moratorium on foreclosures. These initiatives have been widely criticised. In December 2013 certain amendments related to mortgages and foreclosures were made to several laws, although none of them restrict enforcement actions with respect to collateral pledged in favour of commercial banks. However, if based on these initiatives additional laws are adopted in the future imposing moratorium or other similar restrictions, they may affect enforcement actions by commercial banks and may restrict TBC's ability to enforce security granted by its customers.

In addition, on 28 June 2013, legislative amendments were adopted to impose a moratorium on foreign ownership of agricultural land (including ownership by foreign nationals, foreign entities and local entities with foreign ownership) until 31 December 2014. Although the moratorium does not apply to agricultural land ownership prior to the legislative amendments, the law suggests that future disposals of such properties by their current owners to foreign nationals or foreign entities and Georgian companies with foreign ownership would not be permitted. In addition, the National Agency of Public Registry may refuse to register any sale of shares in Georgian companies owning agricultural land if the purchaser of such shares is a foreign national. The moratorium has been widely criticised and on 26 February 2014 an amendment to the Law on Ownership of Agricultural Land entered into force exempting Georgian commercial banks from this restriction. Any future legislative changes limiting ownership of agricultural land by foreigners could affect TBC's ability to foreclose on collateral consisting of agricultural land or shares of a company owning agricultural land, which could have a negative effect on TBC's business, financial condition and results of operations.

Future changes in regulation, fiscal or other policies are unpredictable and there is often a delay between the announcement of a change and the publication of details of such change. Moreover, any such change is outside the control of TBC. For example, the NBG has indicated that it is considering introducing a new liquidity framework in Georgia but has yet to confirm the details or timing for the implementation of such liquidity framework. Although TBC closely monitors regulatory developments, there can be no assurance that the current regulatory environment in which TBC operates will not be subject to significant change in the future, including as a result of a change in government in Georgia, or that TBC will be able to comply with any or all resulting regulations. See "*—Risks Relating to Georgia—The risk of political instability in Georgia could have a material adverse effect on TBC's business*".

Breaches of the terms of TBC's banking licences may inhibit or prevent TBC's ability to conduct its banking operations

All banking operations and some ancillary financial services in Georgia require respective licences from or registration with the NBG or (in the case of TBC Kredit, TBC Bank's subsidiary in Azerbaijan) the Central Bank of Azerbaijan. Although TBC's entities have such licences, there is no assurance that TBC's entities will be able to maintain such licences or obtain new licences if necessary in the future. Licensed entities in Georgia are subject to NBG's supervision and are required to comply with mandatory requirements. Non-compliance with mandatory requirements may lead to revocation of licenses. A breach of the terms of an NBG licence by any of TBC's entities or the failure to obtain an NBG licence in the future could result in cashflow difficulties and penalties which may include temporary administration of TBC's entities by the NBG and/or fines imposed by the NBG on TBC, which may, in turn, affect TBC's ability to fulfil its payment obligations, and would have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. See "*Banking Sector and Banking Regulation in Georgia*".

TBC's measures to prevent money laundering may not be effective in all material respects

Despite recent success in improving transparency within Georgia and its economy, less developed legislation and insufficient administrative guidance on the interpretation of such legislation increase the risk of Georgia's financial institutions being used as vehicles for money laundering. TBC has implemented measures aimed at preventing any member of TBC from being used as a vehicle for money laundering, including "know your customer" policies and the adoption of anti-money laundering and compliance procedures in all its branches, in compliance with the Georgian Law on Facilitating the Prevention of Illicit Income Legalisation (the "**AML Law**").

In 2013 and 2014, TBC Bank and Bank Constanta paid fines in an aggregate amount of GEL 464,900 relating primarily to a very small number of transactions (approximately 300 transactions, less than 0.01% of all TBC's transactions in 2010, 2011, 2012 and 2013) that, in the view of the NBG, had not been reported to the FMS by TBC within the timeframes specified under relevant anti-money laundering guidelines applicable to designated transactions (such as transactions exceeding certain thresholds). Both TBC Bank and Bank Constanta have since implemented improvements in software, internal processes, regulations and staff training relating to anti-money laundering compliance intended to prevent the recurrence of such reporting violations in the future. See "*Asset, Liability and Risk Management—Compliance Risk Management and Anti-Money Laundering*". Whilst as of the date of this Prospectus, no TBC group company has been accused, named or cited in connection with any occurrences of money laundering, financing of terrorist activity, fraud, or other corrupt or illegal purpose transactions or breaches of Georgian laws prohibiting such activities, there can be no assurance that attempts to launder

money through TBC will not be made or that TBC's anti-money laundering measures will be effective in all material respects. Although TBC has never been associated with money laundering and does not expect such associations in the future, any such association as a result of any failure or insufficiency of its anti-money laundering procedures, or if it were unable to comply with all of the relevant laws regarding financial assistance or money laundering, could subject TBC to significant fines as well as harm to its reputation, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC's success depends on its ability to recruit and retain key personnel

To meet business challenges and retain the effectiveness of its operations, TBC must continue to recruit and retain appropriately skilled personnel. TBC's current senior management team includes a number of persons that TBC believes contribute significant experience and expertise in the banking and other industries in which TBC operates, and TBC relies on these persons for the implementation of its strategy and the operation of its day-to-day activities. Furthermore, the business environment at this stage of Georgia's development depends to a significant extent on goodwill among individuals, and the personal reputation and personal relationships of certain members of TBC's senior management and TBC's significant shareholders are important to the conduct of Group's business. Such relationships have allowed TBC to develop business with many of its key corporate customers. No assurance can be given that members of TBC's senior management who possess such relationships will successfully maintain them or that such members of senior management will remain with TBC. Similarly, no assurance can be given that shareholders with such relationships will maintain them or continue to hold material interests in TBC. The loss of such relationships could have a material adverse effect on TBC's ability to achieve its key strategic objectives and, in significant cases, on TBC's business, financial condition, results of operations and/or prospects.

TBC's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to TBC's business. This may require TBC to increase salaries and other employee benefits, which would increase TBC's staff costs and expenses and decrease profitability. A failure by TBC to retain key members of its senior management, train and/or hire new qualified personnel in a timely manner, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC's insurance policies may not cover, or fully cover, certain types of losses

TBC generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in Georgia, with policy specifications and insured limits, which Management believes are adequate. Risks that Group entities are insured against generally include fire, lightning, flooding, theft, vandalism and third-party liability. TBC also maintains bankers' blanket bond and directors' and officers' insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Furthermore, the scope of insurance policies maintained by and available to TBC may vary from that of insurance policies typically maintained by financial institutions in more developed economies. Any uninsured loss or a loss in excess of insured limits could adversely affect TBC's existing operations, which could, in turn, have a material adverse effect on TBC.

TBC and Georgia may not be able to maintain their credit ratings

On 21 June 2012, Fitch Ratings upgraded TBC Bank's Long-term Issuer Default Rating from 'B+' to 'BB–', with a Stable Outlook. The upgrade was driven by TBC Bank's increased standalone financial strength. At the same time, the agency upgraded TBC Bank's Viability Rating from 'B+' to 'BB–'. According to Fitch, the upgrade of TBC Bank's Viability Rating reflects TBC's high levels of capital and liquidity. The agency also considers that there have been significant positive improvements in the quality of governance and risk management. On 2 April 2014 Moody's affirmed TBC Bank's foreign currency deposit rating at B1/NP and their local currency deposit rating at Ba3/NP. At the same time, Moody's affirmed TBC Bank's baseline credit assessments at Ba3.

On 6 October 2010, Moody's assigned first time Ba3/Not-Prime foreign and local currency issuer ratings to Georgia with a stable outlook. On 22 November 2011 Standard & Poor's raised Georgia's long-term foreign and local currency ratings from "B+" to "BB–" and, on 15 December 2012, Fitch upgraded Georgia's sovereign long-term issuer default ratings from "B+" to "BB–".

There can be no assurance that TBC Bank or Georgia will be able to maintain these credit ratings, and any deterioration in the general economic environment or TBC's financial condition could cause downgrades which could adversely affect TBC's liquidity and competitive position, undermine confidence in TBC, increase its borrowing costs and limit its access to capital markets.

Risks Relating to Georgia

Emerging markets such as Georgia are generally subject to greater risks than more developed markets

Investing in securities involving emerging markets, such as Georgia, involves a higher degree of risk than investments in securities of corporate or sovereign issuers of more developed markets. These higher risks include, but are not limited to, higher volatility, limited liquidity, a narrow export base, current account and budget deficits and changes in the political, economic, social, legal and regulatory environment. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. Emerging markets may also experience more instances of corruption of government officials and misuse of public funds than more mature markets.

In addition, international investors' reactions to events occurring in one emerging market country or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. If such a "contagion" effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by "contagion" effects in the past, including following the August 1998 Russian financial crisis and the more recent global financial crisis. No assurance can be given that it will not be affected by similar effects in the future, including the recent volatility in the Ukraine and elsewhere. See "*—A continuation of the turmoil in global credit markets as a result of the global financial crisis has adversely affected, and may continue to adversely affect, the Georgian economy*".

As a consequence, an investment in TBC carries risks that are not typically associated with investing in more mature markets. These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Georgia, including elements of information provided in this Prospectus. Prospective investors should also note that emerging economies such as Georgia's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisers before making an investment decision.

Financial instability in emerging economies has caused and could cause a material adverse effect on TBC's business, financial condition, results of operations and/or prospects

Financial instability in some emerging economies tends to adversely affect their capital markets as investors move their money to more developed markets, which may be considered more stable. If market conditions and circumstances deteriorate, a decline in credit quality and in asset prices could follow, which, in turn, could lead to an increase in defaults and higher levels of non-performing debt, as well as a worsening of general economic conditions, in TBC's key market, any or all of which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

Regional tensions could have a material adverse effect on the Georgian economy

Since the restoration of its independence in 1991, Georgia has had ongoing disputes in the Abkhazia and the Tskhinvali Region/South Ossetia regions and with Russia. These disputes have led to sporadic violence and breaches of peace-keeping operations.

Russia began imposing economic sanctions on Georgia beginning in early 2006, first by restricting the exports of Georgian agricultural products to Russia, prohibiting wine and mineral water imports and severely limiting land and air transportation between the two countries. As a result, Georgia was forced to search for alternative markets and increased exports to the United States and EU countries. These tensions escalated during the August 2008 conflict in the Tskhinvali Region/South Ossetia region between Georgian troops and local militias and Russian forces that crossed the international border (the "**2008 Conflict**"). In August 2008, Georgia and Russia signed a French-brokered ceasefire that called for the withdrawal of Russian forces. Russian troops, however, continue to occupy Abkhazia and the Tskhinvali/

South Ossetia region, and tensions continue. Russia's subsequent recognition of the independence of Abkhazia and the Tskhinvali Region/South Ossetia was rejected by Georgia, and Georgia withdrew from the Commonwealth of Independent States in August 2009. Georgia's economy was greatly damaged by the 2008 Conflict, compounded by the effects of the global financial crisis on Georgia in late 2008. The combination of property and infrastructure damage had a devastating effect on the Georgian economy and was reflected in the low GDP and approximately 30% drop in exports and imports, an almost 60% decrease in tourism and agriculture (two pillars of the Georgian economy), decreases in FDI and a decline in investor and consumer confidence generally. Kazakhstan, one of the biggest investors in Georgia but a strategic ally of Russia, abandoned several projects after the 2008 Conflict, including plans to build a U.S.$1 billion oil refinery in Batumi, Georgia.

Georgia's recovery after the 2008 Conflict was supported by the international community. The donors' conference held in Brussels on 22 October 2008 resulted in U.S.$4 billion of low-interest loans and grants in aid for Georgia from 38 nations and 15 international organisations. The Government also adopted measures in an effort to ease the economic situation following the 2008 Conflict. The NBG reacted quickly in an effort to stave off a large financial crisis by renewing commercial bank financing, stabilising the currency, reducing the basic interest rate from 12% to 10%, and reducing the minimum reserve requirements for commercial banks from 15% to 5%. As a result, the NBG's efforts helped prevent a major banking crisis in Georgia. Significant losses of international currency reserves were experienced, but by mid-2009 the reserve level had returned to pre-2008 Conflict levels.

Since the 2008 Conflict, Russia has had no diplomatic relations with Georgia. After coming to power in October 2012, Ivanishvili's Government was eager to normalise relations with Russia and took actions to revive trade relations between the countries. At the same time, in September 2013, Russian troops, assisted by the South Ossetian authorities, began moving the de-facto border between Georgia and its breakaway region of South Ossetia further into Georgian-controlled territory, increasing tension between the countries and drawing international criticism. Further movement of the fences has been suspended following diplomatic efforts, but there is no assurance that such fencing will not resume which could, in turn, further increase tensions.

On 28 November 2013 Georgia initialled an Association Agreement with the European Union (the "**EU Association Agreement**") at the EU Eastern Partnership summit held in Vilnius, Lithuania. By September 2014, Georgia hopes to formally sign the EU Association Agreement, which would offer the potential of closer Georgian economic integration with the EU provided that Georgia adjusts certain elements of its legal, judicial and economic systems to meet EU standards. There can be no assurance that Georgia will be able to meet these standards and realise the potential economic benefits of closer integration with the EU. Beginning with the entry into a Deep and Comprehensive Free Trade Area (a major part of the Association Agreement) with the EU, the Government also plans to introduce pension reform and integrate with EU markets by adopting specific pieces of EU legislation in trade, consumer protection and environmental regulation.

Geopolitical tensions between Ukraine and Russia may also have an adverse impact on the Georgian economy and on TBC's business despite the diversification of Georgia's economy, which has led to limited Georgian trade reliance on either Ukraine or Russia (including with respect to Russian energy imports) in recent years. The ongoing crisis began in late 2013 with civil unrest and demonstrations in Kyiv which resulted in the ousting of Ukranian president Viktor Yanukovych and his replacement with a provisional president, Oleksandr Turchynov. This was followed by the movement of Russian forces into the Crimean peninsula throughout late February and early March 2014, an action which significantly increased the level of local and global geopolitical tensions. The resulting diplomatic crisis has had a destabilising effect on the economies, currencies and markets of Ukraine and Russia as well as those of neighboring countries. In the middle of March 2014, following an electoral referendum in Crimea that voted overwhelmingly in favour of Crimean secession from Ukraine, the Crimean parliament declared its independence from Ukraine, and the following day the Russian president signed a treaty annexing Crimea as part of Russia. In response, several western governments, including the United States and the European Union, imposed sanctions on various Russian and Crimean officials, which negatively affected Russian financial markets, resulted in a downgrading of Russia's credit outlook and raised concerns over the possibility of a sanctions-based recession. Since then, instability heightened in the eastern regions of Ukraine with ongoing pro-Russia protests in Donetsk, Lugansk and other cities and independence referendums held in the Donetsk and Lugansk regions in May 2014, in which the majority of the population in both regions voted for a independence from Ukraine. Armed groups have seized many government buildings in the region leading to the deployment of armed forces by the Ukrainian government in a so-called anti-terrorist operation.

Armed clashes between Ukrainian military and pro-Russia or separatist forces have occurred and the possibility of a wider conflict or a civil war remains high. Western governments may impose additional sanctions against Russia, including entire sectors of the Russian economy. The political instability of Ukraine, including any potential split of the country along regional and ethnic lines, as well as any prolonging or further escalation of the conflict between Russia and Ukraine, a significant decline in the Russian economy due to the sanctions or wider uncertainty and/or the increased level of regional, political and economic instability may have a significant and adverse impact on the neighboring countries, including Georgia, including decreases in tourism, foreign investment and consumer confidence.

Russia has indicated that it views the eastward expansion of North Atlantic Treaty Organization ("**NATO**"), potentially including ex-Soviet republics, such as Georgia, as hostile. Any worsening of relations between Ukraine and Russia, any future deterioration or worsening of Georgia's relationship with Russia, including as a result of major changes in Georgia's relations with Western governments and institutions (particularly regarding national security), changes in Georgia's importance to Western energy supplies, changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, may have a negative effect on the political or economic stability of Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

Economic instability in Georgia could have a material adverse effect on TBC's business

Because TBC operates primarily in Georgia, its business, financial condition and results of operations are, and will continue to be, highly dependent on the general economic conditions in Georgia. Since the dissolution of the Soviet Union in the early 1990s, Georgia's society and economy have undergone a rapid transformation from a one-party state with a centrally-planned economy to a pluralist democracy with a market economy. This transformation has been marked by periods of significant instability resulting at various times in declines in gross domestic product ("**GDP**"), hyperinflation, an unstable currency, high levels of state debt relative to GDP, the existence of a "black" and "grey" market economy, high unemployment and underemployment and the impoverishment of a portion of the Georgian population.

Following a recession in 2008 and 2009 resulting from the effects of the 2008 Conflict and the global financial crisis, (which ended several years of relatively high economic growth following the implementation of a series of economic reforms by the Government of Georgia (the "**Government**") beginning in 2004), the Georgian economy again grew from the second half of 2009 with foreign direct investment ("**FDI**") increasing from U.S.$814.5 million in 2010 to U.S.$1,117.2 million in 2011 and real GDP increasing from 6.3% in 2010 to 7.2% in 2011. Real GDP growth during 2012 was 6.2%. In 2012, FDI fell to an estimated U.S.$911.6 million and the year end annual inflation was negative 1.4%, mostly reflecting the high inflation in 2011 due to the food price increases and the economic slowdown in the second half of 2012 as a result of political uncertainty after the change of government in October 2012. Due to the weakening economic activity and deflation, the NBG eased its monetary policy, cutting the refinancing rate from 6.75% in 2011 to 5.25% in 2012, while its foreign currency reserves continued to grow, reaching a record high level of U.S.$2.9 billion in December 2012. Georgia's current account deficit for 2012 was an estimated U.S.$1,853.7 million, or 11.5% of GDP. In 2013, real GDP growth decreased to 3.2% and FDI increased slightly to an estimated U.S.$914.0 million, with annual inflation increasing to 2.4%, each as compared to 2012. Georgia's foreign currency reserves decreased slightly to U.S.$2.8 billion in 2013, and its current account deficit for 2013 also decreased to an estimated U.S.$1.1 billion, or 6.5% of nominal GDP, in 2013. There can be no assurance that recent economic growth will continue or will not be reversed.

Georgia's current account deficit was 22.8% of nominal GDP in 2008, declining during the recession to as low as 10.3% in 2010, before growing again slightly to 11.7% in 2011 and 11.5% in 2012, then decreasing to an estimated 6.5% of nominal GDP in 2013, according to the International Monetary Fund (the "**IMF**"). As a result of the decrease in net FDI inflows beginning in the second half of 2008, in recent years, the current account deficit has been financed, in part, by increased borrowing. A significant increase in the current account deficit, if not accompanied by a recovery in net FDI inflows, may result in a further increase in the levels of Government borrowing to finance the current account deficit, a revaluation of the Lari or a reduction in imports, any of which could materially adversely affect the Georgian economy.

In addition, the Georgian economy is highly dollarised. Prior to 2008, the dollarisation rate (defined as foreign currency deposits as a share of total deposits across the sector) had been declining with foreign currency deposits accounting for approximately 63% of all deposits as at 31 December 2007. As a result of

the combined effects of the 2008 Conflict and the global financial crisis on Georgia, however, the dollarisation rate increased to approximately 73% as at 31 December 2008, although it has since decreased to 58.57% as at 31 December 2011, 64.1% as at 31 December 2012 and 59.9% as at 31 December 2013. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could adversely impact the effectiveness of the implementation of the NBG's monetary and exchange rate policies.

There was significant instability in the Lari-U.S. dollar exchange rate following the 1998 Russian Financial Crisis and the 2008 Conflict. While the Lari generally appreciated against the U.S. dollar and other major international currencies from 2001 to 2008, the Lari has depreciated since then. In addition, in November 2008, the NBG devalued the Lari by 16%, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. The ability of the Government and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI inflows, and any failure to do so or a major depreciation or further devaluation of the Lari could adversely affect Georgia's economy. According to estimates provided by Geostat, annual inflation in Georgia, as measured by the end-of-period consumer price index ("**CPI**"), was 2.0% in 2011, (1.4)% in 2012 and 2.4% as at 31 December 2013. Although the CPI in Georgia has been subject to mild inflation to deflation in recent years, there is no assurance that this will remain so. If the Georgian economy were to suffer from high and sustained inflation in future periods, there would be an increased risk of market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence.

A material depreciation of the Lari relative to the U.S. dollar or the Euro, changes in monetary policy, inflation, market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence could each lead to deterioration in the performance of Georgia's economy, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

A continuation of the turmoil in global credit markets as a result of the global financial crisis has adversely affected, and may continue to adversely affect, the Georgian economy

The global financial crisis, which commenced in 2008, has severely affected global financial markets. Financial markets in the United States, Europe and Asia experienced, and to a lesser extent continue to experience, a period of unprecedented turmoil and upheaval characterised by extreme volatility and declines in security prices, severely diminished liquidity and credit availability, inability to access capital markets, the bankruptcy, default, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government and other governments. Unemployment has risen while business, economic activity and consumer confidence have declined, resulting in a severe global recession. In addition to the global financial crisis, the need for many governments to finance large and growing budget deficits and other factors have negatively affected the financial standing and credit ratings of sovereign and quasi-sovereign issuers, particularly in Europe and the Persian Gulf region. Although global markets showed signs of improvement in 2010 and the first half of 2011, additional negative developments, such as Standard & Poor's cutting the long-term U.S. credit rating in August 2011 and the fiscal crises or potential fiscal crises in certain EU member states, particularly Greece, Spain, Ireland, Italy and Portugal, in the second half of 2011, continued through 2013. Such developments in global credit markets may adversely affect Georgia's economy, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

The risk of political instability in Georgia could have a material adverse effect on TBC's business

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Political conditions in Georgia were highly volatile in the 1990s and in the early part of the 2000s. From January 2004 (following the peaceful "Rose Revolution" uprising in November 2003) until 17 November 2013, Mikheil Saakashvili served as President of Georgia. In the presidential elections held on 27 October 2013, Giorgi Margvelashvili, candidate of the governing Georgian Dream coalition was elected president. In the Georgian parliamentary elections held on 1 October 2012, the then-oppositional Georgian Dream coalition led by Bidzina Ivanishvili won a majority of seats (54.97%) and then-President Mikheil Saakashvili's governing party admitted defeat, thus leading to a transfer of power in Georgia through competitive and universally accepted elections. Following the parliamentary elections, Ivanishvili

was elected as the Prime Minister by the Georgian parliament. Pursuant to a previous announcement, in November 2013 Ivanishvili stepped down and exited politics. Irakli Gharibashvili, Ivanishvili's close ally and a member of the Georgian Dream coalition was nominated to succeed Ivanishvili and was confirmed by the Georgian parliament on 20 November 2013.

Under Prime Minister Gharibashvili's Government programme, Georgia's economic policy is based on the principles of a free market economy, which includes protection of property rights, free competition and freedom of the private sector under effective and transparent government. Amongst other initiatives, the Government plans to achieve these goals by establishing an anti-monopoly agency, developing arbitration and developing a public-private partnership in the economy in order to increase the role of the private sector and effective management of the resources of the public sector. No assurance can be given that the Government plans will be implemented as announced. Furthermore, implementation of Government strategy may result in various changes in the regulatory environment of TBC, which may have negative effect on TBC's business, financial condition and/or prospects.

The Georgian Dream coalition is generally seen to be business and investor friendly and to date has remained committed in principle to major economic and fiscal policies designed to liberalise the Georgian economy. At the same time, however, various legislative initiatives discussed in the Georgian parliament have been subject to criticism by the business community, including the imposition of a moratorium on foreclosures and the moratorium imposed on foreign ownership of agricultural land. See "*—Risks Relating to TBC's Business—TBC's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are difficult to predict*".

While Georgia has introduced policies oriented towards the acceleration of political and economic reforms, there can be no assurance that current Government policies or economic or regulatory reforms will continue at the same pace or at all. Georgia faces several challenges, including an improving but still tense relationship with Russia and the need to implement further economic and political reforms. No assurance can be given that such reforms and economic growth will not be hindered as a result of the disruption of government continuity or any other changes affecting the stability of the Government or as a result of a rejection or reversal of reform policies. Political instability in Georgia could have negative effects on the economy, which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

In 2010, a State Commission proposed significant amendments to the Constitution of Georgia (the "**Constitutional Amendments**"). Georgian parliament approved the Constitutional Amendments in October 2010. Among the effects of the Constitutional Amendments is an enhancement of the primary governing responsibility of the Parliament and a concomitant reduction of the powers of the Presidency. Most provisions of the Constitutional Amendments became effective after the new President took the oath of office on 17 November 2013. The Georgian Dream coalition is also considering additional amendments to the Constitution designed to decrease the threshold of votes necessary for further amendments to the Constitution, although these proposed amendments have been contested and criticised by the opposition. Although in March 2013 the Georgian parliament unanimously adopted certain amendments to the Constitution, further limiting the powers of the President, there can be no assurance that the implementation of the Constitutional Amendments and/or changes to Georgian parliamentary, presidential or prime ministerial powers will not create political disruption or instability or otherwise negatively affect the political climate in Georgia.

In light of such recent political developments, there can be no assurance that the Government will be able to maintain political and civil stability or that reform and economic growth will not be hindered as a result of any such events. Any of the events referred to above could have negative effects on the economy in Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

Disruptions in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy

The economy of Georgia is dependent on the economies of other countries within the region, including Azerbaijan and Armenia, its two largest export markets which accounted for 24.4% and 10.9% of Georgia's total exports, respectively as at 31 December 2013, according to Geostat. Georgia is also in the process of resuming trade with Russia, Georgia's main export market until 2008. Turkey, the biggest importer in Georgia, accounted for 17.1% of Georgia's total imports as at 31 December 2013.

Any economic disruptions or crises in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy. Any changes in the ability of Georgian manufacturers to access world export markets or any significant deterioration in relations between Azerbaijan and Armenia may have a negative effect on the economic stability of Georgia, which, in turn, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

Lack of growth in the currency market could have a material adverse effect on TBC's business

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2012, the total volume of trading by commercial banks in the Lari/U.S. dollar and Lari/Euro markets (excluding activities of the NBG) amounted to U.S.$14 billion and EUR 5 billion, respectively. The exchange rate of the Lari against the U.S. dollar is fixed in the Foreign Exchange Auction between commercial banks, which is used to determine the official exchange rate of the Lari against foreign currencies. According to the NBG, it had U.S.$2.6 billion in gold and foreign currency reserves as at 28 February 2014. Whilst it is widely believed that these reserves will be sufficient to sustain the domestic currency market in the short term, there can be no assurance that a relatively stable market will continue indefinitely. A lack of growth of this currency market may hamper the development of TBC's business and the businesses of its corporate clients, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

Weaknesses relating to the Georgian legal system and legislation create an uncertain environment for investment and business activity in Georgia

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Georgian civil, criminal, tax, administrative and commercial laws are frequently amended. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

In addition, the court system is understaffed and has been undergoing significant reforms. Judges and courts in Georgia are generally less experienced in the area of business and corporate law than judges and courts in certain other countries, particularly the United States and EU countries. Most court decisions are not easily available to the general public. The uncertainties of the Georgian judicial system could have a negative effect on overall economic conditions in Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as on the trading price of the GDRs.

Furthermore, State authorities have a high degree of discretion in Georgia and at times may exercise their discretion arbitrarily. Such arbitrary or discriminatory State action, if directed at any member of TBC, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

The uncertainties of the Georgian tax system could have a material adverse effect of TBC's business

In Georgia, tax laws have not been in force for significant periods of time compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, such tax laws are subject to frequent changes and amendments, which can result in unusual complexities for the Issuer and its business generally. Under the Georgian tax code which came into force in January 2005 (the "**2005 Tax Code**"), replacing the tax code which came into force in 1997, the number of taxes has been reduced from 22 to seven and the administrative procedures simplified. In order to make the tax reform revenue-neutral, however, the tax base was broadened by eliminating many existing tax exemptions, excise tax rates were increased and tax collection efforts were strengthened. Whilst the VAT rate was reduced to 18% under the 2005 Tax Code, VAT exemptions were reduced to a minimum. The corporate profit tax rate was reduced to 15%, whilst the individual income tax rate, which is a flat tax, was reduced to 20%. This tax rate is generally lower than the tax rate applicable to other banks operating in more developed Western countries.

A new tax code was adopted in Georgia on 17 September 2010 and came into effect on 1 January 2011 (the "**2011 Tax Code**"). In 2011, the Georgian parliament adopted a law on economic liberty prohibiting the introduction of new state-wide taxes or increases in the existing tax rates (except excise) without a

public referendum initiated by the Government (except in certain limited circumstances). This law became effective on 31 December 2013. Georgia is, however, a parliamentary democracy and any change in the composition of the Georgian parliament or the Government or in the President could result in a change to taxation policies. Any significant increase in the rate of corporate income tax in Georgia could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as on the trading price of the GDRs. Differing opinions regarding the interpretation of various provisions of tax legislation exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. While Management believes that each member of TBC is currently in compliance with the tax laws affecting its operations, there can be no assurance that the relevant authorities will not take differing positions with regard to interpretative issues, which may result in one or more members of TBC facing tax adjustments or fines. In addition, there can be no assurance that the current tax laws or government tax policies will not be subject to change in the future, including any changes introduced as a result of a change of government. Such changes, among other things, could include the introduction of new taxes, an increase in the tax rates applicable to one or more members of TBC or its customers or the introduction of a bank levy. Any such changes in the tax laws or governmental tax policies may have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

In addition, Georgia faces considerable difficulties in ensuring the impartiality of its court system with respect to tax claims, especially when large amounts are being contested by tax payers. The inability of the Georgian court system to constrain properly the tax authorities in connection with certain tax matters has been notorious over the past several years, especially prior to the change in the Government in 2012. Although certain steps are being taken to remedy the current situation, there can be no assurance that such practices will not continue in the future, which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

Risks Relating to the GDRs and the Trading Market

An investment in the GDRs carries a high degree of risk and many factors could have a material adverse effect on the value of the GDRs, and an active and liquid market for the GDRs may not develop

An investment in the GDRs is speculative and carries a high degree of risk. Potential investors must be prepared to bear the risk of a total loss of their investment. A material adverse effect on the value of the GDRs could arise from many factors, including:

- variations in TBC's operating results and those of other Georgian companies, including TBC's competitors;
- securities analysts' or investors' expectations that TBC's operating results may not meet;
- actual or anticipated announcements of significant acquisitions, strategic partnerships, joint ventures, capital commitments, technical innovations or new products or services by TBC or its competitors;
- variations in national and industry growth rates;
- changes in Governmental legislation or regulation;
- regulatory actions that affect TBC's business;
- depth and liquidity of the market for the GDRs;
- general economic conditions within the business sector where TBC operates or in Georgia; or
- extreme price and volume fluctuations on the Georgian or other emerging market stock exchanges.

The market value of the GDRs may also vary considerably from its underlying net asset value. Moreover, the market price of the GDRs may decline below their Offer Price, which will be determined based on the results of the bookbuilding exercise conducted by the Joint Bookrunners and the Co-Manager.

Furthermore, before the Global Offer, there has been no public trading market for the GDRs. Although the GDRs are expected to be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after this Global Offer. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the GDRs does not develop, the price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The Shares underlying the GDRs are not listed and may be illiquid

Unlike the shares underlying most of the other GDRs traded on the London Stock Exchange, the Shares are neither listed nor traded on any stock exchange. TBC Bank does not intend to apply for the listing or admission to trading of the Shares on any stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under "*Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement*", will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those Shares may be discounted as a result of such withdrawal.

The sale or availability for sale of substantial amounts of TBC Bank's securities could adversely affect the price of the GDRs

Future issuances or sales of TBC Bank's Shares or securities convertible into or exchangeable for Shares, directly or in the form of GDRs, at any time by TBC Bank, or even the perception that such issuances or sales might occur, could adversely affect the market price of the GDRs. Sales of a substantial number of Shares or GDRs in the public markets following the Global Offer, or the perception that these sales may occur, could have a material adverse effect on the price of the GDRs or could impair TBC Bank's ability to obtain further capital through an offering of equity securities. Although TBC Bank, the Selling Shareholders and certain other shareholders of TBC Bank have entered into customary lock-up arrangements with the Managers for a period of 180 days from the Closing Date (in the case of the IFI Investors, ICI Investors and certain individual shareholders), or (ii) 360 days from the Closing Date (in the case of TBC Bank and certain other shareholders of TBC Bank), these restrictions may be waived by the Joint Global Coordinators on behalf of the Joint Bookrunners and the Co-Manager in their discretion, in whole or in part, and are subject to certain exceptions, including, with respect to TBC Bank's lock-up arrangements, a limited public offering of GDRs or Shares within Georgia to Georgian investors and the issuance of Shares to minority shareholders of Bank Constanta in connection with its merger into TBC Bank. See "*Plan of Distribution*".

Future issuances of shares by TBC Bank may also reduce an investor's percentage ownership interest in TBC Bank if that investor does not duly exercise its pre-emptive rights in respect of any new issue of shares. See "*Description of Share Capital and Certain Requirements of Georgian Legislation*". In particular, such rights may not be made available to holders of GDRs if TBC Bank does not request the Depositary to do so, or if it is not lawful or reasonably practicable for the Depositary to do so. See "*Terms and Conditions of the Global Depositary Receipts*". In addition, even if pre-emptive rights are made available to holders of GDRs, the process for exercising such pre-emptive rights through the Depositary may take longer for such holders than for holders of TBC Bank's Shares and TBC Bank cannot assure investors that they will be able to instruct the Depositary to exercise pre-emptive rights in a timely manner.

Furthermore, TBC Bank may issue other classes of securities with rights, preferences or privileges that are more favourable than those attached to the Shares.

TBC Bank may decide not to pay dividends in the future, and holders of GDRs may be subject, in any event, to limitations or delays in repatriating their earnings from distributions made on the GDRs

Although TBC Bank has recently paid dividends to its shareholders and has adopted a dividend policy (see "*Dividend Policy*"), TBC Bank may be unable or elect not to declare dividends in the future. The payment of dividends, if any, by TBC Bank to holders of the GDRs will depend on (in addition to applicable regulatory requirements), among other things, TBC's future profits, financial position and capital requirements, the sufficiency of TBC's distributable reserves, credit terms, general economic conditions and other factors that the directors and/or shareholders deem to be important from time to time. Should TBC Bank decide against declaring dividends in the future, the price of the GDRs may be adversely affected.

Any dividends that TBC Bank may pay in the future in respect of the Shares held by the Depositary or its nominee on behalf of GDR holders will be declared in Lari and converted by TBC Bank into, and paid to the Depositary in, U.S. dollars, and will be distributed by the Depositary to holders of the GDRs, net of all fees, taxes, duties, charges, cost and expenses which may become or have become payable under the deposit agreement entered into between TBC Bank and the Depositary dated 11 June 2014 (the "**Deposit Agreement**") or under applicable law in respect of such GDRs or the relative Deposited Property. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the

exchange rate between the Lari and the U.S. dollar. Such fluctuations could have an adverse effect on the price of the GDRs.

Furthermore, even though current Georgian legislation permits distributions in Lari to be converted into U.S. dollars by TBC Bank without restriction, the ability to convert into U.S. dollars is subject to the availability of U.S. dollars in Georgian currency markets. Although there is an existing market within Georgia for the conversion of Lari into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, further development of this market is uncertain.

In addition, dividends that TBC Bank may distribute to the Depositary will be subject to applicable Georgian withholding taxes. See "*—Holders of GDRs may be subject to Georgian taxes*" below.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and the relevant requirements of Georgian law

The holders of the GDRs will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by the GDRs only in accordance with the provisions of the Terms and Conditions of the GDRs as set out in the Deposit Agreement and the relevant requirements of Georgian law. There are, therefore, practical limitations upon the ability of the holders of the GDRs to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, TBC Bank is required under its Charter (the "**Charter**"), in compliance with the Georgian Law on Entrepreneurs, to notify shareholders at least 20 days in advance of any General Shareholders' Meeting. TBC Bank's shareholders will receive notice directly from TBC Bank, and they will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. See "*Management—General Meeting of Shareholders and Certain Shareholder Rights*".

The holders of the GDRs, by comparison, will not receive notice directly from TBC Bank. Rather, in accordance with the Deposit Agreement, TBC Bank will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable after receipt by the Depositary from TBC Bank thereof to distribute to the holders of the GDRs notice of the meeting and the agenda therefor, written proxy forms by which the Depositary will be informed by holders of the GDRs whether such holders are permitted to give instructions to the Depositary to vote or cause to vote for or against each and any resolution specified in the agenda for the meeting. To exercise their voting rights, the holders of the GDRs must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for holders of the GDRs than for holders of the Shares, and TBC cannot assure the holders of the GDRs that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. The GDRs for which the Depositary does not receive timely voting instructions may in certain circumstances be voted by a discretionary proxy designated by TBC Bank (see "*Terms and Conditions of the Global Depositary Receipts—Condition 12.6*").

According to the terms of the Deposit Agreement, the Depositary is entitled to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders. Although not expressly provided for by Georgian law, TBC believes that the proposed split of the votes will be possible both as a matter of practice and by virtue of respective voting arrangements set forth in the Deposit Agreement which provides for split of the votes. In the event, however, that the Depositary is advised in future that such split voting is not permitted by the law then in force, according to the Deposit Agreement, the Depositary may instead cast in favour of or opposed to such resolution the number of votes representing the net positive difference between the aggregate number of votes in favour of such resolution and the aggregate number of votes opposed to such resolution. Nevertheless, the holders of the GDRs may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of General Shareholders' Meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs with respect to shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights with respect to an event or action in which the holder has voted against or not given voting instructions. The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as reasonably practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (i) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called; or (ii) nominate candidates for TBC Bank's Supervisory Board

(the "**Supervisory Board**") or certain other of TBC Bank's governance bodies. If holders of GDRs wish to take such actions, they should timely request that their GDRs be cancelled and take delivery of the Shares and thus become the owners of the Shares on TBC Bank's share register.

Holders of the GDRs may not be able to exercise their pre-emptive rights

Pursuant to the Charter, existing holders of TBC Bank's Shares are in certain circumstances entitled to pre-emptive rights with respect to newly issued Shares (see "*Description of Share Capital and Certain Requirements of Georgian Legislation—Capital Increase and Reduction; Issuer of Shares and Pre-Emptive Rights*"). Holders of the GDRs in certain jurisdictions may face restrictions under relevant local law on their ability to exercise pre-emptive rights with respect to any new equity issuances by TBC Bank. In particular, holders of GDRs located in an EEA Member State may not be able to exercise their pre-emptive rights, unless a prospectus pursuant to the Prospectus Directive is effective with respect to those rights, or an exemption under the Prospectus Directive from the requirement to produce such a prospectus is available. TBC Bank does not currently expect to produce such a prospectus or take steps to receive an exemption from the requirement to produce such a prospectus. Furthermore, U.S. holders of GDRs may not be able to exercise such pre-emptive rights, unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement under the Securities Act is available. TBC Bank does not currently expect to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such U.S. holders to exercise such pre-emptive rights and, if such exemption were available, TBC Bank may not take the steps necessary to enable U.S. holders of GDRs to rely on it.

Investors may face difficulties enforcing judgements, including foreign judgements and arbitral awards, in respect of the GDRs

On the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against TBC Bank in courts outside Georgia or in a jurisdiction to which TBC Bank has not explicitly submitted. Pursuant to Article 68.2 of the Law of Georgia on Private International Law, foreign court judgements against TBC Bank will not be recognized and enforceable in Georgia if:

- the matter is within the exclusive competence of Georgia;
- there is a violation in the service of process or other procedures under the law of the country of the court which rendered the judgement;
- a dispute involving the same subject matter between the same parties has already been decided by a Georgian court or by a foreign court, judgement of which has been recognized in Georgia;
- the court of the foreign country rendering the judgement is not considered competent to adjudicate the dispute under Georgian legislation;
- the country whose court has rendered the judgement does not recognize the judgements of Georgian courts;
- a dispute involving the same subject matter between the same parties is already being heard in a Georgian court; or
- the judgement of the foreign court contradicts fundamental legal principles of Georgia.

No treaty exists between Georgia and most Western jurisdictions (including the United Kingdom) for the reciprocal enforcement of foreign court judgements.

The Supreme Court of Georgia will decide whether to recognise a foreign judgement. If recognition is denied by the Supreme Court of Georgia, the claimant may be required to bring new proceedings in Georgia in respect of the matter covered by a judgement already obtained in a foreign jurisdiction against TBC Bank. In addition, Georgian courts have relatively limited experience in the recognition and enforcement of foreign court judgements and, in general, mandatory enforcement procedures take a considerable amount of time. The limitations described above, including the general procedural grounds set out in Georgian legislation for the refusal to recognise and enforce foreign court judgements in Georgia, may significantly delay the enforcement of any such judgement or potentially deprive a claimant of effective legal recourse for claims.

The Deposit Agreement and the Deed Poll provide that disputes arising from or in connection with the GDRs will be settled by arbitration. Georgia is a party to the New York Convention. Therefore, an arbitration award obtained in a country which is also a party to the New York Conventions, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with the Law of Georgia on Arbitration, the Georgian civil procedure regulations and other procedures and requirements established by Georgian legislation. It may be difficult, however, to enforce arbitral awards in Georgia due to a number factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural ambiguities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

Furthermore, the choice of English law as the governing law of the GDRs and the transaction documents may not be given effect, and the recognition or enforcement of foreign court judgements and arbitral awards may be limited, by application of the Georgian law principle requiring compliance with mandatory provisions of the law of the country most closely connected to the transaction, including mandatory provisions of Georgian law. The nature and scope of such mandatory provisions are subject to a considerable degree of discretionary authority by the court in which recognition or enforcement of the judgement or arbitral award is being sought.

Holders of GDRs may be subject to Georgian taxes

The gain realised, or deemed to be realised, by non-Georgian or Georgian residents on the disposition, exchange or conversion of Shares or GDRs is subject to taxation in Georgia. Legal entities (whether resident or non-resident) are required to pay Georgian profit tax on capital gains at a flat rate of 15%. Capital gains of individuals (whether resident or non-resident) are subject to personal income tax at a flat rate of 20%. If a non-resident GDR holder (individual or legal entity) or a resident individual who is not registered as a taxpayer for the purposes of the Tax Code of Georgia, sells GDRs through a brokerage company registered in Georgia, withholding tax on capital gains applies. The withholding tax rate is 10% (15% for legal entities registered in offshore jurisdictions with beneficial taxation regimes), although varying interpretations may exist as to the applicable tax rate.

Although no definitive rulings have been issued under Georgian tax laws as to whether the deposit and withdrawal of Shares in and from a depositary receipt facility represents a disposition, exchange or conversion which is subject to tax in Georgia, holders of GDRs or Shares may be subject to tax on Georgian-source capital gains upon the deposit and withdrawal of Shares with and from the custodian of the Depositary pursuant to the terms and conditions that apply to the GDRs. Further, the custodian may be subject to profit tax upon the withdrawal of Shares from the depositary receipt facility by the GDR holders. Additionally, a 5% Georgian withholding tax may apply to the payment of dividends on the Shares or GDRs to non-residents (whether individuals or legal entities), resident individuals and non-commercial legal entities. Notwithstanding the above, certain relief on withholding tax on dividend and tax on capital gains may be available for non-resident holders (whether individuals or legal entities) pursuant to applicable double taxation treaties. For additional discussion of Georgian taxation, see "*Taxation—Georgian Tax Considerations*".

THE GLOBAL OFFER

TBC Bank	TBC Bank Joint Stock Company, a joint stock company incorporated under the laws of Georgia under the identification number 204854595 ("**TBC Bank**"). Its registered office is at 7 Marjanishvili Street, Tbilisi, 0102, Georgia and its telephone number is (+995) 32 227 27 27.
The Selling Shareholders	International Finance Corporation ("**IFC**"), the European Bank for Reconstruction and Development ("**EBRD**"), DEG—Deutsche Investitions- und Entwicklungsgesellschaft mbH, a financial institution incorporated under the laws of Germany ("**DEG**"), J.P. Morgan Securities plc, a company incorporated in England and Wales, ("**JPMorgan plc**"), Ashmore Cayman SPC No. 2 Limited, a company incorporated under the laws of the Cayman Islands ("**Ashmore**"), and TBC Broker LLC acting on behalf of individual selling shareholders (together, the "**Selling Shareholders**"). See "*Shareholders and Related Party Transactions*".
The Offering	This is a global offer by TBC Bank of 7,692,308 ordinary shares with a par value of GEL 0.4 per share (the "**Shares**") and by the Selling Shareholders of 12,507,692 Shares (collectively the "**Global Offer**") in the form of global depositary receipts representing Shares (the "**GDRs**"). One GDR represents an interest in one Share. The Global Offer comprises an offering of GDRs outside of Georgia. The GDRs are being offered outside the United States in reliance on Regulation S ("**Regulation S**", and such GDRs, the "**Regulation S Offering**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and within the United States to certain qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A ("**Rule 144A**", and such GDRs, the "**Rule 144A Offering**") under the Securities Act. See "*Plan of Distribution*".
Offer Price	The offer price is U.S.$13.00 per GDR.
Share Capital	TBC Bank's ordinary shares have been issued under the laws of Georgia. Immediately prior to the Global Offer, TBC Bank's issued share capital consisted of 41,556,000 ordinary shares, each with a par value of GEL 0.4, all of which are fully paid. TBC Bank's ordinary shares are subject to applicable provisions of Georgian legislation and the Charter. The ordinary shares also have the rights attached to them described under "*Description of Share Capital and Certain Requirements of Georgian Legislation*".
Overallotment Option	Some of the Selling Shareholders will grant to the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) an Overallotment Option to to call for such Selling Shareholders to sell up to 1,836,364 additional GDRs at the Offer Price for the purpose of covering overallotments and other short positions, if any, in connection with the Global Offer. The Overallotment Option is exercisable upon written notice by the Stabilising Manager (on behalf of the other Joint Bookrunners and the Co-Manager) to the relevant Selling Shareholders at any time on or before the thirtieth day following commencement of conditional dealings in the GDRs. If the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) exercise the Overallotment Option, the relevant Selling Shareholders will be obligated to sell and each Manager will be severally obligated, subject to the conditions contained in the Selling Shareholders Agreement, to purchase, a number of additional Shares in the form of GDRs proportionate to that Manager's initial amount of underwriting commitment. The Overallotment Option is granted to the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) as part of the Selling Shareholders Agreement for no

	additional consideration to relevant Selling Shareholders from the Managers. See "*Plan of Distribution*".
The GDRs	One GDR will represent one ordinary share on deposit with a custodian for the Depositary. The Bank of New York Mellon, London Branch (using BNY (Nominees) Limited as nominee) will be appointed as the Custodian (the "**Custodian**") on the Closing Date. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. The Regulation S GDRs will be evidenced by a master Regulation S global depositary receipt (the "**Regulation S Master GDR**") and the Rule 144A GDRs will be evidenced initially by a master Rule 144A global depositary receipt (the "**Rule 144A Master GDR**" and, together with the Regulation S Master GDR the "**Master GDRs**"), each to be issued pursuant to the Deposit Agreement. Pursuant to the Deposit Agreement, the ordinary shares represented by the GDRs will be held by the Custodian, for the account of the Depositary, which in turn holds for the benefit of the holders of the GDRs. From time to time the Depositary may deduct fees and expenses from dividend or other distributions and may otherwise assess other per-GDR fees and other fees and expenses to the GDR holders. See "*Terms and Conditions of the Global Depositary Receipts*". Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement and the Terms and Conditions of the GDRs, interests in the Regulation S Master GDR may be exchanged for interests in the corresponding number of GDRs represented by the Rule 144A Master GDR, and vice versa. See "*Terms and Conditions of the Global Depositary Receipts*" and "*Settlement and Delivery—Global Clearance and Settlement Procedures*".
Closing Date	The GDRs are expected to be issued, and payment for them to be made, on or about 11 June 2014.
Use of Proceeds	TBC is undertaking the Global Offer in order to raise additional capital to fund its growth objectives, to provide the Selling Shareholders with a liquid market for their Shares, to provide TBC with a liquid investor base through being a listed entity and to enhance TBC's image and perception in Georgia and abroad. TBC plans to use all the net proceeds that it receives from the Global Offer (estimated to be approximately U.S.$96.1 million) to strengthen its capital position (in particular its capital ratios), which will enable it to (i) fund the intended growth of its loan portfolio, particularly within its retail, SME and micro segments and (ii) capture potential growth opportunities. For further information see "*Business Description—Strategy*".
Depositary	The Bank of New York Mellon
Lock-up	Subject to certain exceptions, each of the Selling Shareholders, TBC Bank and certain other shareholders of TBC Bank has agreed with the Joint Bookrunners and the Co-Manager that neither it, nor, with respect to TBC Bank, any of its subsidiaries, affiliates, nor any person acting on its or their behalf will, from the date hereof until (i) 180 days after the Closing Date (in the case of the IFI Investors, ICI Investors and certain individual shareholders), or (ii) 360 days after the Closing Date (in the case of TBC Bank and certain other shareholders of TBC Bank), without the prior written consent of the Joint Global Coordinators: (i) issue, offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell,

issue, transfer, charge, pledge, grant any option, right or warrant to purchase or otherwise transfer, lend, or dispose of, directly or indirectly, any Shares, GDRs, or any interest therein, of TBC Bank or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Shares or GDRs, or any interest therein, of TBC Bank; (ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Shares or GDRs of TBC Bank, whether any such swap or transaction described in (i) or (ii) is to be settled by delivery of Shares or GDRs of TBC Bank or such other securities, in cash or otherwise; or (iii) enter into any other disposal or agreement to dispose of any Shares or GDRs of TBC Bank, or make any announcement or other publication of the intention to do any of the foregoing. See "*Plan of Distribution—Lock-up Provisions*".

Voting

Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares subject to the provisions of the Deposit Agreement and the Terms and Conditions of the GDRs and in accordance with any applicable Georgian law. Each ordinary share carries one vote. See "*Terms and Conditions of the Global Depositary Receipts*" and "*Description of Share Capital and Certain Requirements of Georgian Legislation—Voting Rights*".

The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that, as relevant, a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received. TBC Bank has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of Shareholders ("**GMS**") of TBC Bank. See "*Terms and Conditions of the Global Depositary Receipts—Condition 12*".

Dividend Policy

Distributions of profits and payments of dividends by TBC Bank may only be made in compliance with the Law on Entrepreneurs and TBC Bank's Charter. Any promise to unconditionally pay dividends is invalid under the Law on Entrepreneurs. Dividends may be paid out only after the adoption of the annual financial statements by the GMS, showing that the distribution of dividends is permissible and will be paid out of net profits of TBC Bank.

On 8 April 2009 the Management Board adopted, and the Supervisory Board approved, the Capital Management and Dividend Planning Policy of TBC Bank (the "**Dividend Policy**") in order to ensure current capital adequacy, to plan for future capital needs and project efficient dividend payouts. The general objective of the Dividend Policy is to manage the capital position with the regular dividend payouts in the amount that will not only ensure compliance with internal regulations but also ensure capital adequacy for TBC's future expansion. On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net profit for the previous year (IFRS) attributable to the owners of TBC Bank as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution.

TBC's dividend strategy is based on two major priorities: (i) maintaining adequate capital for TBC Bank; and (ii) ensuring consistency of dividend payment to shareholders in sufficient amounts. Excessive dividends will not be paid out if it jeopardizes TBC's current capital adequacy or future growth opportunities. Dividend payments are made only when: (a) the dividends are in compliance with TBC Bank's approved capital plan; (b) the dividend amounts are in accordance with all regulatory requirements and

internal regulations of TBC Bank, thus not putting in jeopardy future expansion; and (c) the dividend payments do not adversely impact TBC's capital structure and related regulatory capital ratio requirements. See "*Dividend Policy*".

Over the past three years a distribution of dividends to the shareholders of TBC Bank was approved twice by the GMS. The GMS held on 4 July 2013 approved a distribution in the amount of GEL 17,869,281 to the shareholders (equivalent to 20% of TBC Bank's standalone net profit), which was paid on 5 July 2013. On 4 March 2014, the GMS approved a distribution in the amount of GEL 26,492,294 to the shareholders (equivalent to 25% of TBC Bank's standalone net profit), which was paid on 4 March 2014.

Taxation

Purchasing and holding the GDRs will have certain United States, United Kingdom and Georgian tax consequences. See "*Taxation*".

Transfer Restrictions

The GDRs are freely transferable (subject, to the clearing and settlement rules of The Depository Trust Company (in the case of the GDRs represented from time to time by the Rule 144A Master GDR) and Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**") (in the case of the GDRs represented from time to time by the Regulation S Master GDR), as applicable and the terms and conditions of the GDRs), subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the European Economic Area (the "**EEA**") and Georgia and contractual lock-up arrangements applicable to the Selling Shareholders, TBC Bank and certain other shareholders of TBC Bank. See "*Selling and Transfer Restrictions*".

Listing and Trading

Application has been made (1) to the FCA, in its capacity as competent authority (the U.K. Listing Authority, or "**UKLA**") under the FSMA, for a listing of up to 49,248,308 GDRs consisting of (i) 18,363,636 GDRs to be issued on or about 11 June 2014 (the "**Closing Date**"), (ii) up to 1,836,364 additional GDRs to be issued in connection with the Overallotment Option, and (iii) up to 29,048,308 additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with a custodian holding on behalf of The Bank of New York Mellon (the "**Depositary**"), to be admitted to the official list of the FCA (the "**Official List**") and (2) to the London Stock Exchange plc (the "**London Stock Exchange**"), for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities (the "**Regulated Market**") through its International Order Book (the "**IOB**"), which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Conditional trading in the GDRs on the London Stock Exchange through the IOB is expected to commence on an if-and-when-issued basis on or about 6 June 2014. The Shares are not, and are not expected to be listed, on any stock exchange.

Admission to the Official List and unconditional trading on the London Stock Exchange (collectively, "**Admission**") is expected to take place on or about 11 June 2014. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The GDRs are expected to be traded on the Regulated Market under the symbol "TBCB".

Settlement Procedures

It is expected that delivery of the GDRs will be made against payment therefor in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See "*Settlement and Delivery*".

The GDRs offered and sold in the United States (the "**Rule 144A GDRs**") will be evidenced by a master Rule 144A global depositary receipt (the "**Rule 144A Master GDR**") deposited with The Bank of New York Mellon in New York as custodian for The Depository Trust Company ("**DTC**"), and registered in the name of Cede & Co., as nominee for DTC, and the GDRs offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a master Regulation S global depositary receipt (the "**Regulation S Master GDR**" and, together with the Rule 144A Master GDR, the "**Master GDRs**") registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank SA/NV ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream**"). The Shares represented by the GDRs will be held by The Bank of New York Mellon, London Branch (using BNY (Nominees) Limited as its nominee), as custodian (the "**Custodian**"), for the Depositary. Except as described in this Prospectus, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through the records of DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream with respect to the Regulation S GDRs, and their direct and indirect participants, as applicable. See "*Settlement and Delivery*".

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

The security identification numbers for the GDRs offered hereby are as follows:

Rule 144A GDRs:
ISIN: US87217U1097
Common Code: 107236503
CUSIP: 87217U 109
SEDOL: BMQX501

Regulation S GDRs:
ISIN: US87217U2087
Common Code: 107237402
CUSIP: 87217U 208
SEDOL: BMQX512

The London Stock Exchange trading symbol for the GDRs is "TBCB".

Risk Factors

Prospective investors should consider carefully certain risks relating to investing in the GDRs. See "*Risk Factors*".

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

General

Each prospective investor, by accepting delivery of this Prospectus, agrees that this Prospectus is being furnished by TBC Bank solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Managers (as defined under "*Plan of Distribution*"), any of their respective affiliates or advisors makes any representation or warranty, express or implied, nor accepts any responsibility, as to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of TBC Bank, the Selling Shareholders, the Depositary or the Managers that any recipient of this Prospectus should purchase the GDRs. Each potential purchaser of GDRs should determine for itself the relevance of the information contained in this Prospectus, and its purchase of GDRs should be based upon such investigation, as it deems necessary.

This Prospectus is issued in compliance with the Prospectus Rules of the FCA, which comply with the provisions of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in each relevant member state of the EEA) (the "**Prospectus Directive**") for the purpose of giving information with regard to TBC Bank, the Selling Shareholders and the GDRs.

This Prospectus does not constitute an offer to the public to purchase or otherwise acquire the GDRs. In making an investment decision regarding the GDRs, prospective investors must rely on their own examination of TBC Bank and the terms of the Global Offer, including the merits and risks involved and prospective investors should rely only on the information contained in this Prospectus. None of TBC Bank, the Selling Shareholders or the Managers has authorised any other person to provide Prospective Investors with different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. Prospective investors should assume that the information appearing in this Prospectus is accurate only as of its date. TBC Bank's business, financial condition, results of operations, prospects and the information set forth in this Prospectus may have changed since the date hereof.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Managers by the FSMA or the regulatory regime established thereunder, none of the Managers accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it or any of them or on its or their behalf in connection with TBC or the Securities. Each of the Managers accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

TBC Bank has included its own estimates, assessments, adjustments and judgements in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. Whilst TBC Bank believes that its own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by it approximately reflects the industry and the markets in which TBC Bank operates, there is no assurance that TBC Bank's own estimates, assessments, adjustments and judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of TBC Bank's website, or the website of any of TBC Bank's affiliates, do not form any part of this Prospectus.

Prospective investors should not consider any information in this Prospectus to be investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the GDRs. None of TBC Bank, the Selling Shareholders, the Depositary or the Managers makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Managers are acting exclusively for TBC Bank and the Selling Shareholders and no one else in connection with the Global Offer and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Global Offer.

In connection with the Global Offer, the Managers and any of their respective affiliates acting as an investor for its or their own account or accounts may subscribe for or purchase, as the case may be, GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account or accounts in such GDRs, any other securities of TBC Bank or other related investments in connection with the Global Offer or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers and any of their respective affiliates acting as an investor for its or their own account or accounts. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

TBC Bank and the Selling Shareholders may withdraw the Global Offer at any time before admission to the Official List, and TBC Bank, the Selling Shareholders and the Managers reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

The Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the GDRs offered in the Global Offer. The distribution of this Prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus comes must are required to inform themselves about, and observe any such restrictions. See "*Terms and Conditions of the Global Depositary Receipts*", "*Selling and Transfer Restrictions*" and "*Plan of Distribution*" elsewhere in this Prospectus. None of TBC Bank, the Selling Shareholders, the Depositary or the Managers accepts any legal responsibility for any violation by any person, whether or not a perspective investor, any such restrictions. prospective investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the GDRs or possess or distribute this Prospectus and prospective investors must obtain any consent, approval or permission required for their purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers or sales. None of TBC Bank, the Selling Shareholders, the Depositary or the Managers is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

Responsibility Statement

TBC Bank accepts responsibility for the information contained in this Prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of TBC Bank's knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Stabilisation

In connection with the Global Offer, UBS Limited (the "Stabilising Manager") (or any agent or other persons acting on behalf of the Stabilising Manager) may (but will be under no obligation to), to the extent permitted by applicable law, overallot GDRs or effect other stabilising transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. However, there is no assurance that the Stabilising Manager (or any agent or other persons acting on behalf of the Stabilising Manager) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the price of the GDRs is made and ending no later than 30 calendar days thereafter (the "Stabilisation Period"). In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price (as defined in "The Global Offer"). Save as required by law, the Stabilising Manager does not intend to disclose the extent of any overallotments and/or stabilisation transactions under the Global Offer. Any stabilisation action must be undertaken in accordance with applicable laws and regulations.

Notice to Certain Investors

Notice to U.K. and other EEA investors

This Prospectus is only addressed to and directed at persons in member states of the European Economic Area (the "**EEA**"), who are "qualified investors" ("**Qualified Investors**") within the meaning of Article 2(1)(e) of the Prospectus Directive. In addition, in the United Kingdom, this Prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This Prospectus has been prepared on the basis that all offers of the GDRs will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for TBC Bank, the Selling Shareholders or any of the Managers to produce a prospectus for such offer. None of TBC Bank, the Selling Shareholders or the Managers has authorised or authorises the making of any offer of the GDRs through any financial intermediary, other than offers made by the Managers which constitute the final placement of the GDRs contemplated in this Prospectus.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (each, the "**Relevant Member State**") who receives any communication in respect of the GDRs or who acquires any GDRs under the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Managers that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any GDRs acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted and agreed that the GDRs acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or where the GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those GDRs to it is not treated under the Prospective Directive as having been made to such persons. TBC Bank, the Managers and their affiliates and others will rely (TBC Bank acknowledges that the Managers and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase the GDRs.

The Managers may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in each relevant member state of the EEA), and includes any relevant implementing measure in each relevant member state of the EEA and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Notice to investors in Georgia

This document and the information contained herein are not a public offer or advertisement of GDRs in Georgia and are not an offer, or an invitation to make offers, to purchase, sell, exchange or transfer any securities in Georgia or to or for the benefit of any Georgian person or entity, unless and to the extent otherwise permitted under Georgian law, and must not be made publicly available in Georgia. The GDRs have not been and will not be registered in Georgia and are not intended for "placement", "public circulation", "offering" or "advertising" (each as defined in Georgian law) in Georgia except as permitted by Georgian law.

Notice to United States investors

Because of the following restrictions, purchasers in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of GDRs.

The GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that sellers of the GDRs may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Any resale or other transfer, or attempted resale or other transfer, of such GDRs, made other than in compliance with the above stated restriction, shall not be recognised by TBC Bank. In addition, until 40 days after the commencement of the Global Offer of the GDRs, an offer or sale of GDRs within the United States by a dealer (whether or not participating in the Global Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from the registration requirements under the Securities Act.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE GDRS OR PASSED UPON OR ENDORSED THE MERITS OF THE GLOBAL OFFER OF THE GDRS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Notice to New Hampshire residents only

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Japan

The Securities offered hereby have not been and will not be registered under the Final Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Joint Bookrunners and the Co-Manager represents and agrees that the Securities which it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Corporations Act**")) has been or will be lodged with, or registered by, the Australian Securities and Investments Commission ("**ASIC**") in relation to the offering of the Securities.

Each of Joint Bookrunners and the Co-Manager represents and agrees that:

1. the Prospectus does not constitute a prospectus or other disclosure document under the Corporations Act and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act;
2. the Prospectus will be distributed in Australia by the Joint Bookrunners and the Co-Manager to persons (the "**Exempt Investors**") who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), to "professional investors" (within the meaning of section 708(11) of the Corporations Act) and/or otherwise pursuant to one of more exemptions contained in section 708 of the Corporations Act;
3. any entity receiving the Prospectus will be required to represent and warrant that if it is in Australia, it is either a professional or a sophisticated investor or a person to whom it is lawful to offer the Securities without disclosure to investors under Chapter 6D of the Corporations Act and that it will not distribute the Prospectus to any other person;
4. any of the Securities applied for by Exempt Investors in Australia will not be offered for sale in Australia for 12 months from the date of issue, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 or 708A of the Corporations Act;
5. the Prospectus will not be supplied in connection with any offering or proposed offering of securities or financial products that require disclosure in accordance with Chapter 6D or Part 7.9 of the Corporations Act; and
6. any person acquiring the Securities will be required to observe such Australian onsale restrictions and if in any doubt as to the application or effect of this legislation, should confer with its professional advisors.

Russia

This Prospectus and the information contained herein are not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "on the securities market" dated 22 April 1996, as amended (the "**Russian QIs**") and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Securities have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

Turkey

The issuance of the Securities has not been approved by the Turkish Capital Markets Board and the Securities are not being publicly offered or sold in Turkey. This Prospectus is not intended to be a public offering, advertisement, promotion or solicitation of the Securities or any interests therein. No transaction that may be deemed as a public offering or otherwise as a sale of the Securities (or beneficial interests therein) in Turkey by may be engaged in. Pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the purchase or sale of the Securities (or beneficial interests therein) by residents of Turkey, provided that they purchase or sell such Securities (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorized pursuant to Capital Markets Board regulations and the purchase price is transferred through banks. As such, Turkish residents should use banks or licensed brokerage institutions when purchasing the Securities (or beneficial interests therein) and transfer the purchase price through banks.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The consolidated financial information of TBC Bank and its subsidiaries (together, "**TBC**") set forth herein has, unless otherwise indicated, been derived from TBC's audited consolidated financial statements as at and for the years ended 31 December 2013, 2012 and 2011 (the "**Audited Consolidated Financial Statements**"), and the unaudited condensed consolidated interim financial information as at and for the three months ended 31 March 2014 (with comparative figures for the three months ended 31 March 2013) (the "**Unaudited Consolidated Interim Financial Statements**"), as set forth on pages F-1 through F-149 of this Prospectus. The Audited Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("**IASB**") and the Unaudited Consolidated Interim Financial Statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

In 2013, in connection with the preparation of the Audited Consolidated Financial Statements, the management of TBC Bank changed the presentation of certain line items of the consolidated statement of financial position as at 31 December 2012 and 2011 and of the consolidated statement of profit or loss and other comprehensive income for 2012 and 2011. For a discussion of these changes, see Note 2 to the Audited Consolidated Financial Statements.

Non-IFRS measures

This Prospectus includes certain non-IFRS measures, such as return on equity, return on assets, net interest margin, net interest spread, ratio of Non-performing Loans, cost to income ratio, capitalisation and other ratios, that are not required by, or presented in accordance with, IFRS. Management believes that the presentation of these non-IFRS measures and ratios is helpful to investors because these and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance, financial position and liquidity. These non-IFRS measures and ratios may not be comparable to similarly titled measures or ratios used by other banks, and they should not be considered as substitutes for the information contained in the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements.

Average balance sheet and interest rate data

Certain of the average balances included in this Prospectus, including average rates, cost of risk, spreads and margins are calculated as the average of the relevant monthly balances as at each month end during the years ended 31 December 2013, 2012 and 2011 and during the quarters ended 31 March 2014 and 2013. Other average balances included in this Prospectus, including deposit rates by deposit types, return on average equity, average assets and all ratios related to the individual retail, corporate, SME and micro segments are calculated (i) as the average of the relevant quarterly balances as at 31 March, 30 June, 30 September and 31 December during the years ended 31 December 2013, 2012 and 2011 and (ii) based on the average of the respective balances for the current and previous quarter in respect of the three months ended 31 March 2014. Balances as at 31 December 2013, 2012 and 2011 have been derived from the Audited Consolidated Financial Statements. Balances as at the remaining month ends, in each case, have been derived from TBC's unaudited consolidated management accounts prepared from TBC's accounting records and used by Management for monitoring and control purposes. Calculation of average balances using different methods of calculation could result in material differences from the figures set forth below and elsewhere in this Prospectus.

Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

Currency

The Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements are presented in Georgian Lari (also referred to as GEL), TBC's functional and presentation currency in its Audited Consolidated Financial Statements and its Unaudited Consolidated Interim Financial Statements. Furthermore, unless otherwise indicated, financial and statistical data included in this Prospectus are expressed in Lari.

References to "TBC" and "TBC Bank"

In this Prospectus, references to "TBC" mean TBC Bank and its subsidiaries, unless the context requires otherwise. References to "TBC Bank" are to TBC Bank only.

Additional Definitions

For details of certain other defined terms used in this Prospectus, please see "*Glossary of Terms*".

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown for the same category presented in different tables may vary slightly and numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

Percentages

In this Prospectus, TBC has included certain percentage figures for convenience purposes in comparing changes in financial and other data over time. However, any such percentages greater than 100% have been excluded and replaced with a dash in the applicable tables.

Credit Ratings

The credit ratings included in this Prospectus have been issued, for the purposes of Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "**CRA Regulation**"), by Fitch Ratings Ltd ("**Fitch**") and Moody's Investors Service Ltd ("**Moody's**"). Fitch and Moody's are established in the European Union (the "**EU**") and registered under the CRA Regulation. As such, Fitch and Moody's are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Presentation of Third-Party Statistical and Other Information

TBC has derived certain information and statistics in this Prospectus, including certain information and statistics concerning the Georgian banking market and its competitors, from private and publicly available information, including principally annual reports, industry publications, market research, press releases, filings under various securities laws and official data published by certain Georgian Government agencies. The main source for market information and foreign exchange data used in this prospectus is the National Bank of Georgia. TBC obtained Georgian macroeconomic data principally from the Legal Entity of Public Law National Statistics Office of Georgia ("**Geostat**"), the Government of Georgia, the NBG and the IMF. Such information is contained in this Prospectus under the captions "*Presentation of Financial and Other Information*", "*Currency Presentation and Exchange Rate Information*", "*Prospectus Summary*", "*Risk Factors*", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "*Selected Statistical and Other Information*" and "*Business Description*". Where third-party information is set out, it has been sourced. Such information, data and statistics have been accurately reproduced and, as far as TBC is aware and is able to ascertain from relevant publicly available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. None of the Managers accept liability for the accuracy of any such information and prospective investors are advised to use such information with caution.

Currency Presentation and Exchange Rate Information

References in this Prospectus to "GEL" and "Lari" are to the currency of Georgia; references to "U.S. dollars" and "U.S.$" are to the currency of the United States; and references to "Euros" and "EUR" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union.

Certain amounts in this Prospectus have been translated from local currencies into U.S. dollars on a convenience basis. Unless otherwise stated, the Lari to U.S. dollar exchange rates referred to in this Prospectus refer to the applicable exchange rate of the NBG as of the date indicated.

The following table sets forth, for the periods indicated, certain information regarding the exchange rate between the Lari and the U.S. dollar, based on the official exchange rate quoted by the NBG. Fluctuations in the exchange rate between Lari and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. The rates below may differ from the actual rates used in the preparation of TBC's financial statements and other financial information appearing in this Prospectus. TBC's inclusion of the exchange rates is not meant to suggest that the Lari amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all.

	High	Low	Average	Period End
		(Lari per U.S. dollar)		
2011	1.8111	1.6388	1.6853	1.6703
2012	1.6751	1.6193	1.6509	1.6567
2013	1.7376	1.6348	1.6636	1.7363
2014 (through 4 June)	1.7824	1.7266	1.7538	1.7719

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the NBG for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

	High	Low	Average	Period End
		(Lari per U.S. dollar)		
December 2013	1.7376	1.6967	1.7137	1.7363
January 2014	1.7819	1.7366	1.7591	1.7819
February 2014	1.7824	1.7266	1.7480	1.7495
March 2014	1.7550	1.7274	1.7411	1.7477
April 2014	1.7709	1.7463	1.7546	1.7709
May 2014	1.7736	1.7522	1.7633	1.7719
June 2014 (through 4 June)	1.7719	1.7713	1.7718	1.7719

Limitation on Enforcement of Civil Liabilities

TBC Bank is a joint stock company incorporated under the laws of Georgia. Two of the Selling Shareholders, DEG and Ashmore, are incorporated in Germany and the Cayman Islands, respectively. TBC Bank's presence and that of the Selling Shareholders outside the United States and the United Kingdom may limit legal recourse of prospective investors against TBC Bank. The majority of the members of TBC Bank's Supervisory Board and all members of TBC Bank's Management Board and its executive officers reside outside the United States and the United Kingdom. Moreover, all of the assets of TBC and substantially all of the assets of its directors and officers are located outside the United States and the United Kingdom. Each of TBC Bank, DEG and Ashmore has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on any members of its Management or its executive officers or enforce judgements against such persons or TBC Bank, DEG or Ashmore, respectively.

In addition, on the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against TBC Bank in courts outside Georgia or in a jurisdiction to which TBC Bank has not explicitly submitted. Pursuant to Article 68.2 of the Law of Georgia on Private International Law, foreign court judgements against TBC Bank will not be recognised and enforceable in Georgia if:

(i) the matter is within the exclusive competence of Georgia;

(ii) there is a violation in the service of process or other procedures under the law of the country of the court which rendered the judgement;

(iii) a dispute involving the same subject matter between the same parties has already been decided by a Georgian court or by a foreign court, judgement of which has been recognized in Georgia;

(iv) the court of the foreign country rendering the judgement is not considered competent to adjudicate the dispute under Georgian legislation;

(v) the country whose court has rendered the judgement does not recognise judgements of Georgian courts;

(vi) a dispute involving the same subject matter between the same parties is already being heard in a Georgian court; or

(vii) the judgement of the foreign court contradicts fundamental legal principles of Georgia.

No treaty exists between Georgia and many Western jurisdictions, including many EU jurisdictions and the United States for the reciprocal enforcement of foreign court judgements.

The Deposit Agreement and the Deed Poll provide that disputes arising from or in connection with the GDRs will be settled by arbitration. Georgia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). Therefore, an arbitration award obtained in a country, which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian civil procedure regulations, the Law of Georgia on Arbitration and other procedures and requirements established by Georgian legislation. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural ambiguities and Georgian courts' inability to enforce such orders. Each of these factors could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia. Pursuant to Article 45.1 of the Law of Georgia on Arbitration, arbitral awards against TBC Bank may not be recognised and enforceable in Georgia if:

(i) the party against whom the award is made proves before Georgian courts that:

  (a) a party to the arbitration agreement lacked legal capacity;

  (b) the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made;

  (c) a party was not given proper notice of the appointment of an arbitrator or of the arbitration proceedings, or was not able to participate in the proceedings for other valid reasons;

  (d) the award is issued on a dispute not falling within the terms of the arbitration agreement or deals with a matter beyond the scope of the arbitration agreement (in this case the award may be partially recognised);

  (e) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or

  (f) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or

(ii) the court established that:

  (a) under Georgian law, the subject matter of the dispute is not capable of settlement by arbitration; or

  (b) the award is contrary to public policy.

Furthermore, the choice of English law as the governing law of the GDRs and the transaction documents may not be given effect, and the recognition or enforcement of foreign court judgements and arbitral awards may be limited, by application of the Georgian law principle requiring compliance with mandatory provisions of the law of the country most closely connected to the transaction, including mandatory provisions of Georgian law. The nature and scope of such mandatory provisions are subject to a considerable degree of discretionary authority by the court in which recognition or enforcement of the judgement or arbitral award is being sought.

See "*Risk Factors—Risks Relating to the GDRs and the Trading Market—Investors may face difficulties enforcing judgements, including foreign judgements and arbitral awards, in respect of the GDRs*".

Forward-Looking Statements

Certain statements in this Prospectus are not historical facts and constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and section 21E of the U.S. Securities Exchange Act of 1934, as amended. Forward-looking statements are identified by words such as "believes", "anticipates", "expects", "estimates", "intends", "plans", "will", "may" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Selected Statistical and Other Information*" and "*Business Description*". TBC may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of TBC's plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by TBC from time to time (but are not included in this Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the overall economic and business conditions in Georgia and the surrounding region;
- inflation, interest rate and exchange rate fluctuations in Georgia;
- TBC's ability to respond to competition;
- TBC's ability to attract more deposits to fund growth of its loan portfolio;
- unplanned events or major disruptions affecting TBC's branch network or systems;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations (including by Georgian courts);
- the effects of, and changes in, the policy of the Georgian government;
- changes in laws, regulations, taxation or accounting standards or practices in Georgia; and
- TBC's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which TBC operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, TBC does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, except as required by law, the rules of the London Stock Exchange or the FCA. TBC does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Available Information

For so long as any Rule 144A GDRs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, TBC will, during any period in which TBC is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs, or to any prospective purchaser of such restricted Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

USE OF PROCEEDS

TBC is undertaking the Global Offer in order to raise additional capital to fund its growth objectives, to provide the Selling Shareholders with a liquid market for their Shares, to provide TBC with a liquid investor base through being a listed entity and to enhance TBC's image and perception in Georgia and abroad.

The gross proceeds of the Global Offer to TBC Bank will be U.S.$100 million and to the Selling Shareholders will be approximately U.S.$138.7 million (assuming no exercise of the Overallotment Option) or U.S.$162.6 million (assuming the Overallotment Option is exercised in full). The total underwriting commissions, fees and expenses payable by TBC Bank in connection with the Global Offer are expected to be approximately U.S.$3.9 million; no commissions, fees or expenses in connection with the Global Offer will be charged to investors by TBC Bank. The net proceeds that TBC Bank will receive from the Global Offer after deduction of underwriting commissions, fees and expenses will be approximately U.S.$96.1 million. TBC Bank will not receive any proceeds from the sale of GDRs by the Selling Shareholders.

TBC plans to use all the net proceeds that it receives from the Global Offer (estimated to be approximately U.S.$96.1 million) to strengthen its capital position (in particular its capital ratios), which will enable it to (i) fund the intended growth of its loan portfolio, particularly within its retail, SME and micro segments and (ii) capture potential growth opportunities. For further information, see "*Business Description—Strategy*".

DIVIDEND POLICY

Distributions of profits and payments of dividends by TBC Bank may only be made in compliance with the Law on Entrepreneurs, the Charter. Any promise to unconditionally pay dividends is invalid under the Law on Entrepreneurs. Dividends may be paid out only after the adoption of the annual financial statements by the GMS, showing that the distribution of dividends is permissible and will be paid out of net profits of TBC Bank.

On 8 April 2009 the Management Board adopted, and the Supervisory Board approved, the Capital Management and Dividend Planning Policy of TBC Bank (the "**Dividend Policy**") in order to ensure current capital adequacy, to plan for future capital needs and project efficient dividend payouts. The general objective of the Dividend Policy is to manage the capital position with the regular dividend payouts in the amount that will not only ensure compliance with internal regulations but also ensure capital adequacy for TBC's future expansion. On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net profit for the previous year (IFRS) attributable to the owners of TBC Bank as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution.

TBC's dividend strategy is based on two major priorities: (i) maintaining adequate capital for TBC Bank; and (ii) ensuring consistency of dividend payment to shareholders in sufficient amounts. Excessive dividends will not be paid out if it jeopardizes TBC's current capital adequacy or future growth opportunities. Dividend payments are made only when: (a) the dividends are in compliance with TBC Bank's approved capital plan; (b) the dividend amounts are in accordance with all regulatory requirements and internal regulations of TBC Bank, thus not putting in jeopardy future expansion; and (c) the dividend payments do not adversely impact TBC's capital structure and related regulatory capital ratio requirements. According to the Dividend Policy, steady capital growth will be attained through earnings retention. Retained earnings are reviewed quarterly to ensure that TBC Bank's capital plan and dividend planning keep pace with changes and avoid overcapitalisation of TBC Bank.

The Management Board prepares a proposal on the distribution of net profits for the Supervisory Board to approve, and submit to the GMS. If the Management Board and the Supervisory Board fail to agree on such a proposal, each submits a proposal to the GMS for final approval. The GMS then makes the final decision on distributions of net profits.

According to the Dividend Policy, the Management Board plans the dividend payout ratio within the framework of the annual financial plan (budget). The Management Board usually develops the financial plan and dividend payout ratio before the beginning of the planned year. The profit distribution plan includes formation of the reserves and funds, determination of the total amount of dividends to be paid and the terms of dividend payments. Dividend planning by the Management Board is carried out with consideration to the regulatory parameters and the capital adequacy necessary for TBC's future operations. The Dividend Policy requires that the dividend payout plan includes the long-term and short-term objectives of TBC Bank. In the process of developing the dividend payout plan, the Management Board takes into consideration the analyses prepared by the financial department and special recommendations offered by the Assets and Liabilities Management Committee (the "**ALCO**") regarding the capital structure level and the relation of dividends thereto.

Over the past three years a distribution of dividends to the shareholders of TBC Bank was approved twice by the GMS. The GMS held on 4 July 2013 approved a distribution in the amount of GEL 17,869,281 to the shareholders (equivalent to 20% of TBC Bank's standalone net profit), which was paid on 5 July 2013. On 4 March 2014, the GMS approved a distribution in the amount of GEL 26,492,294 to the shareholders (equivalent to 25% of TBC Bank's standalone net profit), which was paid on 4 March 2014.

CAPITALISATION AND INDEBTEDNESS

The following table shows TBC's consolidated cash and cash equivalents and capitalisation as at 31 March 2014. This information should be read in conjunction with "Selected Consolidated Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Unaudited Consolidated Interim Financial Statements included elsewhere in this Prospectus.

	As at 31 March 2014 (GEL thousands)
Cash and cash equivalents	**329,568**
Long-term debt:	
Senior long-term debt[1]	
Due to credit institutions	312,068
Customer accounts	2,517,869
Subordinated long-term debt[2]	167,282
Total long-term debt	**2,997,219**
Equity:	
Share capital	16,499
Share premium	241,231
Retained earnings	410,935
Share based payment reserve	2,658
Other reserves	42,426
Total equity attributable to TBC Banks's equity holders	**713,749**
Non-controlling interest	13,186
Total Equity	**726,935**
Total Capitalisation[3]	**3,724,154**

Notes:

(1) Senior long-term debt represents borrowings and customer accounts that fall due after more than one year from 31 March 2014 (based on expected maturities) and are not subordinated. In managing its liquidity, TBC does not use an undiscounted contractual maturity analysis, but monitors a liquidity gap analysis based on expected maturities (based on an analysis of past lender and customer behaviour). See Note 25 to the Unaudited Consolidated Interim Financial Statements.

(2) Subordinated long-term debt is the proportion of subordinated debt which falls due after more than one year from 31 March 2014 (based on expected maturities). See Note 25 to the Unaudited Consolidated Interim Financial Statements.

(3) Total capitalisation is the sum of total long-term debt and total equity.

There has been no material change in TBC's capitalisation since 31 March 2014.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated statement of profit or loss and other comprehensive income data and selected consolidated statement of financial position data presented below have been derived from the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements, which appear elsewhere in this Prospectus. The additional financial data includes non-IFRS measures and was derived from data extracted from the Audited Consolidated Financial Statements, Unaudited Consolidated Interim Financial Statements and unaudited consolidated management accounts.

Prospective investors should read this financial information in conjunction with the information contained in "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Statistical and Other Information" and "Business Description" as well as the Audited Consolidated Financial Statements, the Unaudited Consolidated Interim Financial Statements and all other financial data appearing elsewhere in this Prospectus.

Selected consolidated statement of profit or loss and other comprehensive income data

	For the three months ended 31 March		For the year ended 31 December		
	2014	2013	2013	2012	2011
	(GEL thousands)				
Interest income	122,767	118,150	474,796	456,545	360,215
Interest expense	(42,347)	(51,467)	(192,146)	(217,895)	(151,134)
Net interest income	**80,420**	**66,683**	**282,650**	**238,650**	**209,081**
Fee and commission income	15,809	14,906	66,497	58,140	43,802
Fee and commission expense	(6,464)	(5,688)	(24,301)	(18,830)	(15,094)
Net fee and commission income	**9,345**	**9,218**	**42,196**	**39,310**	**28,708**
Gains less losses from trading in foreign currencies	9,493	4,890	37,894	25,240	25,419
Foreign exchange translation (losses less gains)/ gains less losses	(1,701)	2,993	(5,901)	7,617	394
Gains less losses/(losses less gains) from derivative financial instruments	(177)	(462)	613	(3,804)	(4,987)
Other operating income	5,981	3,892	24,000	19,772	9,923
Other operating non-interest income	**13,596**	**11,313**	**56,606**	**48,825**	**30,749**
Provision for loan impairment	(14,586)	(19,652)	(32,971)	(23,154)	(16,049)
(Provision for)/recovery of provision for impairment of investments in finance lease	(9)	(24)	(98)	(42)	174
(Provision for)/recovery of provision for performance guarantees and credit related commitments	1,799	(95)	(6,459)	(1,606)	(1,353)
Provision for impairment of other financial assets	(190)	(370)	(2,236)	(4,132)	(397)
Impairment/(recovery of impairment) of investment securities available for sale	(22)	(5)	(1,142)	(10)	116
Recovery of impairment for assets classified as held for sale	—	—	—	—	1,519
Operating income after provisions for impairment	**90,353**	**67,068**	**338,546**	**297,841**	**252,548**
Staff costs	(26,984)	(25,748)	(108,613)	(92,289)	(78,426)
Depreciation and amortisation	(5,295)	(5,505)	(19,993)	(22,103)	(15,088)
Provision for liabilities and charges	—	—	(1,315)	(1,700)	(200)
Administrative and other operating expenses	(16,970)	(13,041)	(68,692)	(69,440)	(51,744)
Operating expenses	**(49,249)**	**(44,294)**	**(198,613)**	**(185,532)**	**(145,458)**
Profit before tax	**41,104**	**22,774**	**139,933**	**112,309**	**107,090**
Income tax expense	(5,165)	(3,031)	(15,663)	(14,498)	(15,465)
Profit for the period	**35,939**	**19,743**	**124,270**	**97,811**	**91,625**
Other comprehensive income for the period	(8,414)	2,860	8,901	9,304	1,349
Total comprehensive income for the period	**27,525**	**22,603**	**133,171**	**107,115**	**92,974**
Profit for the period	**35,939**	**19,743**	**124,270**	**97,811**	**91,625**

Selected consolidated statement of financial position data

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Assets				
Cash and cash equivalents	329,568	390,465	398,587	374,153
Due from other banks	2,619	1,708	29,542	40,942
Mandatory cash balances with the NBG	294,990	295,332	316,061	250,067
Loans and advances to customers	2,772,629	2,801,712	2,370,200	2,008,745
Investment securities available for sale	568,865	500,651	407,733	266,436
Investment securities held to maturity	—	—	—	28,956
Investments in finance leases	38,548	35,613	26,377	21,979
Investment properties	83,331	83,383	34,305	27,082
Current income tax prepayment	4,858	6,202	10,135	—
Goodwill	2,726	2,726	2,726	2,726
Intangible assets	26,672	23,491	18,817	10,064
Premises and equipment	199,171	199,668	192,556	163,879
Other financial assets	44,092	45,049	25,301	11,339
Other assets	69,822	65,075	67,354	93,653
Total assets	**4,437,891**	**4,451,075**	**3,899,694**	**3,300,021**
Liabilities				
Due to credit institutions	687,731	565,806	627,123	628,150
Customer accounts	2,753,884	2,886,883	2,486,944	1,999,256
Current income tax liability	—	—	—	14,162
Debt securities in issue	4,517	4,474	—	—
Deferred income tax liability	27,882	27,814	20,143	8,048
Provisions for liabilities and charges	10,581	12,380	6,174	8,434
Other financial liabilities	30,619	24,850	19,462	11,305
Other liabilities	22,955	31,305	20,744	19,405
Subordinated debt	172,787	168,274	115,080	142,480
Total liabilities	**3,710,956**	**3,721,786**	**3,295,670**	**2,831,240**
Equity				
Share capital	16,499	16,499	16,143	15,171
Share premium	241,231	242,624	231,501	203,308
Retained earnings	410,935	402,627	298,880	201,826
Share based payment reserve	2,658	2,032	4,142	6,180
Other reserves	42,426	50,840	41,939	33,162
Net assets attributable to owners	**713,749**	**714,622**	**592,605**	**459,647**
Non-controlling interest	**13,186**	**14,667**	**11,419**	**9,134**
Total equity	**726,935**	**729,289**	**604,024**	**468,781**
Total liabilities and equity	**4,437,891**	**4,451,075**	**3,899,694**	**3,300,021**

Additional financial data

Selected Financial Ratios	For the three months ended 31 March 2014	For the years ended 31 December 2013	2012	2011
	(GEL thousands, except percentages)			
Average total assets	4,444,483	4,014,274	3,622,598	2,776,431
Average total equity	728,112	664,212	526,346	420,222
Average total equity/average total assets	16.4%	16.5%	14.5%	15.1%
Return on assets[1]	3.3%	3.1%	2.7%	3.3%
Return on equity[2]	20.0%	18.7%	18.6%	21.8%
Net interest margin[3]	8.8%	8.4%	7.7%	8.8%
Net interest spread[4]	8.6%	8.2%	7.5%	8.5%
Dividend payout ratio[5]	21.3%	18.3%	—	25.3%

Notes:

(1) Annual return on assets is (x) profit for the year, divided by (y) quarterly average total assets. Quarterly return on assets is (a) profit for the period, divided by (b) average of total assets for the current and previous quarter and annualised.

(2) Annual return on equity is (x) profit for the year, divided by (y) quarterly average total equity. Quarterly return on equity is (a) profit for the period, divided by (b) average of total equity for the current and previous quarter and annualised.

(3) Net interest margin is (x) net interest income divided by (y) the monthly average of interest-earning assets and annualised (where applicable).

(4) Net interest spread is (x) total interest income divided by monthly averages of total interest earning assets, minus (y) total interest expense divided by monthly averages of total interest bearing liabilities and annualised (where applicable).

(5) Dividend payout ratio is (x) dividends declared, divided by (y) consolidated profit for the previous year.

As of 31 March 2014, TBC Bank's capital ratios under the NBG's Basel II/III regulation were as follows:

	As at 31 March 2014	
	Pillar 1	Pillar 2
	(GEL thousands, except percentages)	
Tier 1 capital		
Share capital	264,202	264,202
Retained earnings and disclosed reserves	284,726	284,726
General Reserves	40,360	40,360
Less: Intangible assets	(21,552)	(21,552)
Less: Revaluation reserves on assets	(40,360)	(40,360)
Less: Investments more than 10% in other commercial entities	(7,209)	(7,209)
Less: Surplus to threshold	(1,873)	(1,873)
Less: Investments in own shares	(1)	(1)
Total tier 1 capital	**518,293**	**518,293**
Tier 2 capital		
General reserve	50,203	50,203
Subordinated debt	132,174	132,174
Less: Significant investments in the tier 2 capital	(4,400)	(4,400)
Total tier 2 capital	**177,977**	**177,977**
Gross tier 1 and tier 2 available capital	**696,270**	**696,270**
Total risk-weighted assets	4,880,514	4,535,080
Tier 1 capital adequacy ratio	10.62%	11.43%
Total risk-weighted capital adequacy ratio (%)	**14.27%**	**15.35%**

As of 31 December 2013, TBC Bank's capital ratios under the NBG's Basel II/III regulation were as follows:

	As at 31 December 2013	
	Pillar 1	Pillar 2
	(GEL thousands, except percentages)	
Tier 1 capital		
Share capital	261,045	261,045
Retained earnings and disclosed reserves	290,585	290,585
General Reserves	40,460	40,460
Less: Intangible assets	(18,197)	(18,197)
Less: Revaluation reserves on assets	(40,460)	(40,460)
Less: Investments more than 10% in other commercial entities	(7,209)	(7,209)
Less: Investments in own shares	(1)	(1)
Total tier 1 capital	**526,224**	**526,223**
Tier 2 capital		
General reserve	51,038	51,038
Subordinated debt	131,312	131,312
Less: Significant investments in the tier 2 capital	(4,400)	(4,400)
Total tier 2 capital	**177,950**	**177,950**
Gross tier 1 and tier 2 available capital	**704,174**	**704,174**
Total risk-weighted assets	4,900,993	4,584,355
Tier 1 capital adequacy ratio	10.74%	11.48%
Total risk-weighted capital adequacy ratio (%)	**14.37%**	**15.36%**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in TBC's results of operations and financial condition. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such differences include, but are not limited to, those discussed in "Presentation of Financial and Other Information—Forward-Looking Statements" and "Risk Factors". In this Prospectus, the consolidated financial statements presented are those of TBC. Unless otherwise indicated, all of the financial data and discussions thereof are based on the Audited Consolidated Financial Statements, the Unaudited Consolidated Interim Financial Statements and the unaudited consolidated management accounts, and should be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements included elsewhere in this Prospectus. See "Presentation of Financial and Certain Other Information".

Overview

TBC is a leading universal banking group in Georgia, with a total market share of 26.4% of loans and 28.1% of deposits in Georgia as at 31 March 2014, according to data published by the NBG. It holds the number one position in deposits of individuals, the number two position in loans (both to individuals and to legal entities) and in deposits of legal entities, according to NBG data, and has a particular expertise in the fast-growing SME and micro sectors.

TBC offers a wide range of banking products and services to its retail, corporate, SME and micro clients. TBC's lending activities include providing business, mortgage, consumer and micro loans, as well as guarantees, letters of credit and overdrafts. TBC also offers current and savings accounts and term deposits, credit and debit cards, currency exchange facilities and other products. Apart from its core activities, TBC offers certain leasing, brokerage and other services through its subsidiaries. In addition, TBC has credit operations in Azerbaijan and operations in Israel focused on deposit collection.

TBC has a leading and award-winning multichannel distribution platform, with particular expertise in remote access electronic distribution channels. TBC's distribution platform in Georgia at 31 March 2014 comprised 59 branches of TBC and 57 branches of Bank Constanta (which are currently in the process of being upgraded, rebranded and more fully integrated into TBC's network) and a broad range of pioneering electronic banking operations, including internet and mobile phone banking and electronic payment terminals. Management believes that TBC has the most productive distribution network of any bank in Georgia by volume of loans, deposits and revenue per branch. In addition, TBC has one of the largest networks of automated teller machines ("**ATMs**") and point of sale ("**POS**") terminals in Georgia, consisting of 316 ATMs (of which 262 are TBC Bank's) and 2,836 POS terminals.

TBC's operations are predominantly focused on the Georgian banking market, which operations accounted for 98.3% of TBC's total assets and 97.1% of its profit as at and for the three months ended 31 March 2014. TBC's retail and corporate segments are its key business areas, accounting for 42.7% and 35.9% of its total gross loans as at 31 March 2014, respectively. Although TBC's SME and micro businesses experienced significant growth of 33.4% and 37.9%, respectively, in value of total gross loans in 2013, these segments are still currently relatively small, accounting for 13.9% and 7.5%, respectively, as at 31 March 2014. Management believes that TBC's SME and micro segments in particular continue to have significant growth potential.

As at 31 March 2014, TBC had total assets of GEL 4.4 billion, total gross loans and total deposits of GEL 2.9 billion and GEL 2.8 billion, respectively, and total equity of GEL 726.9 million. TBC's profit was GEL 35.9 million for the three months ended 31 March 2014 and GEL 124.3 million for the year ended 31 December 2013. TBC's cost to income and ROE ratios were 47.6% and 20.0%, respectively, for the three months ended 31 March 2014 and 52.1% and 18.7%, respectively, for the year ended 31 December 2013. As at 31 March 2014 TBC had 4,441 employees.

TBC Bank is financially robust and has a high quality balance sheet, with a gross loan to deposit ratio of 106.1%, a Non-performing Loan to gross loan portfolio ratio of 1.0% and a net stable funding ratio of 116.3% as at 31 March 2014. TBC's capital adequacy ratio has been maintained at well above the minimum required by the BIS Guidelines with its tier 1 capital ratio (under Basel I methodology) standing at 21.4% and total capital ratio (under Basel I methodology) standing at 28.1% as at 31 March 2014,

compared to the BIS minimum requirements of 4% and 8%, respectively. As 31 March 2014, as calculated under NBG methodology (which is stricter than that of the BIS), TBC's tier 1 capital adequacy ratio stood at 11.4% and its total capital ratio stood at 14.5%, compared to the NBG minimum requirements of 8% and 12%, respectively. Moreover, the NBG has also adopted Basel II/III standards under a stricter local methodology, according to which TBC's tier 1 capital adequacy ratio and its total capital ratio stood at 10.6% and 14.3% under Pillar 1, respectively, above the NBG minimum requirements of 8.5% and 10.5%, respectively. Management believes that these capital levels provide a strong capital base to support TBC. See "*Banking Sector and Banking Regulation in Georgia—Banking Supervision—Mandatory Prudential Ratios*".

Key Factors Affecting TBC's Financial Condition and Results of Operations

TBC's financial condition and results of operations are affected by numerous factors. Management believes that the following are of particular importance:

General economic conditions in Georgia

Because TBC operates primarily in Georgia, its financial condition and results of operations are, and will continue to be, highly dependent on the general economic conditions in Georgia. Georgian operations accounted for 96.7%, 96.8%, 97.5% and 97.6% of TBC's total interest income for the three months ended 31 March 2014, and the years ended 31 December 2013, 2012 and 2011, respectively, and as at 31 March 2014, 31 December 2013, 31 December 2012 and 31 December 2011, 96.5%, 94.5%, 95.9% and 97.8%, of TBC's total loans to customers were to Georgian borrowers, respectively.

There has been continued growth in the Georgian economy during the periods under review, although growth slowed somewhat in 2013. According to data published by Geostat, real GDP in Georgia grew by 7.2% in 2011, 6.2% in 2012 and an estimated 3.2% in 2013, mainly as a result of increases in exports of goods and services, growth of the tourism sector and government investment in domestic infrastructure. According to IMF forecasts, real GDP is expected to grow by 5% in 2014. In 2013, the composition of Georgia's GDP was well-diversified, with no industry sector accounting for more than 17% of GDP. According to figures published by the Ministry of Finance of Georgia, in 2013, Georgia's fiscal deficit, as a percentage of GDP, decreased to (2.7)% from (2.8)% in 2012 and (3.6)% in 2011. The Georgian unemployment rate was 15.0% as at 31 December 2012 and 15.1% as at 31 December 2011, while exports of goods and services increased by 22.4% between 2012 and 2013 and FDI increased slightly in 2013 by 0.3% to U.S.$914 million, compared to U.S.$912 million in 2012 and U.S.$1,117 million in 2011. Georgia's current account deficit for 2013 decreased to an estimated U.S.$950.9 million, compared to U.S.$1,854.0 million in 2012 and U.S.$1,840.2 million in 2011. The Lari/U.S. dollar exchange rate was 1.7363 as at 31 December 2013, 1.6567 as at 31 December 2012, 1.6703 as at 31 December 2011. Although the Lari/U.S. dollar exchange rate remained relatively stable in 2011, 2012 and most of 2013, the Lari depreciated against the U.S. dollar, by 4.8%, between 31 December 2012 and 31 December 2013, with most of that depreciation occurring in the final quarter of the year when the Lari depreciated by 4.3% against the U.S. dollar.

Growth in the Georgian economy during the periods under review has had a positive impact on the Georgian banking sector. According to the NBG, the total assets of the Georgian banking sector were GEL 17.3 billion as at 31 December 2013, compared to GEL 14.4 billion as at 31 December 2012 and GEL 12.7 billion as at 31 December 2011. Aggregate loans granted by Georgian banks grew to GEL 10.6 billion as at 31 December 2013 from GEL 8.7 billion and GEL 7.7 billion as at 31 December 2012 and 2011, respectively, and the ratio of loans to GDP as at 31 December 2013 was 39.4%, compared to 33.4% as at 31 December 2012 and 31.8% as at 31 December 2011.

TBC has also benefited from the economic growth in Georgia, which has contributed to the increase in TBC's total assets to GEL 4,451.1 million as at 31 December 2013 from GEL 3,899.7 million as at 31 December 2012 and GEL 3,300.0 million as at 31 December 2011. The growth has also contributed to TBC's profit for the year of GEL 124.3 million for the year ended 31 December 2013, compared to GEL 97.8 million for the year ended 31 December 2012 and GEL 91.6 million for the year ended 31 December 2011.

Yields on interest-earning assets

TBC derives the majority of its total income from net interest income. Consequently, TBC's net interest margin is a significant factor in determining TBC's profitability. Although net interest margins in Georgia

remain generally higher than those in most Western European countries, they have been generally declining over the past few years. Increasing competition in the Georgian banking sector creates increased downward pressures on TBC's net interest margin by forcing TBC to offer lower interest rates on loans, and higher interest rates on deposits, in order to remain competitive. Decreases in interest rates on TBC's loans to customers without corresponding decreases in rates payable on deposits or other interest-bearing liabilities have a negative impact on TBC's profitability. The loan interest rates that TBC is able to offer to customers are to some extent also influenced by the monetary policy (refinancing) rates set by the NBG and by the yields on Georgian government securities, as decreases in Georgian government bond yields will generally influence market interest rates.

In addition, the proportion of loans to TBC's total interest-earning assets also impacts interest income as non-loan interest-earning assets (which are primarily amounts due from other banks, investment securities and finance leases) generally have lower yields. Gross loans and advances to customers accounted for 78.6% of TBC's total interest-earning assets as at 31 March 2014, as compared to 78.8% as at 31 December 2013, 75.8% as at 31 December 2012 and 77.1% as at 31 December 2011.

TBC's profitability is also affected by the mix of loan types in its loan portfolio. The market for corporate loans is highly competitive, with resulting downward pressure on interest rates for those loans. Competitive pressure is comparatively lower for loans in the retail, SME and micro segments, which typically have higher interest rates than do corporate loans. Corporate loans, which comprised 35.9% of TBC's total gross loans to customers as of 31 March 2014, had an average interest rate of 12.4% as at 31 March 2014, compared to retail loans (17.5%), SME loans (12.5%) and micro loans (25.1%) as at the same date. Increases in the proportion of retail, SME and micro loans in TBC's loan portfolio relative to corporate loans could have a positive effect on TBC's profitability. As at 31 March 2014, retail loans accounted for the largest portion of total gross loans to customers, representing 42.7% of the total, compared to 40.8%, 37.6% and 38.9% as at 31 December 2013, 2012 and 2011, respectively. The proportion of SME and micro loans have also increased, with SME and micro loans growing from 10.9% and 3.9%, respectively, of total gross loans as at 31 December 2011, to 13.3% and 6.8%, respectively, as at the same date in 2013 and to 13.9% and 7.5% as at 31 March 2014. Over the same period, the proportion of corporate loans in the gross loan portfolio has decreased, representing 35.9% as at 31 March 2014, compared to 39.1%, 45.0% and 46.3% of total gross loans as at 31 December 2013, 2012 and 2011, respectively. See "*Selected Statistical and Other Information—Loan Portfolio—Loans to customers by type*".

The mix of loan currencies in TBC's loan portfolio also has an impact on TBC's profitability. Because most Lari-denominated loans are short-term consumer loans with higher interest rates (such as instalment loans and credit cards), loans denominated in Lari have enjoyed higher average rates in the periods under review than loans denominated in foreign currencies. In the first three months of 2014, and in the years 2013, 2012 and 2011, TBC's Lari-denominated loans had an average rate of 19.3%, 22.6%, 23.8% and 25.4%, respectively, compared to 13.9%, 14.4%, 15.5% and 15.4%, respectively, for loans denominated in other currencies over the same periods. See "*Selected Statistical and Other Information—Average Balances and Rates*". Lari-denominated loans provide a partial hedge against currency exchange rate fluctuations for customers whose income is also denominated in Lari, and TBC actively markets its Lari-denominated consumer loans and credit cards. Lari-denominated loans made up an increasing proportion of TBC's total net loans over the periods under review, rising to 30.6% as at 31 March 2014 from 26.9%, 21.5% and 17.4% as at 31 December 2013, 2012 and 2011, respectively. See "*Selected Statistical and Other Information—Loan Portfolio—Loans by currency*". If the differences in average rates continue, continued increases in the proportion of Lari-denominated loans in TBC's loan portfolio relative to loans in foreign currencies would positively affect TBC's profitability.

Cost of funding

The cost at which TBC is able to obtain funding for its operations directly impacts TBC's interest expense, which in turn directly affects TBC's profitability. TBC's principal sources of funding are customer deposits and accounts, amounts due to other banks (including term deposits, correspondent accounts and short-term inter-bank loans from the inter-bank market, which are used by TBC to manage its short-term liquidity needs) borrowings from international credit institutions as a source of long-term funding and subordinated loans from TBC's shareholders. TBC's cost of funding (calculated as interest expense divided by the monthly average interest-bearing liabilities), decreased to 4.8% in the three months ended 31 March 2014 from 5.9% in the year ended 31 December 2013, compared to 7.1% in 2012 and 6.6% in 2011, driven primarily by decreasing interest rates on customer deposits and changes in TBC's funding mix.

Customer deposits generally have lower interest rates than loans from banks and other financial institutions, and consequently represent a less expensive source of funding. In the periods under review, TBC intends to optimise its liabilities structure and increase the proportion of customer deposits in total liabilities, which amounted to 74.2% as at 31 March 2014 and 77.6%, 75.5% and 70.6% as at 31 December 2013, 2012 and 2011, respectively.

The cost of funding was also impacted by a decrease in the effective interest expense on customer deposits (calculated as interest expense on customer deposits over the monthly averages of their respective balances) to 4.0% in the three months ended 31 March 2014, compared to 5.5%, 7.0% and 6.5% in the years ended 31 December 2013, 2012 and 2011 respectively, reflecting a trend of decreasing interest rates on customer deposits in the market generally. In 2013, interest rates on savings accounts and term deposits decreased by 1% to 2%, depending on the maturity and currency of the deposits. On-demand current and savings accounts are often either non-interest bearing or are subject to lower interest rates than term deposits, and a higher proportion of such current and savings accounts in TBC's deposit portfolio will reduce TBC's effective interest expense on deposits. For example, TBC's Lari-denominated deposits, a significant proportion of which consists of such current and savings accounts, have generally had a lower average rate (3.8%, 5.0%, 6.4% and 6.1% in the three months ended 31 March 2014, and the years 2013, 2012 and 2011, respectively) than deposits denominated in foreign currencies (4.1%, 5.7%, 7.2% and 6.7% in the same periods, respectively), despite the fact that Lari-denominated term deposits and savings accounts typically have higher interest rates than term deposits and savings accounts denominated in U.S. dollars. See "*Selected Statistical and Other Information—Average Balances and Rates*".

In addition, TBC in 2012 and 2013, benefiting from increased liquidity, released a number of large costly term deposits held by business customers and prepaid certain borrowings from foreign institutions, which also reduced the cost of funding.

Credit quality of loan portfolio

In the periods under review, TBC has benefitted from a loan portfolio with relatively strong credit quality. As at 31 March 2014, and 31 December 2013, 2012 and 2011, Non-performing Loans accounted for 1.0%, 1.1%, 1.0% and 0.6% of the total outstanding principal amount of TBC's gross loan portfolio, respectively. See "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy—Non-performing and Restructured Loans*". TBC's provision expense for loan impairment decreased by 25.8% to GEL 14.6 million for the three months ended 31 March 2014 from GEL 19.7 million for the three months ended 31 March 2013, reflecting a one-time provision charge for a corporate borrower in the first quarter of 2013, as well as improvements in the consumer loan portfolio in the first quarter of 2014 compared to the same period in 2013. TBC's provision expense for loan impairment increased by 42.4% to GEL 33.0 million for the year ended 31 December 2013, from GEL 23.2 million for the year ended 31 December 2012, as a result of loan book growth during this period and provision charges for a limited number of corporate borrowers and a GEL 6.2 million provision for losses incurred as a result of a fraudulently issued guarantee, part of which crystalised in 2013. The cost of risk (calculated as provision expense on gross loan amounts over the monthly averages of their respective balances) increased from 1.0% as at 31 December 2012 to 1.3% as at 31 December 2013, and to 2.0% as at 31 March 2014, (compared to 3.2% as at 31 March 2013). These increases had a negative impact on TBC's profitability for the year ended 31 December 2013 and the three months ended 31 March 2014.

TBC's provision expense for loan impairment also increased by GEL 7.1 million, or 44.3%, to GEL 23.2 million for the year ended 31 December 2012 from GEL 16.0 million for the year ended 31 December 2011, as a result of, and in line with, the growth of TBC's loan portfolio, but was also partially impacted by deterioration in the quality of the high yield consumer loans portfolio, although still within TBC's acceptable risk levels. The corresponding cost of risk increased from 0.9% as at 31 December 2011 to 1.0% as at 31 December 2012.

Growth in loan portfolio

TBC's interest income is affected by increases or decreases in the value of its loan portfolio impact. The value of TBC's total gross loans to customers decreased slightly in the first three months of 2014 to GEL 2,921.1 million as at 31 March 2014 due to a reduction in the corporate portfolio. Total gross loans to customers increased by 16.6% in 2013 to GEL 2,958.6 million as at 31 December 2013 from GEL 2,536.7 million as at 31 December 2012, principally driven by increases in the retail loan portfolio as well as by comparatively higher increases in the SME and micro loan portfolios. Total gross loans to

customers also increased by 17.0% during 2012, from GEL 2,167.4 million as at 31 December 2011, driven by increased lending in each of the retail, corporate, SME and micro segments.

Non-interest income

Net fee and commission income (calculated as fee and commission income less fee and commission expense) amounted to GEL 9.3 million, and GEL 9.2 million for the three months ended 31 March 2014 and 2013, respectively, accounting for 9.0%,and 10.6% of TBC's "operating income" (calculated as the sum of net interest income, net fee and commission income and other operating non-interest income), respectively, for the same periods. Net fee and commission income amounted to GEL 42.2 million, GEL 39.3 million and GEL 28.7 million for the years ended 31 December 2013, 2012 and 2011, respectively, accounting for 11.1%, 12.0% and 10.7% of TBC's operating income, respectively, for the same years. The key drivers of fee and commission income are card operations, guarantees issued and settlement transactions. In each year, the increase in net fee and commission income was driven by increases in fees received from all three sources, reflecting TBC's overall strategy to increase its fee and commission income generating capabilities by growing fees from existing sources, such as debit and credit card operations, guarantees, settlement transactions and trade finance, and by introducing new commission-based products and services related to TBC's core banking business. These initiatives include contactless debit and credit cards (which increase the number of card transactions), bancassurance sales of third-party insurance products, new money transfers, mobile payments and advisory and other services for its corporate and other key clients. Going forward, TBC aims to further diversify its revenue base by increasing non-interest income sources therein, making TBC's profitability less reliant on interest margins. See "*Business Description—Strategy—Increase fee and commission income from core banking franchise*".

Operating expenses

TBC's operating expenses primarily comprise staff costs, but also include depreciation and amortisation expenses and administrative and other operating expenses. In the three months ended 31 March 2014, TBC incurred operating expenses of GEL 49.2 million, an increase of 11.2% compared to GEL 44.3 million in the three months ended 31 March 2013. In the year ended 31 December 2013, TBC incurred operating expenses of GEL 198.6 million, an increase of 7.1% compared to GEL 185.5 million in the year ended 31 December 2012 and GEL 145.5 million in the year ended 31 December 2011. These increases were driven by the overall growth of TBC's business, and were also impacted by expenses relating to (i) the consolidation of Bank Constanta's expenses following its acquisition in 2011; (ii) the establishment and implementation of various medium and long-term cost efficiency initiatives undertaken by TBC (such as the "Lean Banking" project developed with McKinsey & Company); (iii) the continued development of TBC's multichannel distribution platform, including the opening of nine new branches of TBC Bank (and 30 new branches of Bank Constanta) between 2011 and 2013; and (iv) the increased scale of TBC's business generally over those periods. The Group's cost to income ratio (calculated as operating expenses divided by operating income) was 47.6% and 50.8% in the three months ended 31 March 2014 and 2013, respectively, compared to 52.1%, 56.8% and 54.2% in the years ended 31 December 2013, 2012 and 2011, respectively. TBC has implemented a number of strategic initiatives to improve its cost to income ratio, including the implementation of a "Lean Banking" model to decrease service costs, the automation of certain decision making processes and the continued integration of the main administrative functions of TBC Bank and Bank Constanta intended to optimise staff costs and back office processes. See "*Business Description—Strategy—Focus on continuous cost efficiency improvements*".

Recent Developments

On 2 April 2014, TBC Bank acquired an additional 10.97% of the shares of Bank Constanta from another third party shareholder. As a result, TBC Bank holds 99.6% of Bank Constanta's share capital as at the date of this Prospectus. Following the resolution of a pending court action involving Bank Constanta's share capital, TBC plans to merge Bank Constanta into TBC Bank. See "*Business Description—Legal Proceedings*".

Segment Information

For management and internal reporting purposes, TBC is organised into the following operating segments based on products and services:

- **Retail:** all individual customers of TBC and legal entity 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 of U.S.$1.5 million or more (GEL 2.6 million). 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 TBC 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 U.S.$150,000 (GEL 264,000).

In addition to its core banking business that TBC conducts within these four segments through TBC Bank, Bank Constanta and TBC Kredit, TBC also conducts some operations that it considers "non-core banking operations". These operations are typically conducted by subsidiary companies and include, *inter alia*, leasing and brokerage services, card processing and payment collection services, banking software support services and certain marketing efforts in Israel. These non-core banking operations generated 1.9% of TBC's profit in the three months ended 31 March 2014 (compared to 1.6%, 1.8% and 1.2% in the years ended 31 December 2013, 2012 and 2011, respectively). TBC's Treasury Department also acts as an extra-segmental corporate centre, managing intra-segment adjustments to net interest income across all segments and recognising gains and losses from liquidity, interest rate and market risk management.

For information regarding the results of operations of TBC's segments, see "*—Results of Operations for the Three Month Periods Ended 31 March 2014 and 2013—Segment analysis*", "*—Results of Operations for the Years ended 31 December 2013 and 2012—2013 segment analysis*", "*—Results of Operations for the Years ended 31 December 2012 and 2011—Segment analysis*", Note 28 to the Audited Consolidated Financial Statements and Note 18 to the Unaudited Consolidated Interim Financial Statements.

TBC primarily operates in Georgia, with 97.0% of TBC's profit for the three months ended 31 March 2014, and 97.4% of TBC's profit for the year ended 31 December 2013 generated by the TBC group companies based in Georgia. The remainder of TBC's net was generated by TBC Kredit in Azerbaijan and TBC Invest in Israel.

Results of Operations for the Three Month Periods Ended 31 March 2014 and 2013

Consolidated results of operations

The following table sets out the main components of TBC's consolidated statements of profit or loss and other comprehensive income for the three months indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Interest income	122,767	118,150	3.9%
Interest expense	(42,347)	(51,467)	(17.7)%
Net interest income	**80,420**	**66,683**	**20.6%**
Fee and commission income	15,809	14,905	6.1%
Fee and commission expense	(6,464)	(5,688)	13.6%
Net fee and commission income	**9,345**	**9,218**	1.4%
Gains less losses from trading in foreign currencies	9,493	4,890	94.1%
Foreign exchange translation (losses less gains)/gains less losses	(1,701)	2,993	—
Gains less losses/(losses less gains) from derivative financial instruments	(177)	(462)	(61.7)%
Other operating income	5,981	3,892	53.7%
Other operating non-interest income	**13,596**	**11,313**	20.2%
Provision for loan impairment	(14,586)	(19,652)	(25.8)%
Provision for impairment of investments in finance lease	(9)	(24)	(62.5)%
(Provision for)/recovery of provision for performance guarantees and credit related commitments	1,799	(95)	—
Provision for impairment of other financial assets	(190)	(370)	(48.6)%
Impairment of investment securities available for sale	(22)	(5)	—
Operating income after provisions for impairment	**90,353**	**67,068**	34.7%
Staff costs	(26,984)	(25,748)	4.8%
Depreciation and amortisation	(5,296)	(5,505)	(3.8)%
Provision for liabilities and charges	—	—	—
Administrative and other operating expenses	(16,970)	(13,041)	30.1%
Operating expenses	**(49,249)**	**(44,294)**	11.2%
Profit before tax	**41,104**	**22,774**	80.5%
Income tax expense	(5,165)	(3,031)	70.4%
Profit for the period	**35,939**	**19,743**	82.0%

The following table sets out certain of TBC's profitability ratios for the three months indicated:

	For the three months ended 31 March	
	2014	2013
	(%)	
Profitability ratios:		
Return on equity[1]	20.0%	13.0%
Return on assets[2]	3.3%	2.1%
Net interest margin[3]	8.8%	8.3%
Net interest spread[4]	8.6%	8.1%
Operating expenses/Operating income (before provision for loan impairment)[5]	47.6%	50.8%
Net interest income/operating income before provision for loan impairment[5]	77.8%	76.5%
Provision for loan impairment (balance sheet)/loans and advances to customers (before provision for loan impairment)	5.1%	7.2%
Provision for loan impairment/Operating income (before provision for loan impairment)[5]	14.1%	22.5%
Operating expenses/Average total assets[6]	4.5%	4.7%

Notes:

(1) Return on equity is (x) profit for the period, divided by (y) average of total equity for the current and previous quarter and annualised.

(2) Return on assets is (x) profit for the period, divided by (y) average of total assets for the current and previous quarter and annualised.

(3) Net interest margin is (x) net interest income, divided by (y) the monthly average of interest-earning assets and annualised.

(4) Net interest spread is (x) total interest income divided by monthly averages of total interest earning assets, minus (y) total interest expense divided by monthly averages of total interest bearing liabilities and annualised.

(5) Operating income (before provision for loan impairment) is the sum of net interest income, net fee and commission income, gains less losses from trading in foreign currencies, foreign exchange translation gains less losses, gains less losses from derivative financial instruments and other operating income.

(6) The average of total assets for the current and previous quarter is used to calculate this figure.

Interest income

The following table sets out the principal components of TBC's interest income for the periods indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Loans and advances to customers	112,012	107,895	3.8%
Investment securities available for sale	7,263	7,385	(1.7)%
Investments in leases	2,082	1,657	25.6%
Due from other banks	1,411	1,213	16.3%
Total interest income	**122,767**	**118,150**	**3.9%**

Total interest income increased by GEL 4.6 million, or 3.9%, to GEL 122.8 million for the three months ended 31 March 2014 from GEL 118.2 million for the three months ended 31 March 2013, with the largest increase in interest income in absolute terms from loans to customers, followed by an increase in interest income from investments in leases.

Interest income from loans to customers increased by GEL 4.1 million, or 3.8%, to GEL 112.0 million for the three months ended 31 March 2014 from GEL 107.9 million for the three months ended 31 March 2013. This increase was primarily due to an increase in the size of TBC's loan portfolio, which increased from GEL 2,528.5 million as at 31 March 2013 to GEL 2,921.1 million as at 31 March 2014, which more than offset a decrease in the average interest yields over the same period.

Interest income from investments in leases increased by GEL 0.4 million, or 25.6%, to GEL 2.1 million for the three months ended 31 March 2014, from GEL 1.7 million for the three months ended 31 March 2013. This increase was primarily due to the increase in the size of TBC's lease portfolio during the period.

Interest income from amounts due from other banks increased by GEL 0.2 million, or 16.3%, to GEL 1.4 million for the three months ended 31 March 2014 from GEL 1.2 million for the three months ended 31 March 2013, due to the increase in the average balances of such portfolio during the period.

Interest income from investment securities available for sale, principally comprising certificates of deposit issued by the NBG and treasury bills issued by the Ministry of Finance of Georgia, decreased slightly by GEL 0.1 million, to GEL 7.3 million for the three months ended 31 March 2014 from GEL 7.4 million for the three months ended 31 March 2013. This decrease was driven by reduced interest rates on such securities during the period, which offset an increase in the size of the portfolio (including non-interest bearing corporate shares) to GEL 568.9 million from GEL 468.8 million as at 31 March 2014 and 31 March 2013, respectively.

The following table sets out the average interest rates on TBC's interest-earning Lari and foreign currency assets, for the periods indicated:

	For the three months ended 31 March							
	2014				2013			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(%)							
Due from other banks	5.3	—(1)	—(1)	1.9(1)	5.6	—(1)	—(1)	0.5(1)
Loans and advances to customers	19.3	13.8	11.8	27.7	24.2	14.9	14.0	25.9
Investment securities available for sale and held to maturity	5.5	—	—	—	6.5	—	—	—

Notes:

* Average interest rates are calculated as interest income by currency divided by the monthly average of the respective balances and annualised.

(1) TBC calculates average interest rates on amounts due from other banks only in respect of foreign currencies as a whole (which are represented in the "Other" column above), and not by individual currency.

In the three months ended 31 March 2014, currency blended average interest rates on loans to customers decreased to 15.6% from 17.4% in the three months ended 31 March 2013, broadly in line with the general market trend of declining interest rates.

The decrease in average interest rates on GEL-denominated investment securities available for sale and held to maturity in the three months ended 31 March 2014 compared to the three months ended 31 March 2013, in line with the general market trend of declining interest rates on these securities.

Interest expense

The following table sets out the principal components of TBC's interest expense for the periods indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Customer accounts	27,345	38,337	(28.7)%
Due to credit institutions	10,520	10,044	4.7%
Subordinated debt	4,322	3,059	41.3%
Other	160	27	—
Total interest expense	**42,347**	**51,467**	(17.7)%

Total interest expense decreased by GEL 9.1 million, or 17.7%, to GEL 42.3 million for the three months ended 31 March 2014 from GEL 51.5 million for the three months ended 31 March 2013, due mainly to decreases in interest expense on customer accounts.

Interest expense on customer accounts decreased by GEL 11.0 million, or 28.7%, to GEL 27.3 million for the three months ended 31 March 2014 from GEL 38.3 million for the three months ended 31 March 2013, broadly in line with the general market trend of declining interest rates on deposits in Georgia. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest expense on amounts due to credit institutions increased by GEL 0.5 million, or 4.7%, to GEL 10.5 million for the three months ended 31 March 2014 from GEL 10.0 million for the three months ended 31 March 2013, mainly due to an increase in average balances of other borrowed funds during the period, which offset a decrease in amounts due to other banks resulting from a decrease in the respective average yields, broadly in line with market trends due to high sector-wide liquidity levels. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates paid by TBC on its Lari and foreign currency-denominated interest-bearing liabilities for the periods indicated:

	For the three months ended 31 March							
	2014				2013			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(%)							
Customer accounts	3.8	4.1	4.0	4.6	5.8	6.7	6.1	6.6
Due to credit institutions[2]	5.8	[1]	[1]	7.0	5.8	[1]	[1]	6.9
Subordinated debt	—	10.2	—	—	—	10.7	—	—

Notes:

* Average interest rates are calculated as interest expense by currency divided by the monthly average of the respective balances and annualised.

(1) TBC calculates average interest rates on amounts due to credit institutions only in respect of foreign currencies as a whole (which are represented in the "Other" column above), and not by individual currency.

(2) Due to credit institutions includes amounts due to other banks, other borrowed funds and debt securities in issue (the latter of which is a manat-denominated bond issued by TBC Kredit in Azerbaijan).

The decreases on average interest rates on GEL-denominated and all foreign currency-denominated customer accounts reflected the general market trend of declining interest rates on deposits.

Net interest income

TBC's net interest income increased by GEL 13.7 million, or 20.6%, to GEL 80.4 million for the three months ended 31 March 2014 from GEL 66.7 million for the three months ended 31 March 2013.

Fees and commissions

Fee and commission income

The following table sets out certain information on TBC's fee and commission income for the periods indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Fee and commission income *(in respect of financial assets not at fair value through profit or loss):*			
Card operations	7,005	7,530	(7.0)%
Guarantees issued	1,670	1,423	17.4%
Settlement transactions	3,050	2,582	18.1%
Cash transactions	1,167	1,032	13.1%
Foreign exchange operations	310	352	(11.9)%
Issuance of letters of credit	1,644	1,030	59.6%
Other	963	957	0.6%
Total fee and commission income	**15,809**	**14,906**	**6.1%**

Fee and commission income increased by GEL 0.9 million, or 6.1%, to GEL 15.8 million for the three months ended 31 March 2014 from GEL 14.9 million for the three months ended 31 March 2013, primarily as a result of the increase in fees and commissions from issuance of letters of credit, settlement transactions, guarantees issued and cash transactions, which more than offset a decrease in fee and commission income from card operations and a slight decrease in foreign exchange operations.

Fee and commission expense

The following table sets out information on TBC's fee and commission expense for the periods indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Fee and commission expense *(in respect of financial instruments not at fair value through profit or loss):*			
Card operations	3,377	3,394	(0.5)%
Guarantees received	1,029	697	47.6%
Settlement transactions	454	429	5.5%
Cash transactions	630	366	72.0%
Foreign exchange operations	14	14	(0.7)%
Other	960	788	21.8%
Total fee and commission expense	**6,464**	**5,688**	**13.6%**

Fee and commission expense increased by GEL 0.8 million, or 13.6%, to GEL 6.5 million for the three months ended 31 March 2014 from GEL 5.7 million for the three months ended 31 March 2013 as a result of increases in fee and commission expenses from guarantees received, cash transactions and from other operations. Fee and commission expenses from card operations, settlement transactions and foreign exchange operations remained broadly the same during the period.

Net fee and commission income

TBC's net fee and commission income increased by GEL 0.1 million, or 1.4%, to GEL 9.3 million for the three months ended 31 March 2014 from GEL 9.2 million for the three months ended 31 March 2013.

Other operating non-interest income

The following table sets out certain information on TBC's other operating non-interest income and expense items for the period indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Gains less losses from trading in foreign currencies and foreign exchange translation	7,792	7,883	(1.2)%
Gains less losses/(losses less gains) from derivative financial instruments	(177)	(462)	(61.7)%
Other operating income:			
Gain from sale of inventories of repossessed collateral	215	249	(13.7)%
Gain from sale of investment properties	310	508	(39.0)%
Revenues from pay-box terminal services	2,224	1,707	30.3%
Revenues from operational leasing	1,579	497	—
Administrative fee income from international financial institutions	272	350	(22.3)%
Revenues from non-credit related fines	14	249	(94.4)%
Gain on disposal of premises and equipment	6	—	—
Other	1,362	332	—
Total other operating income	5,981	3,892	53.7%
Total other operating non-interest income	**13,596**	**11,313**	**20.2%**

Total other operating non-interest income increased by GEL 2.3 million, or 20.2%, to GEL 13.6 million for the three months ended 31 March 2014 from GEL 11.3 million for the three months ended 31 March 2013. This increase was due in part to an increase in revenues from operational leasing by GEL 1.1 million and revenues from pay-box terminal services by GEL 0.5 million. Total other operating non-interest income was also increased by a relatively smaller loss (GEL 0.2 million) from the fair valuation of interest rate swap (reported under gains less losses from derivative financial instruments) entered for purposes of

hedging interest rate increases in TBC's banking book, compared to a loss of GEL 0.5 million in the same period in 2013.

These increases were slightly offset by a decrease in the recorded gain from trading in foreign currencies and on foreign exchange translations of GEL 7.8 million for the three months ended 31 March 2014, compared to GEL 7.9 million in the three months ended 31 March 2013.

Provision charges for impairment

The following table sets out certain information on TBC's provision charges for impairment for the periods indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Provision for loan impairment	14,586	19,652	(25.8)%
Provision for impairment of investments in finance lease	9	24	(64.2)%
Provision for/(recovery of) performance guarantees and credit related commitments	(1,799)	95	—
Provision for impairment of other financial assets	190	370	(48.7)%
Impairment of investment securities available for sale	22	5	—
Total provision charges for impairment	**13,008**	**20,146**	**(35.4)%**
Provision for loan impairment (balance sheet)/loans and advances to customers (before provision for loan impairment)*(%)*	5.1%	7.2%	
Provision for loan impairment/operating income before provision for loan impairment[(1)]*(%)*	14.1%	22.5%	
Non-performing and Restructured Loan coverage ratio[(2)]	109.0%	154.0%	

Notes:

(1) Operating income (before provision for loan impairment) is the sum of net interest income, net fee and commission income, gains less losses from trading in foreign currencies, foreign exchange translation gains less losses, gains less losses from derivative financial instruments and other operating income.

(2) Non-performing and Restructured Loan coverage ratio is defined as loan loss provisions divided by the sum of Non-performing Loans and Restructured Loans. See "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy—Non-performing and Restructured Loans*". For the first quarter of 2014, the Non-performing and Restructured Loan coverage ratio for the retail, corporate, SME and micro segments was 149%, 99%, 73% and 107%, respectively.

For the three months ended 31 March 2014, TBC's total provision charges for impairment decreased by GEL 7.1 million, or 35.4%, to GEL 13.0 million from GEL 20.1 million for the three months ended 31 March 2013. The decrease in provision charges was primarily driven by decreases in provisions for loan impairment and recovery of provisions for performance guarantees and credit related commitments.

Provision charges for loan impairment decreased by GEL 5.1 million, or 25.8%, to GEL 14.6 million for the three months ended 31 March 2014 from GEL 19.7 million from the three months ended 31 March 2013, reflecting a one-time provision charge for a corporate borrower in the first quarter of 2013, as well as improvements in the consumer loan portfolio in the first quarter of 2014 compared to the same period in 2013.

The decrease in provision charge for performance guarantees and credit related commitments to a net recovery of GEL 1.8 million in the first three months of 2014 from a GEL 0.1 million provision in the first three months of 2013 was driven by the net recovery of provisions on credit related commitments (GEL 1.4 million) and performance guarantees (GEL 0.4 million) in the three months ended 31 March 2014 resulting from the conversion of guarantees into loans and the reduction of provision levels on certain guarantees due to improvements in the borrower's financial standing in the period.

Operating expenses

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Staff costs	26,984	25,748	4.8%
Depreciation and amortization	5,295	5,505	(3.8)%
Administrative and other operating expenses:			
Advertising and marketing services	2,683	2,425	10.6%
Rent	2,867	2,799	2.4%
Professional services	3,686	569	—
Communications and supply	775	722	7.4%
Taxes other than on income	894	692	29.2%
Utility services	1,020	923	10.5%
Stationary and other office expenses	698	594	17.4%
Intangible assets maintenance	919	971	(5.2)%
Premises and equipment maintenance	338	506	(33.3)%
Transportation and vehicles maintenance	278	290	(4.3)%
Loss on disposal of premises and equipment	—	32	(100.0)%
Security services	369	396	(6.8)%
Insurance	442	378	16.9%
Write-down of current assets to fair value less costs to sell	10	70	(85.7)%
Business trip expenses	199	133	49.3%
Charity	249	199	25.4%
Personnel training and recruitment	68	146	(53.4)%
Loss on disposal of investment property	1	100	(98.9)%
Other	1,474	1,096	34.5%
Total administrative and other operating expenses	**16,970**	**13,041**	**30.1%**
Operating expenses	**49,249**	**44,294**	**11.2%**

Total operating expenses increased by GEL 5.0 million, or 11.2%, to GEL 49.2 million for the three months ended 31 March 2014 from GEL 44.3 million for the three months ended 31 March 2013. The increase was principally due to increases in professional services expenses and staff costs.

Administrative and other operating expenses increased by GEL 3.9 million, or 30.1%, to GEL 17.0 million for the three months ended 31 March 2014, from GEL 13.0 million for the three months ended 31 March 2013. This increase was mainly driven by an increase in professional services expenses by GEL 3.1 million, primarily relating to expenses paid to external legal and financial advisors in connection with preparation for the Global Offer and was also affected by an increase in advertising and marketing services by GEL 0.3 million due to the higher marketing activities in the first quarter of 2014 compared to the same period in 2013.

Staff costs increased by GEL 1.2 million, or 4.8%, to GEL 27.0 million for the three months ended 31 March 2014, from GEL 25.7 million for the three months ended 31 March 2013. Out of this increase, 67% is attributable to the increase in the number of employees of Bank Constanta on a year-on-year basis, in connection with the growth of Bank Constanta's business as well as the general increase in salaries and bonuses on a TBC Group level.

Taxation

TBC reported income tax expense of GEL 5.1 million for the three months ended 31 March 2014, compared to GEL 3.0 million for the three months ended 31 March 2013.

The following table sets out certain information on TBC's income tax expense for the years indicated:

	For the three months ended 31 March		
	2014	2013	Change
	(GEL thousands)		(%)
Current tax charge	5,064	2,982	(23.5)%
Deferred tax charge/(credit)	102	49	—
Income tax expense	**5,165**	**3,031**	**66.9%**

TBC's income tax expense increased by GEL 2.1 million, or 70.4%, to GEL 5.1 million for the three months ended 31 March 2014, from GEL 3.0 million for the three months ended 31 March 2013, primarily as a result of the increase in taxable income, resulting in an effective tax rate (calculated as income tax expense as a percentage of profit before tax) of 12.6% in the three months ended 31 March 2014 (compared to 13.3% in the first three months of 2013). As a result of certain differences between taxable income as defined under applicable Georgian legislation and income recorded according to IFRS, TBC's effective tax rate under IFRS was lower than the 15.0% Georgian corporate tax rate generally applicable to TBC.

Profit

TBC's profit for the period increased by GEL 16.2 million, or 82.0%, to GEL 35.9 million for the three months ended 31 March 2014 from GEL 19.7 million for the three months ended 31 March 2013.

Segment analysis

The following table sets out information on the financial results of TBC's segments for the three months ended 31 March 2014 and 2013:

	For the three months ended 31 March 2014					
	Retail	Corporate	SME	Micro	Corporate center and other operations	Total
	(GEL thousands)					
Interest income	53,092	33,697	12,238	12,985	10,755	122,767
Interest expense	(19,701)	(5,600)	(1,987)	(57)	(15,002)	(42,347)
Inter-segment interest income/(expense)	*2,174*	*(12,884)*	*(780)*	*(4,340)*	*15,830*	—
Net interest income	**35,565**	**15,213**	**9,471**	**8,588**	**11,583**	**80,420**
Fee and commission income	9,467	3,610	1,974	755	3	15,809
Fee and commission expense	(5,512)	(474)	(222)	(214)	(42)	(6,464)
Net fee and commission income	**3,955**	**3,136**	**1,752**	**541**	**(39)**	**9,345**
Gains less losses from trading in foreign currencies	1,948	2,847	2,472	344	1,882	9,493
Foreign exchange translation losses less gains	—	—	—	—	(1,701)	(1,701)
Net gain from derivative financial instruments	—	—	—	—	(177)	(177)
Other operating income	—	—	—	—	5,981	5,981
Other operating non-interest income	**1,948**	**2,847**	**2,472**	**344**	**5,985**	**13,596**
Provision for loan impairment	(7,031)	(5,652)	(603)	(1,300)	—	(14,586)
Provision for performance guarantees and credit related commitments	—	1,972	(173)	—	—	1,799
Provision for impairment of investments in finance lease	—	—	—	—	(9)	(9)
Provision for impairment of other financial assets	—	—	—	—	(190)	(190)
Impairment of investment securities available for sale	—	—	—	—	(22)	(22)
Operating income after provisions for impairment	**34,437**	**17,516**	**12,919**	**8,173**	**17,308**	**90,353**
Staff costs	(12,467)	(2,483)	(2,465)	(3,844)	(5,725)	(26,984)
Depreciation and amortisation	(2,942)	(185)	(456)	(594)	(1,118)	(5,295)
Administrative and other operating expenses	(8,594)	(1,218)	(1,294)	(2,340)	(3,524)	(16,970)
Operating expenses	**(24,003)**	**(3,886)**	**(4,215)**	**(6,778)**	**(10,367)**	**(49,249)**
Profit before tax	**10,434**	**13,630**	**8,704**	**1,395**	**6,941**	**41,104**
Income tax expense	(1,311)	(1,713)	(1,094)	(176)	(871)	(5,165)
Profit for the period	**9,123**	**11,917**	**7,610**	**1,219**	**6,070**	**35,939**

	For the three months ended 31 March 2013					
	Retail	Corporate	SME	Micro	Corporate center and other operations	Total
			(GEL thousands)			
Income interest	50,104	36,058	10,358	11,374	10,255	118,150
Interest expense	(26,238)	(10,171)	(1,851)	(77)	(13,130)	(51,467)
Net Transfer pricing	*8,314*	*(13,973)*	*(960)*	*(3,586)*	*10,205*	—
Net interest income	**32,181**	**11,914**	**7,547**	**7,711**	**7,330**	**66,683**
Fee and commission income	9,408	3,459	1,561	478	—	14,906
Fee and commission expense	(4,350)	(819)	(343)	(128)	(48)	(5,688)
Net fee and commission income	**5,058**	**2,640**	**1,218**	**350**	**(48)**	**9,218**
Gains less losses from trading in foreign currencies	1,762	3,562	2,061	249	(2,744)	4,890
Foreign exchange translation gains less losses	—	—	—	—	2,993	2,993
Net losses from derivative financial instruments	—	—	—	—	(462)	(462)
Other operating income	—	—	—	—	3,892	3,892
Other operating non-interest income	**1,762**	**3,562**	**2,061**	**249**	**3,679**	**11,313**
Provision for loan impairment	(6,321)	(12,255)	(1,384)	308	—	(19,652)
Provision for liabilities, charges and credit related commitments	—	(6)	(89)	—	—	(95)
Provision for impairment of investments in finance lease	—	—	—	—	(24)	(24)
Provision for impairment of other financial assets	—	—	—	—	(370)	(370)
Impairment of investment securities available for sale	—	—	—	—	(5)	(5)
Operating income after provisions for impairment	**32,680**	**5,855**	**9,353**	**8,618**	**10,562**	**67,068**
Staff costs	(11,099)	(1,946)	(2,153)	(3,433)	(7,117)	(25,748)
Depreciation and amortisation	(3,171)	(204)	(532)	(527)	(1,071)	(5,505)
Administrative and other operating expenses	(6,947)	(569)	(1,014)	(2,581)	(1,930)	(13,041)
Operating expenses	**(21,217)**	**(2,719)**	**(3,699)**	**(6,541)**	**(10,118)**	**(44,294)**
Profit before tax	**11,463**	**3,136**	**5,654**	**2,077**	**444**	**22,774**
Income tax expense	(1,525)	(396)	(753)	(276)	(81)	(3,031)
Profit for the period	**9,938**	**2,740**	**4,901**	**1,801**	**363**	**19,743**

For a detailed segment analysis, see Note 18 to the Unaudited Consolidated Interim Financial Statements.

Results of Operations for the Years ended 31 December 2013 and 2012

Consolidated results of operations

The following table sets out the main components of TBC's consolidated statements of profit or loss and other comprehensive income for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Interest income	474,796	456,545	4.0%
Interest expense	(192,146)	(217,895)	(11.8)%
Net interest income	**282,650**	**238,650**	**18.4%**
Fee and commission income	66,497	58,140	14.4%
Fee and commission expense	(24,301)	(18,830)	29.1%
Net fee and commission income	**42,196**	**39,310**	**7.3%**
Gains less losses from trading in foreign currencies	37,894	25,240	50.1%
Foreign exchange translation (losses less gains)/gains less losses	(5,901)	7,617	—
Gains less losses/(losses less gains) from derivative financial instruments	613	(3,804)	—
Other operating income	24,000	19,772	21.4%
Other operating non-interest income	**56,606**	**48,825**	**15.9%**
Provision for loan impairment	(32,971)	(23,154)	42.4%
Provision for impairment of investments in finance lease	(98)	(42)	—
Provision for performance guarantees and credit related commitments	(6,459)	(1,606)	—
Provision for impairment of other financial assets	(2,236)	(4,132)	(45.9)%
Impairment of investment securities available for sale	(1,142)	(10)	—
Operating income after provisions for impairment	**338,546**	**297,841**	**13.7%**
Staff costs	(108,613)	(92,289)	17.7%
Depreciation and amortisation	(19,993)	(22,103)	(9.5)%
Provision for liabilities and charges	(1,315)	(1,700)	(22.6)%
Administrative and other operating expenses	(68,692)	(69,440)	(1.1)%
Operating expenses	**(198,613)**	**(185,532)**	**7.3%**
Profit before tax	**139,933**	**112,309**	24.6%
Income tax expense	(15,663)	(14,498)	8.0%
Profit for the year	**124,270**	**97,811**	**27.1%**

The following table sets out certain of TBC's profitability ratios for the years indicated:

	For the year ended 31 December	
	2013	2012
	(%)	
Profitability ratios:		
Return on equity[1]	18.7%	18.6%
Return on assets[2]	3.1%	2.7%
Net interest margin[3]	8.4%	7.7%
Net interest spread[4]	8.2%	7.6%
Operating expenses/Operating income (before provision for loan impairment)[5]	52.1%	56.8%
Net interest income/operating income before provision for loan impairment[5]	74.1%	73.0%
Provision for loan impairment (balance sheet)/loans and advances to customers (before provision for loan impairment)	5.3%	6.6%
Provision for loan impairment/Operating income (before provision for loan impairment)[5]	8.6%	7.1%
Operating expenses/Average total assets[6]	4.9%	5.1%

Notes:

(1) Return on equity is (x) profit for the year, divided by (y) quarterly average total equity.

(2) Return on assets is (x) profit for the year, divided by (y) quarterly average total assets.

(3) Net interest margin is (x) net interest income, divided by (y) the monthly average of interest-earning assets.

(4) Net interest spread is (x) total interest income divided by monthly averages of total interest earning assets, minus (y) total interest expense divided by monthly averages of total interest bearing liabilities.

(5) Operating income (before provision for loan impairment) is the sum of net interest income, net fee and commission income, gains less losses from trading in foreign currencies, foreign exchange translation gains less losses, gains less losses from derivative financial instruments and other operating income.

(6) Quarterly average total assets are used to calculate this figure.

Interest income

The following table sets out the principal components of TBC's interest income for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Loans and advances to customers	433,968	414,249	4.8%
Investment securities available for sale	30,442	27,211	11.9%
Investment securities held to maturity	—	2,373	—
Investments in leases	7,356	5,734	28.3%
Due from other banks	3,030	6,960	(56.5)%
Other	—	18	—
Total interest income	**474,796**	**456,545**	**4.0%**

Total interest income increased by GEL 18.3 million, or 4.0%, to GEL 474.8 million for the year ended 31 December 2013 from GEL 456.5 million for the year ended 31 December 2012, with the largest increase in interest income in absolute terms from loans to customers, followed by an increase in interest income from investment securities available for sale.

Interest income from loans to customers increased by GEL 19.7 million, or 4.8%, to GEL 434.0 million for the year ended 31 December 2013 from GEL 414.2 million for the year ended 31 December 2012. This increase was primarily due to an increase in the size of TBC's loan portfolio, which increased from GEL 2,536.7 million as at 31 December 2012 to GEL 2,958.6 million as at 31 December 2013, which more than offset a decrease in the average interest yields over the same period. See "*Selected Statistical and Other Information—Loan Portfolio*".

Interest income from investment securities available for sale, principally comprising certificates of deposit issued by the NBG and treasury bills issued by the Ministry of Finance of Georgia, increased by GEL 3.2 million, to GEL 30.4 million for the year ended 31 December 2013 from GEL 27.2 million for the year ended 31 December 2012. This increase was driven by significant growth in TBC's portfolio of investment securities available for sale by GEL 92.9 million, or 22.8%, in 2013, primarily as a result of TBC's investment of excess liquid cash into Lari-denominated instruments such as NBG certificates of deposit that have maturity profiles aligned with TBC's anticipated liquidity needs and profitability targets. See "*Selected Statistical and Other Information—Securities Portfolio—Investment securities available for sale*".

TBC did not generate any interest income from securities held to maturity in 2013 following the redemption at the end of 2012 of the Georgian government notes that constituted TBC's entire portfolio of investment securities held to maturity and generated interest income of GEL 2.4 million in 2012.

Interest income from investments in leases increased by GEL 1.6 million, or 28.3%, to GEL 7.4 million for the year ended 31 December 2013, from GEL 5.7 million for the year ended 31 December 2012. This increase was primarily due to the increase in the average balance of investments in leases in 2013, compared to 2012. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest income from amounts due from other banks decreased by GEL 3.9 million, or 56.5%, to GEL 3.0 million for the year ended 31 December 2013 from GEL 7.0 million for the year ended 31 December 2012, due to a decrease in the average balance of amounts due from other banks in 2013, compared to 2012. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates on TBC's interest-earning Lari and foreign currency assets for the years indicated:

	For the year ended 31 December							
	2013				2012			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(%)							
Due from other banks	2.6	—[1]	—[1]	0.7[1]	5.3	—[1]	—[1]	0.6[1]
Loans and advances to customers	22.6	14.2	12.6	29.3	23.2	15.5	13.8	25.5
Investment securities available for sale and held to maturity	6.5	—	—	—	7.7	—	—	—

Notes:

* Average interest rates are calculated as interest income by currency divided by the monthly average of the respective balances.

(1) TBC calculates average interest rates on amounts due from other banks only in respect of foreign currencies as a whole (which are represented in the "Other" column above), and not by individual currency.

In the year ended 31 December 2013, currency blended average interest rates on loans to customers decreased to 16.6% from 17.5% in 2012, primarily due to the decrease in average interest rates on GEL-denominated, USD-denominated and EUR-denominated loans to customers, broadly aligned with the general market trend of declining interest rates.

The decrease in average interest rates on GEL-denominated investment securities available for sale and held to maturity in the year ended 31 December 2013 compared to the year ended 31 December 2012, was primarily due to the general market trend of declining interest rates on these securities.

Interest expense

The following table sets out the principal components of TBC's interest expense, for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Customer accounts	139,913	156,634	(10.7)%
Due to credit institutions	38,645	47,946	(19.4)%
Subordinated debt	13,182	13,226	(0.3)%
Other	406	89	—
Total interest expense	**192,146**	**217,895**	(11.8)%

Total interest expense decreased by GEL 25.7 million, or 11.8%, to GEL 192.1 million for the year ended 31 December 2013 from GEL 217.9 million for the year ended 31 December 2012, due to decreases in interest expense on customer accounts and amounts due to credit institutions.

Interest expense on customer accounts decreased by GEL 16.7 million, or 10.7%, to GEL 139.9 million for the year ended 31 December 2013 from GEL 156.6 million for the year ended 31 December 2012, mainly as a result of the reduction of interest expense on customer deposits broadly in line with the general market trend of declining interest rates on deposits in Georgia. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest expense on amounts due to credit institutions decreased by GEL 9.3 million, or 19.4%, to GEL 38.6 million for the year ended 31 December 2013 from GEL 47.9 million for the year ended 31 December 2012, mainly due to decreases in the interest expense on both amounts due to other banks and other borrowed funds. The decrease in interest expense on these items, in turn, primarily resulted from a decrease in the respective average balances and yields, broadly in line with market trends due to high sector-wide liquidity levels. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates paid by TBC on its Lari and foreign currency-denominated interest-bearing liabilities for the years indicated:

	For the year ended 31 December							
	2013				2012			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(%)							
Customer accounts	5.0	5.7	5.4	5.7	6.4	7.3	6.3	8.2
Due to credit institutions[2]	5.1	[1]	[1]	7.4	5.5	[1]	[1]	7.4
Subordinated debt	—	10.5	—	—	—	10.0	—	—

Notes:

* Average interest rates are calculated as interest expense by currency divided by the monthly average of the respective balances.

(1) TBC calculates average interest rates on amounts due to credit institutions only in respect of foreign currencies as a whole (which are represented in the "Other" column above), and not by individual currency.

(2) Due to credit institutions includes amounts due to other banks, other borrowed funds and debt securities in issue (the latter of which is a manat-denominated bond issued by TBC Kredit in Azerbaijan).

The decreases on average interest rates on GEL-denominated and all foreign currency-denominated customer accounts reflected the general market trend of declining interest rates on deposits.

Net interest income

For the foregoing reasons, TBC's net interest income increased by GEL 44.0 million, or 18.4%, to GEL 282.7 million for the year ended 31 December 2013 from GEL 238.7 million for the year ended 31 December 2012.

Fees and commissions

Fee and commission income

The following table sets out certain information on TBC's fee and commission income, for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Fee and commission income *(in respect of financial assets not at fair value through profit or loss):*			
Card operations	31,834	26,844	18.6%
Guarantees issued	6,271	9,530	(34.2)%
Settlement transactions	11,856	10,006	18.5%
Cash transactions	5,040	4,092	23.2%
Foreign exchange operations	1,550	1,632	(5.0)%
Issuance of letters of credit	6,769	2,762	—
Other	3,177	3,274	(3.0)%
Total fee and commission income	**66,497**	**58,140**	**14.4%**

Fee and commission income increased by GEL 8.4 million, or 14.4%, to GEL 66.5 million for the year ended 31 December 2013 from GEL 58.1 million for the year ended 31 December 2012, primarily as a result of the increase in fees and commissions from the majority of TBC's fee and commission generating operations, particularly card operations and issuance of letters of credit. These increases were due to an increase in the overall scale of TBC's fee and commission generating operations in these areas in 2013, compared to 2012.

Fee and commission expense

The following table sets out information on TBC's fee and commission expense for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Fee and commission expense *(in respect of financial instruments not at fair value through profit or loss):*			
Card operations	13,143	9,657	36.1%
Guarantees received	4,048	3,625	11.7%
Settlement transactions	2,157	1,501	43.7%
Cash transactions	1,544	1,084	42.4%
Foreign exchange operations	70	62	12.9%
Other	3,339	2,901	15.1%
Total fee and commission expense	**24,301**	**18,830**	**29.1%**

Fee and commission expense increased by GEL 5.5 million, or 29.1%, to GEL 24.3 million for the year ended 31 December 2013 from GEL 18.8 million for the year ended 31 December 2012 as a result of increases in all areas, particularly credit and debit card operations and other fee and commission expense in 2013, reflecting the growth in the overall scale of these operations in 2013, compared to 2012.

Net fee and commission income

For the foregoing reasons, TBC's net fee and commission income increased by GEL 2.9 million, or 7.3%, to GEL 42.2 million for the year ended 31 December 2013 from GEL 39.3 million for the year ended 31 December 2012.

Other operating non-interest income

The following table sets out certain information on TBC's other operating non-interest income and expense items for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Gains less losses from trading in foreign currencies and foreign exchange translation	**31,993**	**32,857**	(2.6)%
Gains less losses/(losses less gains) from derivative financial instruments	**613**	**(3,804)**	—
Other operating income:			
Gain from sale of inventories of repossessed collateral	1,519	4,102	(63.0)%
Gain from sale of investment properties	5,835	2,734	—
Revenues from pay-box terminal services	7,446	5,154	44.5%
Revenues from operational leasing	2,980	3,292	(9.5)%
Administrative fee income from international financial institutions	1,268	1,163	9.0%
Revenues from non-credit related fines	339	434	(21.9)%
Net gain on terminated finance lease contracts	—	108	—
Gain on disposal of premises and equipment	37	—	—
Other	4,576	2,785	64.3%
Total other operating income	**24,000**	**19,772**	21.4%
Total other operating non-interest income	**56,606**	**48,825**	**15.9%**

Total other operating non-interest income increased by GEL 7.8 million, or 15.9%, to GEL 56.6 million for the year ended 31 December 2013 from GEL 48.8 million for the year ended 31 December 2012. This increase was due in part to an increase in other operating income by GEL 4.2 million, or 21.4%, to GEL 24.0 million for the year ended 31 December 2013 from GEL 19.8 million for the year ended 31 December 2012, which was driven by higher gains in 2013 from the sale of more investment property in 2013 than in 2012. The increase in total other operating non-interest income in 2013 from 2012 also reflected that in 2012 TBC recorded a GEL 3.8 million loss from the fair valuation of interest rate swap (reported under gains from derivative financial instruments) entered for purposes of hedging interest rate increases on TBC's banking book, but recorded a small gain (GEL 0.6 million) on fair valuation of these instruments in 2013 driven by higher forward interest rate expectations. The increase in total other operating non-interest income in 2013 was also driven by increased revenues from pay-box terminal services as a result of an increase in the number of TBC's cash-in terminals as well as increased operations at its existing terminals.

These increases were slightly offset by a decrease in the recorded gain from trading in foreign currencies and on foreign exchange translations of GEL 32.0 million for the year ended 31 December 2013, compared to a gain of GEL 32.9 million in the year ended 31 December 2012. The decrease in 2013 resulted primarily from decreased activity in the corporate sector generally in the year, with a consequent decrease in the TBC's currency operations for corporate customers as compared to 2012.

Provision charges for impairment

The following table sets out certain information on TBC's provision charges for impairment, for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Provision for loan impairment	32,971	23,154	42.4%
Provision for impairment of investments in finance lease	98	42	—
Provision for performance guarantees and credit related commitments	6,459	1,606	—
Provision for impairment of other financial assets	2,236	4,132	(45.9)%
Impairment of investment securities available for sale	1,142	10	—
Total provision charges for impairment	**42,406**	**28,944**	**46.5%**
Provision for loan impairment (balance sheet)/loans and advances to customers (before provision for loan impairment)*(%)*	5.3%	6.6%	
Provision for loan impairment/operating income before provision for loan impairment[(1)]*(%)*	8.6%	7.1%	
Non-performing and Restructured Loan coverage ratio[(2)]	111%	145%	

Notes:

(1) Operating income (before provision for loan impairment) is the sum of net interest income, net fee and commission income, gains less losses from trading in foreign currencies, foreign exchange translation gains less losses, gains less losses from derivative financial instruments and other operating income.

(2) Non-performing and Restructured Loan coverage ratio is defined as loan loss provisions divided by the sum of Non-performing Loans and Restructured Loans. See "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy—Non-performing and Restructured Loans*". For 2013, the Non-performing and Restructured Loan coverage ratio for the retail, corporate, SME and micro segments was 138%, 105%, 70% and 110%, respectively.

For the year ended 31 December 2013, TBC's total provision charges for impairment increased by GEL 14.0 million, or 48.2%, to GEL 42.9 million from GEL 28.9 million for the year ended 31 December 2012. The increase in provision charges was primarily driven by increases in provisions for loan impairment and provisions for performance guarantees and credit related commitments.

Provision charges for loan impairment increased by GEL 9.8 million, or 42.4%, to GEL 33.0 million for the year ended 31 December 2013 from GEL 23.2 million, primarily due to loan book growth during the year and increased provision charges in 2013 for a limited number of corporate borrowers, as well as a GEL 6.2 million provision for losses incurred as a result of a fraudulently issued guarantee, part of which crystalised in September 2013 (see "*Risk Factors—Risks Relating to TBC's Business—TBC is subject to operational risk inherent to its business activities*").

The increase for provision charge for performance guarantees and credit related commitments was driven by a related increase (GEL 28.2 million) in the combined balance of TBC's performance guarantee and credit related commitment portfolios in 2013 compared to 2012 and an increased provisioning charge on a corporate guarantee.

Operating expenses

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Staff costs	**108,613**	**92,289**	**17.7%**
Depreciation and amortization	**19,993**	**22,103**	**(9.5)%**
Provision for liabilities and charges	**1,315**	**1,700**	**(22.6)%**
Administrative and other operating expenses:			
Advertising and marketing services	13,211	15,183	(13.0)%
Rent	10,809	10,295	5.0%
Professional services	6,247	10,054	(37.9)%
Communications and supply	3,103	3,199	(3.0)%
Taxes other than on income	3,043	3,363	(9.5)%
Utility services	3,369	3,036	11.0%
Stationary and other office expenses	2,360	2,958	(20.2)%
Intangible assets maintenance	3,767	2,605	44.6%
Premises and equipment maintenance	2,484	1,904	30.5%
Transportation and vehicles maintenance	1,215	1,687	(28.0)%
Loss on disposal of premises and equipment	54	1,658	(96.7)%
Security services	1,597	1,522	4.9%
Insurance	1,496	1,440	3.9%
Write-down of current assets to fair value less costs to sell	6,178	1,317	—
Business trip expenses	1,230	1,104	11.4%
Charity	905	911	(0.7)%
Personnel training and recruitment	902	574	57.1%
Loss on disposal of inventory	221	—	—
Loss on disposal of investment property	76	—	—
Other	6,425	6,630	(3.1)%
Total administrative and other operating expenses	**68,692**	**69,440**	**(1.1)%**
Operating expenses	**198,613**	**185,532**	**7.1%**

Total operating expenses increased by GEL 13.1 million, or 7.1%, to GEL 198.6 million for the year ended 31 December 2013 from GEL 185.5 million for the year ended 31 December 2012. The increase was principally due to an increase in staff costs by GEL 16.3 million, or 17.7%, to GEL 108.6 million for the year ended 31 December 2013, from GEL 92.3 million in 2012, mainly resulting from an increase in staff salaries and bonuses reflecting TBC's growth and performance, as well as a 28% increase in the number of employees of Bank Constanta in 2013 compared to 2012, in connection with the growth of Bank Constanta's business.

The increase in staff costs was partially offset by a decrease in depreciation and amortisation expenses by GEL 2.1 million, or 9.5%, to GEL 20.0 million for the year ended 31 December 2013, from GEL 22.1 million for the year ended 31 December 2012, reflecting a one-time GEL 3.9 million write-off relating to computer servers in 2012. Administrative and other operating expenses also decreased by GEL 0.7 million, or 1.1%, to GEL 68.7 million for the year ended 31 December 2013, from GEL 69.4 million for the year ended 31 December 2012. This decrease was mainly driven by decreases in professional services and advertising and marketing services. Professional services decreased by GEL 3.8 million, or 37.9%, to GEL 6.2 million for the year ended 31 December 2013 primarily due to the significant investments in various initiatives undertaken by TBC in 2012 and 2013 (such as the Basel II/III implementation project (the "**Basel II/III Implementation Project**") and the "Lean Banking" initiative), for which similar expenses were not recorded in 2013. Similarly, advertising and marketing services fell by GEL 2.0 million, or 13.0%, in the year ended 31 December 2013 as compared to 2012 reflecting the relatively high level of expenses incurred in connection with the marketing and advertising activities associated with TBC's 20th anniversary in 2012. These decreases were partially offset by the increase in write-down of current assets to fair value less costs to sell, which was due to the revaluation of repossessed collateral.

Taxation

TBC reported income tax expense of GEL 15.7 million for the year ended 31 December 2013, compared to GEL 14.5 million for the year ended 31 December 2012.

The following table sets out certain information on TBC's income tax expense for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(GEL thousands)		(%)
Current tax charge	8,247	4,077	—
Deferred tax charge/(credit)	7,416	10,421	(28.8)%
Income tax expense	**15,663**	**14,498**	**8.0%**

TBC's income tax expense increased by GEL 1.2 million, or 8.0%, to GEL 15.7 million for the year ended 31 December 2013 from GEL 14.5 million for the year ended 31 December 2012 primarily as a result of the increase in taxable income, resulting in an effective tax rate (calculated as income tax expense as a percentage of profit before tax) of 11.2% in 2013 (compared to 12.9% in 2012). As a result of certain differences between taxable income as defined under applicable Georgian legislation and income recorded according to IFRS, TBC's effective tax rate under IFRS was lower than the 15.0% Georgian corporate tax rate generally applicable to TBC.

Profit

For the foregoing reasons, TBC's profit for the year increased by GEL 26.5 million, or 27.1%, to GEL 124.3 million for the year ended 31 December 2013 from GEL 97.8 million for the year ended 31 December 2012.

2013 segment analysis

The following table sets out information on the financial results of TBC's segments for the year ended 31 December 2013:

	As at 31 December 2013					
	Retail	Corporate	SME	Micro	Corporate center and other operations	Total
	(GEL thousands)					
Interest income	207,028	131,385	44,370	51,185	40,828	**474,796**
Interest expense	(96,144)	(35,721)	(7,622)	(426)	(52,233)	**(192,146)**
Inter-segment interest income/(expense)	*24,157*	*(50,675)*	*(3,679)*	*(15,045)*	*45,242*	**—**
Net interest income	**135,041**	**44,989**	**33,069**	**35,714**	**33,837**	**282,650**
Fee and commission income	40,823	15,881	7,349	2,444	—	**66,497**
Fee and commission expense	(17,627)	(4,688)	(1,089)	(620)	(277)	**(24,301)**
Net fee and commission income	**23,196**	**11,193**	**6,260**	**1,824**	**(277)**	**42,196**
Gains less losses from trading in foreign currencies	8,614	12,522	9,244	1,513	6,001	**37,894**
Foreign exchange translation losses less gains	—	—	—	—	(5,901)	**(5,901)**
Net gain from derivative financial instruments	—	—	—	—	613	**613**
Other operating income	—	—	—	—	24,000	**24,000**
Other operating non-interest income	**8,614**	**12,522**	**9,244**	**1,513**	**24,713**	**56,606**
Provision for loan impairment	(13,377)	(17,035)	(88)	(2,471)	—	**(32,971)**
Provision for performance guarantees and credit related commitments	—	(6,124)	(335)	—	—	**(6,459)**
Provision for impairment of investments in finance lease	—	—	—	—	(98)	**(98)**
Provision for impairment of other financial assets	—	—	—	—	(2,236)	**(2,236)**
Impairment of investment securities available for sale	—	—	—	—	(1,142)	**(1,142)**
Operating income after provisions for impairment	**153,474**	**45,545**	**48,150**	**36,580**	**54,797**	**338,546**
Staff costs	(49,949)	(8,329)	(9,909)	(14,138)	(26,288)	**(108,613)**
Depreciation and amortisation	(11,862)	(753)	(1,904)	(2,061)	(3,413)	**(19,993)**
Provision for liabilities and charges	—	—	—	—	(1,315)	**(1,315)**
Administrative and other operating expenses	(32,693)	(3,175)	(4,135)	(10,130)	(18,559)	**(68,692)**
Operating expenses	**(94,504)**	**(12,257)**	**(15,948)**	**(26,329)**	**(49,575)**	**(198,613)**
Profit before tax	**58,970**	**33,288**	**32,202**	**10,251**	**5,222**	**139,933**
Income tax expense	(6,602)	(3,726)	(3,604)	(1,147)	(584)	**(15,663)**
Profit for the year	**52,368**	**29,562**	**28,598**	**9,104**	**4,638**	**124,270**

In the beginning of 2013, TBC began the implementation of an intra-segment adjustment, or "transfer pricing", mechanism relating to the internal reclassification of interest income and interest expense amongst its segments. Under this mechanism, TBC's Treasury Department acts as a corporate centre that buys all the deposits from the four segments and finances all loans issued by those segments. Gains and losses from liquidity, interest rate and market risk management are attributed to the central Treasury Department. This allows TBC to fund its lending activities in all segments with the most cost-efficient available sources of funding, regardless of which segment is the source of that funding, and to fairly distribute net interest income across all segments. For example, through this transfer pricing mechanism, TBC is able to utilise retail term deposits (which are more diversified and have higher stability and longer maturity than corporate and SME accounts and incur lower costs than corporate and micro term deposits)

to fund loans issued across each of the segments. By centrally managing its loan financing activities in this manner, TBC has the ability to better apportion the profitability amongst its segments. The internal transfers made pursuant to the transfer pricing mechanism were recorded as "inter-segment interest income/expense" for the year ended 31 December 2013 (but not for 2012 or 2011, when in each case transfer pricing was not in effect for the full year) in TBC's Audited Consolidated Financial Statements. See Note 28 to the Audited Consolidated Financial Statements.

Results of Operations for the Years ended 31 December 2012 and 2011

Consolidated results of operations

The following table sets out the main components of TBC's consolidated statements of profit or loss and other comprehensive income for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Interest income	456,545	360,215	26.7%
Interest expense	(217,895)	(151,134)	44.2%
Net interest income	**238,650**	**209,081**	**14.1%**
Fee and commission income	58,140	43,802	32.7%
Fee and commission expense	(18,830)	(15,094)	24.8%
Net fee and commission income	**39,310**	**28,708**	**36.9%**
Gains less losses from trading in foreign currencies	25,240	25,419	(0.7)%
Foreign exchange translation gains less losses	7,617	394	—
Losses less gains from derivative financial instruments	(3,804)	(4,987)	(23.7)%
Other operating income	19,772	9,923	99.3%
Other operating non-interest income	**48,825**	**30,749**	**58.8%**
Provision for loan impairment	(23,154)	(16,049)	44.3%
(Provision for)/recovery of provision for impairment of investments in finance lease	(42)	174	—
Provision for performance guarantees and credit related commitments	(1,606)	(1,353)	18.7%
Provision for impairment of other financial assets	(4,132)	(397)	—
(Impairment)/recovery of impairment of investment securities available for sale	(10)	116	—
Recovery of impairment for assets classified as held for sale	—	1,519	—
Operating income after provisions for impairment	**297,841**	**252,548**	**17.9%**
Staff costs	(92,289)	(78,426)	17.7%
Depreciation and amortisation	(22,103)	(15,088)	46.5%
Provision for liabilities and charges	(1,700)	(200)	—
Administrative and other operating expenses	(69,440)	(51,744)	34.2%
Operating expenses	**(185,532)**	**(145,458)**	**26.6%**
Profit before tax	**112,309**	**107,090**	**4.9%**
Income tax expense	(14,498)	(15,465)	(6.3)%
Profit for the year	**97,811**	**91,625**	**6.8%**

The following table sets out certain of TBC's profitability ratios for the years indicated:

	For the year ended 31 December	
	2012	2011
	(%)	
Profitability ratios:		
Return on equity[1]	18.6%	21.8%
Return on assets[2]	2.7%	3.3%
Net interest margin[3]	7.7%	8.8%
Net interest spread[4]	7.6%	8.6%
Operating expenses/Operating income (before provision for loan impairment)[5]	56.8%	54.2%
Net interest income/operating income before provision for loan impairment[5]	73.0%	77.9%
Provision for loan impairment (balance sheet)/loans and advances to customers (before provision for loan impairment)	6.6%	7.3%
Provision for loan impairment/Operating income (before provision for loan impairment)[5]	7.1%	6.0%
Operating expenses/Average total assets[6]	5.1%	5.2%

Notes:

(1) Return on equity is (x) profit for the year, divided by (y) quarterly average total equity.

(2) Return on assets is (x) profit for the year, divided by (y) quarterly average total assets.

(3) Net interest margin is (x) net interest income, divided by (y) the monthly average of interest-earning assets.

(4) Net interest spread is (x) total interest income divided by monthly averages of total interest earning assets, minus (y) total interest expense divided by monthly averages of total interest bearing liabilities.

(5) Operating income (before provision for loan impairment) is the sum of net interest income, net fee and commission income, gains less losses from trading in foreign currencies, foreign exchange translation gains less losses, gains less losses from derivative financial instruments and other operating income.

(6) Quarterly average total assets are used to calculate this figure.

Interest income

The following table sets out the principal components of TBC's interest income for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Loans and advances to customers	414,249	323,506	28.0%
Investment securities available for sale	27,211	23,253	17.0%
Investment securities held to maturity	2,373	3,642	(34.8)%
Investments in leases	5,734	3,438	66.8%
Due from other banks	6,960	6,113	13.9%
Other	18	263	(93.2)%
Total interest income	**456,545**	**360,215**	**26.7%**

Total interest income increased by GEL 96.3 million, or 26.7%, to GEL 456.5 million for the year ended 31 December 2012 from GEL 360.2 million for the year ended 31 December 2011, mainly due to increased interest income from loans to customers.

Interest income from loans to customers increased by GEL 90.7 million, or 28.0%, to GEL 414.2 million for the year ended 31 December 2012 from GEL 323.5 million for the year ended 31 December 2011. This increase was primarily due to an increase in the size of TBC's loan portfolio, which increased from GEL 2,167.4 million as at 31 December 2011 to GEL 2,536.7 million as at 31 December 2012. See "*Selected Statistical and Other Information—Loan Portfolio*".

Interest income from investment securities available for sale increased by GEL 4.0 million, to GEL 27.2 million for the year ended 31 December 2012 from GEL 23.3 million for the year ended 31 December 2011. This increase was driven by significant growth in the portfolio of investment securities

available for sale by GEL 141.3 million, or 53.0%, compared to the end of the previous year resulting from the comparatively increased liquidity levels in 2012. See "*Selected Statistical and Other Information—Securities Portfolio—Investment Securities Available for Sale*".

Interest income from securities held to maturity decreased by GEL 1.3 million, or 34.8%, to GEL 2.4 million for the year ended 31 December 2012 from GEL 3.6 million for the year ended 31 December 2011, primarily due to the redemption in 2012 of GEL 29.0 million of Georgian government notes, which constituted TBC's entire portfolio of investment securities held to maturity.

Interest income from investments in leases increased by GEL 2.3 million, or 66.8%, to GEL 5.7 million for the year ended 31 December 2012 from GEL 3.4 million for the year ended 31 December 2011. This increase was primarily due to the increase in the average balance of investments in leases in 2012, compared to 2011. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest income from amounts due from other banks increased by GEL 0.8 million, or 13.9%, to GEL 7.0 million for the year ended 31 December 2012 from GEL 6.1 million for the year ended 31 December 2011, due to an increase in the average balance of amounts due from other banks in 2012, compared to 2011. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates on TBC's interest-earning Lari and foreign currency assets, for the years indicated:

	For the year ended 31 December							
	2012				2011			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(%)							
Due from other banks	5.3	—[1]	—[1]	0.6[1]	5.1	—[1]	—[1]	1.4[1]
Loans and advances to customers	23.8	15.5	13.8	25.5	25.4	15.4	14.3	22.9
Investment securities available for sale and held to maturity	7.7	—	—	—	9.6	—	—	—

Notes:

* Average interest rates are calculated as interest income by currency divided by the monthly average of the respective balances.

(1) TBC calculates average interest rates on amounts due from other banks only in respect of foreign currencies as a whole (which are represented in the "Other" column above), and not by individual currency.

In the year ended 31 December 2012, currency blended average interest rates on loans to customers decreased to 17.5% from 17.7% in 2011, primarily due to the decrease in average interest rates on Lari-denominated and Euro-denominated loans to customers, broadly aligned with the general market trend of declining interest rates.

The decrease in average interest rates on Lari-denominated investment securities available for sale and held to maturity in the year ended 31 December 2012 compared to the year ended 31 December 2011, was primarily due to the general market trend of declining interest rates on these securities.

Interest expense

The following table sets out the principal components of TBC's interest expense, for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Customer accounts	156,634	105,387	48.6%
Due to credit institutions	47,946	31,212	53.6%
Subordinated debt	13,226	14,497	(8.8)%
Other	89	38	—
Total interest expense	**217,895**	**151,134**	**44.2%**

Total interest expense increased by GEL 66.8 million, or 44.2%, to GEL 217.9 million for the year ended 31 December 2012 from GEL 151.1 million for the year ended 31 December 2011, mainly as a result of increases in interest expenses on customer accounts and amounts due to credit institutions, partially offset by a slight decrease in interest expense on subordinated debt.

Interest expense on customer accounts increased by GEL 51.2 million, or 48.6%, to GEL 156.6 million for the year ended 31 December 2012 from GEL 105.4 million for the year ended 31 December 2011, mainly due to the increase in the average balance of customer deposits held by TBC's as well as increases in interest rates paid on deposits. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest expense on amounts due to credit institutions increased by GEL 16.7 million, or 53.6%, to GEL 47.9 million for the year ended 31 December 2012 from GEL 31.2 million for the year ended 31 December 2011, mainly due to increases in the average balance of other borrowed funds. See "*Selected Statistical and Other Information—Average Balances and Rates*".

These increases were partially offset by a decrease in interest expense on subordinated debt of GEL 1.3 million, or 8.8%, to GEL 13.2 million for the year ended 31 December 2012 from GEL 14.5 million for the year ended 31 December 2011, primarily reflecting the decrease in the average balance of subordinated debt following TBC's repayment of a subordinated debt facility in August 2012.

The following table sets out the average interest rates paid by TBC on its Lari and foreign currency-denominated interest-bearing liabilities, for the years indicated:

	For the year ended 31 December							
	2012				2011			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(%)							
Customer accounts	6.4	7.3	6.3	8.2	6.1	6.7	6.3	7.8
Due to credit institutions	5.4	(1)	(1)	7.4	6.8	(1)	(1)	6.0
Subordinated debt	—	10.0	—	—	—	9.8	—	—

Notes:

* Average interest rates are calculated as interest expense by currency divided by the monthly average of the respective balances.

(1) TBC calculates average interest rates on amounts due to other banks only in respect of foreign currencies as a whole (which are represented in the "Other" column above), and not by individual currency.

The increases on average interest rates on Lari-denominated and U.S. dollar-denominated customer accounts reflected a general market increase in interest rates for such funds, as well as an increase in the interest rates offered by TBC in response to market competition in 2012. The increase in average interest rates on U.S. dollar-denominated other borrowed funds in 2012, as compared to 2011, was primarily due to the addition of one short-term liquidity support loan facility in December 2011, which had a higher interest rate that of the remaining portfolio and which was repaid in December 2012.

Net interest income

For the foregoing reasons, TBC's net interest income increased by GEL 29.6 million, or 14.1%, to GEL 238.7 million for the year ended 31 December 2012 from GEL 209.1 million for the year ended 31 December 2011.

Fees and commissions

Fee and commission income

The following table sets out certain information on TBC's fee and commission income, for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Fee and commission income *(in respect of financial assets not at fair value through profit or loss):*			
Card operations	26,844	19,337	38.8%
Guarantees issued	9,530	8,167	16.7%
Settlement transactions	10,006	7,638	31.0%
Cash transactions	4,092	4,111	(0.5)%
Foreign exchange operations	1,632	1,296	25.9%
Issuance of letters of credit	2,762	1,056	—
Other	3,274	2,197	49.0%
Total fee and commission income	**58,140**	**43,802**	**32.7%**

Fee and commission income increased by GEL 14.3 million, or 32.7%, to GEL 58.1 million for the year ended 31 December 2012 from GEL 43.8 million for the year ended 31 December 2011, primarily as a result of the increase in fees and commissions from the majority of TBC's fee and commission generating operations, particularly card operations and settlement transactions. These increases were due to an increase in the overall scale of TBC's fee and commission generating operations in these areas in 2012, compared to 2011.

Fee and commission expense

The following table sets out information on TBC's fee and commission expense, for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Fee and commission expense *(in respect of financial instruments not at fair value through profit or loss):*			
Card operations	9,657	6,500	48.6%
Guarantees received	3,625	4,752	(23.7)%
Settlement transactions	1,501	1,477	1.6%
Cash transactions	1,084	521	—
Foreign exchange operations	62	28	—
Other	2,901	1,816	59.7%
Total fee and commission expense	**18,830**	**15,094**	**24.8%**

Fee and commission expense increased by GEL 3.7 million, or 24.8%, to GEL 18.8 million for the year ended 31 December 2012 from GEL 15.1 million for the year ended 31 December 2011, primarily as a result of increases in TBC's credit and debit card operations, cash transactions and increased other fee and commission expense in 2012, reflecting the increase in the overall scale of TBC's operations in 2012, compared to 2011. These increases were partially offset by the decreases in fee and commission expense on TBC's guarantees received in 2012, compared to 2011.

Net fee and commission income

For the foregoing reasons, TBC's net fee and commission income increased by GEL 10.6 million, or 36.9%, to GEL 39.3 million for the year ended 31 December 2012 from GEL 28.7 million for the year ended 31 December 2011.

Other operating non-interest income

The following table sets out certain information on TBC's other operating non-interest income and expense items, for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Gains less losses from trading in foreign currencies and foreign exchange translation	**32,857**	25,813	27.3%
Net losses from derivative financial instruments	**(3,804)**	(4,987)	(23.7)%
Other operating income:			
Gain from sale of inventories of repossessed collateral	4,102	475	—
Gain from sale of investment properties	2,734	—	—
Revenues from pay-box terminal services	5,154	3,094	66.6%
Revenues from operational leasing	3,292	2,876	14.5%
Administrative fee income from international financial institutions	1,163	799	45.6%
Revenues from non-credit related fines	434	1,610	(73.0)%
Net gain on terminated finance lease contracts	108	218	(50.5)%
Gain on disposal of premises and equipment	—	213	—
Other	2,785	638	—
Total other operating income	**19,772**	**9,923**	**99.3%**
Total other operating non-interest income	**48,825**	**30,749**	**58.8%**

Total other operating non-interest income increased by GEL 18.1 million, or 58.8%, to GEL 48.8 million for the year ended 31 December 2012 from GEL 30.7 million for the year ended 31 December 2011. This increase was primarily due to a GEL 3.6 million increase in gain from the sale of inventories of repossessed collateral in 2012 compared to 2011.

TBC recorded a gain from trading in foreign currencies and on foreign exchange translations of GEL 32.9 million for the year ended 31 December 2012, compared to a gain of GEL 25.8 million in the year ended 31 December 2011. The gain in the year ended 31 December 2012 was primarily a result of the increased scale of TBC's business and consequent increase in income earned from customers' foreign currency operations.

Provision charges for impairment

The following table sets out certain information on TBC's provision charges for impairment, for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Provision for loan impairment	23,154	16,049	44.3%
Provision for/(recovery of) provision for impairment of investments in finance lease	42	(174)	—
Provision for performance guarantees and credit related commitments	1,606	1,353	18.7%
Provision for impairment of other financial assets	4,132	397	—
Recovery of impairment/(impairment) of investment securities available for sale	10	(116)	—
Recovery of impairment for assets classified as held for sale	—	(1,519)	—
Total provision charges for impairment	**28,944**	**15,990**	**81.0%**
Provision for loan impairment (balance sheet)/loans and advances to customers (before provision for loan impairment)*(%)*	6.6%	7.3%	
Provision for loan impairment/operating income before provision for loan impairment[(1)]*(%)*	7.1%	6.0%	
Non-performing and Restructured Loan coverage ratio[(2)]	145%	161%	

Notes:

(1) Operating income (before provision for loan impairment) is the sum of net interest income, net fee and commission income, gains less losses from trading in foreign currencies, foreign exchange translation gains less losses, gains less losses from derivative financial instruments and other operating income.

(2) Non-performing and Restructured Loan coverage ratio is defined as loan loss provisions divided by the sum of Non-performing Loans and Restructured Loans. See "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy—Non-performing and Restructured Loans*".

For the year ended 31 December 2012, TBC's total provision charges for impairment increased by GEL 13.0 million, or 81.0%, to GEL 28.9 million from GEL 16.0 million for the year ended 31 December 2011. The increase in provision charges was primarily driven by increases in provisions for loan impairment and provisions for impairment of other financial assets.

For the year ended 31 December 2012, TBC's provision for loan impairment increased by GEL 7.1 million, or 44.3%, to GEL 23.2 million from GEL 16.0 million for the year ended 31 December 2011. The increase in loan impairment provisions was primarily driven by an increase in provision charges relating to consumer loans resulting from a slight decrease in the credit quality of the high yield consumer loans portfolio (although still within TBC's acceptable risk levels) and lower recoveries on such loans during 2012. The increase in loan impairment provision expenses was also partly due to losses sustained in Bank Constanta's loan portfolio as a result of growth in the loan portfolio during 2012 and a related increase in impairment provision expenses for such loans. Provisions for loan impairment also increased for mortgage and SME loans in 2012. These increases were partially offset by a decrease in provision expenses for loan impairment in respect of the total corporate loan portfolio in 2012, reflecting the general improvement of the credit quality of the corporate loan portfolio. See "*Lending Policies and Procedures—Loan Classification and Provisioning Policy*".

Provision for impairment of other financial assets increased by GEL 3.7 million, or 940.8%, to GEL 4.1 million for the year ended 31 December 2012, from GEL 0.4 million for the year ended 31 December 2011, primarily as a result of an increase in the balance of receivables on guarantees and a respective increase in provisions for that balance.

Operating expenses

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Staff costs	**92,289**	**78,426**	**17.7%**
Depreciation and amortization	**22,103**	**15,088**	**46.5%**
Provision for liabilities and charges	**1,700**	**200**	**—**
Administrative and other operating expenses:			
Advertising and marketing services	15,183	10,014	51.6%
Rent	10,295	8,429	22.1%
Professional services	10,054	7,932	26.8%
Communications and supply	3,199	2,566	24.7%
Taxes other than on income	3,363	2,435	38.1%
Utility services	3,036	2,381	27.5%
Stationary and other office expenses	2,958	1,790	65.3%
Intangible assets maintenance	2,605	1,590	63.8%
Premises and equipment maintenance	1,904	971	96.1%
Transportation and vehicles maintenance	1,687	1,518	11.1%
Loss on disposal of premises and equipment	1,658	—	—
Security services	1,522	1,327	14.7%
Insurance	1,440	1,366	5.4%
Write-down of current assets to fair value less costs to sell	1,317	1,281	2.8%
Business trip expenses	1,104	753	46.6%
Charity	911	982	(7.2)%
Personnel training and recruitment	574	722	(20.5)%
Other	6,630	5,687	16.6%
Total administrative and other operating expenses	**69,440**	**51,744**	**34.2%**
Operating expenses	**185,532**	**145,458**	**27.6%**

Total operating expenses increased by GEL 40.1 million, or 27.6% to GEL 185.5 million for the year ended 31 December 2012 from GEL 145.5 million for the year ended 31 December 2011. Staff costs increased by GEL 13.9 million, or 17.7%, to GEL 92.3 million for the year ended 31 December 2012, from GEL 78.4 million for the year ended 31 December 2011, resulting from an increase in staff salaries and bonuses and a 20.5% increase in the number of employees in 2012 compared to 2011, and reflecting the consolidation in 2012 of the full year expense of Bank Constanta's staff costs following its acquisition by TBC in May 2011.

Depreciation and amortisation expenses increased by GEL 7.0 million, or 46.5%, to GEL 22.1 million for the year ended 31 December 2012, from GEL 15.1 million for the year ended 31 December 2011, reflecting a 21.5% increase in TBC's fixed and intangible assets in 2012 compared to 2011 as a result of the acquisition in 2012 of a property and office building which TBC intends to develop as a new head office, as well as the opening of new branches and the renewal of computer software licences in 2012. Depreciation expenses also increased due to a one-time accelerated depreciation cost resulting from the write down of old computer servers in 2012 in connection with TBC's information systems upgrades pursuant to its IT Transformation programme (see "*Business Description—Information Systems*").

Administrative and other operating expenses increased by GEL 17.7 million, or 34.2%, to GEL 69.4 million for the year ended 31 December 2012, from GEL 51.7 million for the year ended 31 December 2011. This increase was driven by increases in most expense categories, primarily in expenses relating to advertising and marketing services, professional services and occupancy and rent as well as a loss on disposal of premises and equipment relating to the growing scale of TBC's business. Advertising and marketing expenses increased by GEL 5.2 million, or 51.6%, to GEL 15.2 million for the year ended 31 December 2012, from GEL 10.0 million for the year ended 31 December 2011, primarily due to TBC Bank's 20-year anniversary and the associated increased marketing expenses surrounding numerous year-long promotions relating to that event, including various film, book, television, art and other cultural activities sponsored by TBC.

Professional services expenses increased by GEL 2.1 million, or 26.8%, to GEL 10.1 million for the year ended 31 December 2012, from GEL 7.9 million for the year ended 31 December 2011, primarily due to increased consulting service expenses associated with several strategic initiatives undertaken by TBC in 2012, such as the "Lean Banking" model developed with McKinsey & Company and the Basel II/III Implementation Project undertaking by Ernst & Young. Occupancy and rent expenses grew by GEL 1.9 million, or 22.1%, in the year ended 31 December 2012 as compared to 2011 as a result of the opening of 30 additional branches of TBC Bank and Bank Constanta.

Taxation

TBC reported income tax expense of GEL 14.5 million for the year ended 31 December 2012, compared to GEL 15.5 million for the year ended 31 December 2011.

The following table sets out certain information on TBC's income tax expense, for the years indicated:

	For the year ended 31 December		
	2012	2011	Change
	(GEL thousands)		(%)
Current tax charge	4,077	14,904	(72.6)%
Deferred tax charge/(credit)	10,421	561	—
Income tax expense	**14,498**	**15,465**	**(6.3)%**

TBC's income tax expense decreased by GEL 1.0 million, or 6.3%, to GEL 14.5 million for the year ended 31 December 2012 from GEL 15.5 million for the year ended 31 December 2011 as a result of certain favourable tax effects (resulting from tax exempt income and other differences) that slightly lowered TBC's effective income tax rate in the year ended 31 December 2012 compared to 2011.

Profit

For the foregoing reasons, TBC's profit for the year increased by GEL 6.2 million, or 6.8%, to GEL 97.8 million for the year ended 31 December 2012 from GEL 91.6 million for the year ended 31 December 2011.

Segment analysis

The following tables set out information on the financial results of TBC's segments for the years ended 31 December 2012 and 2011:

	As at 31 December 2012				
	Retail	Corporate	SME	Micro	Total
	(GEL thousands)				
External revenues:					
Interest income on loans and advances to customers	189,942	148,720	38,486	37,101	**414,249**
Fee and commission income	33,860	15,333	7,442	1,505	**58,140**
Gains less losses from trading in foreign currencies	6,858	15,580	8,242	875	**31,555**
Revenue from external customers	**230,660**	**179,633**	**54,170**	**39,481**	**503,944**
External expenses:					
Interest expense on customer accounts	93,854	55,560	7,026	194	**156,634**
Fee and commission expense	13,459	438	713	427	**15,037**
Provision for loan impairment	16,298	1,190	1,198	4,468	**23,154**
Provision for liabilities and charges	(1)	2,045	(438)	—	**1,606**
Expenses from external customers	**123,610**	**59,233**	**8,499**	**5,089**	**196,431**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**107,050**	**120,400**	**45,671**	**34,392**	**307,513**

	As at 31 December 2011				
	Retail	Corporate	SME	Micro	Total
	(GEL thousands)				
External revenues:					
Interest income on loans and advances to customers	153,103	125,345	30,387	14,671	**323,506**
Fee and commission income	24,777	12,249	5,934	842	**43,802**
Gains less losses from trading in foreign currencies	6,765	12,478	6,176	—	**25,419**
Revenue from external customers	**184,645**	**150,072**	**42,497**	**15,513**	**392,727**
External expenses:					
Interest expense on customer accounts	68,713	32,882	3,566	226	**105,387**
Fee and commission expense	10,729	382	467	146	**11,724**
Provision for loan impairment	(601)	20,617	(4,282)	315	**16,049**
Provision for liabilities and charges	9	1,200	144	—	**1,353**
Expenses from external customers	**78,850**	**55,081**	**(105)**	**687**	**134,513**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**105,795**	**94,991**	**42,602**	**14,826**	**258,214**

For a detailed segment analysis, see Note 28 to the Audited Consolidated Financial Statements.

Analysis of Consolidated Financial Position

The following table sets out TBC's consolidated statements of financial position as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Assets				
Cash and cash equivalents	329,568	390,465	398,587	374,153
Due from other banks	2,619	1,708	29,542	40,942
Mandatory cash balances with the NBG	294,990	295,332	316,061	250,067
Loans and advances to customers[1]	2,772,629	2,801,712	2,370,200	2,008,745
Investment securities available for sale	568,865	500,651	407,733	266,436
Investment securities held to maturity	—	—	—	28,956
Investments in finance leases	38,548	35,613	26,377	21,979
Investment properties	83,331	83,383	34,305	27,082
Current income tax prepayment	4,858	6,202	10,135	—
Goodwill	2,726	2,726	2,726	2,726
Intangible assets	26,672	23,491	18,817	10,064
Premises and equipment	199,171	199,668	192,556	163,879
Other financial assets	44,092	45,049	25,301	11,339
Other assets	69,822	65,075	67,354	93,653
Total assets	**4,437,891**	**4,451,075**	**3,899,694**	**3,300,021**
Liabilities				
Due to credit institutions	687,731	565,806	627,123	628,150
Customer accounts	2,753,884	2,886,883	2,486,944	1,999,256
Current income tax liability	—	—	—	14,162
Debt securities in issue	4,517	4,474	—	—
Deferred income tax liability	27,882	27,814	20,143	8,048
Provisions for liabilities and charges	10,581	12,380	6,174	8,434
Other financial liabilities	30,619	24,850	19,462	11,305
Other liabilities	22,955	31,305	20,744	19,405
Subordinated debt	172,787	168,274	115,080	142,480
Total liabilities	**3,710,956**	**3,721,786**	**3,295,670**	**2,831,240**
Equity				
Share capital	16,499	16,499	16,143	15,171
Share premium	241,231	242,624	231,501	203,308
Retained earnings	410,935	402,627	298,880	201,826
Share based payment reserve	2,658	2,032	4,142	6,180
Other reserves	42,426	50,840	41,939	33,162
Net assets attributable to owners	**713,749**	**714,622**	**592,605**	**459,647**
Non-controlling interest	**13,186**	**14,667**	**11,419**	**9,134**
Total equity	**726,935**	**729,289**	**604,024**	**468,781**
Total liabilities and equity	**4,437,891**	**4,451,075**	**3,899,694**	**3,300,021**

Note:

(1) After provision for loan impairment.

Total assets

TBC had total assets of GEL 4,437.9 million as at 31 March 2014, as compared to total assets of GEL 4,451.1 million as at 31 December 2013. This 0.3% decrease was primarily due to the GEL 29.1 million (1.0%) decrease in net loans and advances to customers to GEL 2,772.6 million, compared to GEL 2,801.7 million as at 31 December 2013. The decrease in net loans and advances to customers was due to a reduction in the corporate net loan portfolio by GEL 93.9 million, mainly resulting from the prepayment of two large corporate customer loans, which more than offset the increase in retail, SME and micro net loan portfolios by GEL 36.7 million, GEL 11.7 million and 16.3 million, respectively.

The decrease in net loans and advances to customers was partially offset by an increase in liquid assets (comprising cash and cash equivalents, due from other banks and mandatory cash balances and investment securities available for sale minus corporate shares) by GEL 5.0 million, or 0.4%, to GEL 1,187.6, primarily resulting from a GEL 68.2 million increase in investment securities available for sale (including an increase of GEL 2.9 million of non-interest bearing corporate shares), which was largely offset by a GEL 60.9 million decrease in cash and cash equivalents as TBC invested its excess liquidity in investment securities available for sale.

TBC had total assets of GEL 4,451.1 million as at 31 December 2013, as compared to total assets of GEL 3,899.7 million as at 31 December 2012. This 14.1% increase was primarily due to the GEL 431.5 million (18.2%) increase in net loans and advances to customers, the GEL 92.9 million (22.8%) increase in investment securities available for sale, the GEL 49.1 million (143.1%) increase in investment properties, the GEL 19.7 million (78.1%) increase in other financial assets, the GEL 9.2 million (35.0%) increase in investments in finance leases, the GEL 7.1 million (3.7%) increase in premises and equipment, and the GEL 4.7 million (24.8%) increase in intangible assets, which were partially offset by the GEL 27.8 million (94.2%) decrease in amounts due from other banks and a GEL 8.1 million (2.0%) decrease in cash and cash equivalents. The increase in loans and advances to customers was primarily due to increased loan demand from the retail segment and the SME and micro segments driven by the generally stronger economic environment in Georgia in 2013. The increase in investment securities available for sale was principally caused by TBC's investment of excess liquid cash into Lari-denominated instruments such as NBG certificates of deposit in 2013.

As at 31 December 2012, TBC had total assets of GEL 3,899.7 million, as compared to total assets of GEL 3,300.0 million as at 31 December 2011. The GEL 599.7 million (18.2%) increase was primarily driven by the GEL 361.5 million (18.0%) increase in net loans and advances to customers, the GEL 141.3 million (53.0%) increase in investment securities available for sale, the GEL 66.0 million (26.4%) increase in mandatory cash balances with the NBG, the GEL 28.7 million (17.5%) increase in premises and equipment, the GEL 24.4 million (6.5%) increase in cash and cash equivalents, the GEL 14.0 million (123.1%) increase in other financial assets and the GEL 10.1 million current income tax prepayment, for which there was no corresponding balance in 2011. These increases were partially offset by the redemption at maturity in 2012 of the GEL 29.0 million Georgian government notes that comprised TBC's entire portfolio of investment securities held to maturity and the GEL 26.3 million (28.1%) decrease in other assets representing a decrease in inventories of repossessed collateral reflecting the sale in 2012 of such collateral. The increase in loans and advances to customers was due to increases in demand for each of these products as a result of growth in the Georgian economy and the banking sector, as well as TBC's increased market share. The increase in investment securities available for sale was primarily caused by TBC's increased liquidity levels, which TBC invested in Georgian Government notes. The increase in amounts due from other banks reflects increases in the mandatory cash balances that TBC Bank is required to hold with the NBG to meet reserve requirements as a result of TBC Bank's increased deposit portfolio during 2012. The increase in premises and equipment resulted from TBC's acquisition in 2012 of a property and office building intended, after development, to become its new head office. Cash and cash equivalents increased in 2012 as a result of increased customer deposits and relatively low lending activity during the pre-election period in Georgia. The increase in other financial assets in 2012 was driven mainly by an increase in receivables on guarantees, the most significant of which related to a payment owed to TBC under a guarantee in China.

Total liabilities

As at 31 March 2014, TBC had total liabilities of GEL 3,711.0 million as compared to total liabilities of GEL 3,721.8 million as at 31 December 2013. The GEL 10.8 million (0.3%) decrease was primarily due to a reduction in customer deposits by GEL 133.0 million, or 4.6%, mainly driven by a reduction in legal entity deposits during the first quarter of 2014, resulting from Management's decision to optimise TBC's cost of funding and release certain large costly corporate deposits. This decrease was largely offset by an increase in amounts due to credit institutions by GEL 121.9 million, or 21.5%, as a result of increases in other borrowed funds by GEL 74.5 million and amounts due to other banks by GEL 47.4 million.

As at 31 December 2013, TBC had total liabilities of GEL 3,721.8 million as compared to total liabilities of GEL 3,295.7 million as at 31 December 2012. The GEL 426.1 million (12.9%) increase was primarily due to the GEL 399.9 million (16.1%) increase in customer accounts primarily as a result of an increase in retail and SME deposits and the GEL 53.2 million (46.2%) increase in subordinated debt resulting from

TBC Bank's incurrence of additional subordinated loans with DEG in June 2013 and FMO (jointly with Swedfund and Cordiant Capital) in September 2013.

As at 31 December 2012, TBC had total liabilities of GEL 3,295.7 million, as compared to GEL 2,831.2 million as at 31 December 2011. The GEL 464.4 million (16.4%) increase in total liabilities from 31 December 2011 to 31 December 2012 was primarily due to the GEL 487.7 million (24.4%) increase in customer accounts as a result of growth in TBC's deposit portfolio in line with the growth of TBC's business in general. The increase in total liabilities was also driven by the GEL 33.1 million (6.4%) increase in other borrowed funds resulting from increases in the balance of borrowed funds from local banks and financial institutions for short-term liquidity management purposes in accordance with TBC's established liquidity management system, which was partially offset by a decrease in borrowed funds from foreign banks and international financial institutions. The increase in total liabilities was also driven by a GEL 8.2 million (72.2%) increase in other financial liabilities, which was primarily due to a GEL 3.5 million increase in trade payables reflecting the increased scale of TBC's cash-in service provider subsidiary, TBC Pay. These increases were partially offset by a GEL 34.2 million (31.0%) decrease in amounts due to other banks, which reflected the reduction in correspondent accounts and overnight placements of other banks and term placements of banks and financial institutions resulting from TBC's high level liquidity at the end of 2012, which led to a decreased need for additional interbank funding. The increase in total liabilities was also partially offset by a GEL 27.4 million (19.2%) decrease in subordinated debt resulting from the repayment of one of TBC's subordinated debt facilities in the fourth quarter of 2012.

Total equity

As at 31 March 2014, TBC had total equity of GEL 726.9 million, as compared to total equity of GEL 729.3 million as at 31 December 2013. The GEL 2.4 million (0.3%) decrease in total equity was primarily due to the GEL 26.5 million dividend payout in March 2014, a reduction in other reserves by GEL 8.4 million, or 16.5%, mainly resulting from a decrease in revaluation reserves of investment securities available for sale, which together more than offset GEL 35.4 million of profit attributable to owners recorded as retained earnings.

As at 31 December 2013, TBC had total equity of GEL 729.3 million, as compared to total equity of GEL 604.0 million as at 31 December 2012. The GEL 125.3 million (20.7%) increase in total equity was primarily due to a GEL 103.7 million increase in retained earnings to GEL 402.6 million as at 31 December 2013, and a GEL 11.1 million increase in share premium to GEL 242.6 million as at 31 December 2013. These increases were primarily due to increased profit in 2013 and the issuance of new shares issued and sold under capital raising transactions in 2012 and 2013 as well as new shares issued to members of the Management Board pursuant to compensation incentive plans.

Total equity comprised GEL 604.0 million (15.5% of total assets) as at 31 December 2012 and GEL 468.8 million (14.2% of total assets) as at 31 December 2011. The 28.8% increase in total equity from 31 December 2011 to 31 December 2012 was primarily the result of an increase in retained earnings from GEL 201.8 million as at 31 December 2011 to GEL 298.9 million as at 31 December 2012 primarily reflecting the increase in profit attributable to the owners of TBC Bank, an increase of share capital from GEL 15.2 million as at 31 December 2011 to GEL 16.1 million as at 31 December 2012 and an increase in share premium from GEL 203.3 million as at 31 December 2011 to GEL 231.5 million as at 31 December 2012, due to the issuance of new shares in 2012 to TBC's existing shareholders, including IFC, EBRD, DEG and FMO.

Liquidity and Capital Resources

Analysis of consolidated cash flows

The following table summarises TBC's selected consolidated statements of cash flows for the periods indicated:

	For the three months ended 31 March		For the year ended 31 December		
	2014	2013	2013	2012	2011
	(GEL thousands)				
Net cash (used in)/from operating activities	(25,487)	(24,692)	75,690	114,495	20,892
Net cash used in investing activities	(79,536)	(60,112)	(86,641)	(133,618)	(53,714)
Net cash (used in)/from financing activities	42,654	(80,693)	(13,040)	35,146	131,299
Effect of exchange rates on cash and cash equivalents	1,472	(1,267)	15,869	8,411	251
Net increase in cash and cash equivalents	(60,897)	(166,764)	(8,122)	24,434	98,728
Cash and cash equivalents at the end of the period	**329,568**	**231,823**	**390,465**	**398,587**	**374,153**

Net cash (used in)/from operating activities

Net cash used in operating activities was GEL 25.5 million and GEL 24.7 million in the three months ended 31 March 2014 and 2013, respectively. The GEL 0.8 million decrease in net cash used in operating activities during the first quarter of 2014 compared to the same period in 2013 was primarily due to changes in operating assets between the two periods, in particular, significant differences in amounts due from other banks (a GEL 0.4 million net decrease in the first quarter of 2014 compared to a GEL 60.4 million net increase in the first quarter of 2013) and a relatively higher net decrease in customer accounts (GEL 140.3 million outflow compared to GEL 97.5 million in the first quarter of 2013) reflecting the release of certain large costly business customer deposit accounts pursuant to TBC's liquidity management and funding optimization strategies. These decreases were partially offset by the increased net cash inflow from amounts due to other banks (GEL 47.4 million in the first three months of 2014, compared to a GEL 23.8 million outflow in the same period in 2013) and a net decrease in loans and advances to customers (GEL 13.0 million, compared to GEL 2.7 million in the first quarter of 2013).

Net cash from operating activities was GEL 75.7 million, GEL 114.5 million and GEL 20.9 million in the years ended 31 December 2013, 2012 and 2011, respectively. The GEL 38.8 million (33.9%) decrease in net cash from operating activities during 2013 was primarily due to a comparatively lower net increase in customer accounts in 2013 (GEL 297.4 million compared to GEL 474.9 million in 2012) and a comparatively higher net increase in loans and advances to customers in 2013 (GEL 453.7 million compared to GEL 404.6 million in 2012). The GEL 93.6 million increase in net cash from operating activities from 2011 to 2012 was principally due to changes in operating assets between the two years, in particular, significantly smaller net increases in 2012 of loans and advances to customers (GEL 404.6 million compared to GEL 660.2 million in 2011) and amounts due from other banks (GEL 54.6 million in 2012 compared to GEL 217.2 million in 2011), which more than offset the smaller net increase in customer accounts (an increase of GEL 474.9 million in 2012 compared to GEL 703.8 million in 2011). The smaller net increases in these items in 2012 reflected a relatively smaller rate of growth in the size of TBC's asset portfolio in 2012 compared to 2011, when the portfolio experienced relatively stronger growth.

Net cash used in investing activities

Net cash used in investing activities was GEL 79.5 million and GEL 60.1 million in the three months ended 31 March 2014 and 2013, respectively. The GEL 19.4 million (32.3%) increase in net cash used in investing activities during the first quarter of 2014 compared to the same period in 2013 was principally driven by a GEL 15.3 million higher net cash outflow in 2014 of proceeds relating to the acquisition, disposal and redemption of investment securities available for sale (primarily corporate bonds and NBG certificates of deposit), a GEL 2.6 million cash outflow relating to TBC Bank's purchase of additional Bank Constanta shares from a third party in early 2014, and a GEL 1.6 million higher net cash investment in the acquisition of premises, equipment and intangible assets in the first quarter of 2014 compared to the same period in 2013 driven by the IT Transformation.

Net cash used in investing activities was GEL 86.6 million, GEL 133.6 million and GEL 53.7 million in the years ended 31 December 2013, 2012 and 2011, respectively. The GEL 47.0 million (35.2%) decrease in net cash used in investing activities from 2012 to 2013 was principally driven by a GEL 58.4 million decrease in net cash outflow from the acquisition of investment securities available for sale in 2013 as compared to 2012, reflecting higher levels of purchases of investment securities available for sale by TBC in 2012 compared to 2013, as well as reduced acquisitions of premises, equipment and intangible assets during 2013 compared to 2012, when TBC acquired a property and building intended, after development, to become its new head office. The increase from 2011 to 2012 resulted from an increase in purchases of investment securities available for sale as a result of TBC's increased liquidity levels, as well as TBC's acquisition in 2012 of a property and building intended to become its new head office.

Net cash (used in)/from financing activities

Net cash from financing activities was GEL 42.7 million in the three months ended 31 March 2014, compared to net cash used in financing activities of GEL 80.7 million in the three months ended 31 March 2013, respectively. The GEL 123.3 million decrease in net cash used in financing activities during the first quarter of 2014 compared to the same period in 2013 was principally driven by an increase in proceeds from other borrowed funds (GEL 283.6 million in the first three months of 2014, compared to GEL 204.4 million in the first quarter of 2013) and fewer redemptions of other borrowed funds (GEL 213.1 million in the first three months of 2014, compared to GEL 286.7 million in the first quarter of 2013) .

Net cash used in financing activities was GEL 13.0 million in the year ended 31 December 2013, compared to net cash from financing activities of GEL 35.1 million and GEL 131.3 million in the years ended 31 December 2012 and 2011, respectively. The GEL 48.2 million decrease from 2012 to 2013 was principally driven by the receipt of significantly fewer proceeds from borrowed funds in 2013 than in 2012, when TBC was extended loans funded in a comparatively greater aggregate value (GEL 321.2 million) than in 2013 (GEL 159.9 million). The relative decrease in cash flows from financing activities in 2013 was also partially the result of the payment of dividends in 2013 (GEL 17.9 million) compared to 2012, when no dividends were paid. The GEL 96.2 million decrease from 2011 to 2012 was primarily due to the increased repayment of other borrowed funds and one of TBC's subordinated debt facilities in the fourth quarter of 2012.

Capital expenditure commitments

As at 31 March 2014, TBC's capital expenditure comprised the commitment for purchase of intangible assets of GEL 2.0 million relating to TBC's IT Transformation (GEL 2.4 million as at 31 December 2013), particularly the CRM project, core banking system replacement and middleware system implementation. As at 31 December 2012, TBC had no capital expenditure commitments. As at 31 December 2011, TBC's capital expenditure comprised the commitment for purchase of GEL 1.3 million for premises and equipment.

Funding

TBC's principal source of funding has been customer accounts. For a discussion of TBC's funding sources, see "*Selected Statistical and Other Information—Funding Sources*".

Quantitative and Qualitative Disclosures About Market Risk

For a discussion of TBC's risk management framework and principal market risks, see "*Asset, Liability and Risk Management*".

Critical Accounting Estimates and Judgements

TBC's accounting policies are integral to understanding the financial condition and results of operations presented in the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements. The preparation of the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities over the next reporting period. These estimates and judgements are regularly evaluated and are based on Management's experience and other factors, including expectations of future events that are believed by it to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. For a discussion of TBC's critical accounting estimates and judgements in applying accounting policies, see Note 3 to the Audited Consolidated Financial Statements and Note 3 to the Unaudited Consolidated Interim Financial Statements.

SELECTED STATISTICAL AND OTHER INFORMATION

The following discussion sets out information with respect to the assets, liabilities and equity of TBC, together with certain selected statistical information, ratios and other data that have been derived from the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements which appear elsewhere in this Prospectus, and from unaudited consolidated management accounts. The discussions and selected statistical information and other data set forth below should be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements, as well as the information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", all included elsewhere in this Prospectus.

Certain tables below present the maturity profile of loans and deposits of TBC Bank on a standalone basis. As at 31 March 2014, gross loans and deposits of TBC Bank constituted 87.5% and 97.5%, respectively, of TBC's total loans and deposits on a consolidated basis. As at 31 December 2013, gross loans and deposits of TBC Bank constituted 88.3% and 97.8%, respectively, of TBC's total loans and deposits on a consolidated basis.

Total Assets

TBC's total assets decreased by GEL 13.2 million, or 0.3%, to GEL 4,437.9 million as at 31 March 2014 from GEL 4,451.1 million as at 31 December 2013. TBC's total assets increased by GEL 551.4 million, or 14.1%, to GEL 4,451.1 million as at 31 December 2013 from GEL 3,899.7 million as at 31 December 2012, after having increased, in 2012, by GEL 599.7 million, or 18.2%, from GEL 3,300.0 million as at 31 December 2011. The increase as at 31 December 2013, compared to 2012, was mainly attributable to the increase in net loans and advance to customers by GEL 431.5 million, or 18.2%. As at 31 March 2014, loans and advances to customers (after provision for loan impairment) ("**net loans**") comprised 62.5% of TBC's total assets, compared to 62.9%, 60.8% and 60.9% as at 31 December 2013, 2012 and 2011, respectively. See "*—Loan Portfolio*".

Total Liabilities

TBC's total liabilities decreased by GEL 10.8 million, or 0.3% as at 31 March 2014 from GEL 3,721.8 million as at 31 December 2013. TBC's total liabilities increased by GEL 426.1 million, or 12.9%, to GEL 3,721.8 million as at 31 December 2013 from GEL 3,295.7 million as at 31 December 2012, after having increased, in 2012, by GEL 464.4 million, or 16.4%, from GEL 2,831.2 million as at 31 December 2011. The increase as at 31 December 2013, compared to 2012, was mainly attributable to the increase in customer accounts by GEL 399.9 million, or 16.1%.

Average Balances and Rates

Certain of the average balances included in this Prospectus, including average rates, cost of risk, spreads and margins are calculated as the average of the relevant monthly balances as at each month end during the years ended 31 December 2013, 2012 and 2011 and during the quarters ended 31 March 2014 and 2013. Other average balances included in this Prospectus, including deposit rates by deposit types, return on average equity, average assets and all ratios related to the individual retail, corporate, SME and micro segments are calculated (i) as the average of the relevant quarterly balances as at 31 March, 30 June, 30 September and 31 December during the years ended 31 December 2013, 2012 and 2011 and (ii) based on the average of the respective balances for the current and previous quarter in respect of the three months ended 31 March 2014. Balances as at 31 December 2013, 2012 and 2011 have been derived from the Audited Consolidated Financial Statements. Balances as at the remaining month ends, in each case, have been derived from TBC's unaudited consolidated management accounts prepared from TBC's accounting records and used by Management for monitoring and control purposes. Calculation of average balances using different methods of calculation could result in material differences from the figures set forth below and elsewhere in this Prospectus.

The following tables set out the average balances of TBC's interest-earning assets, the related interest income and average rates for the periods indicated:

	For the three months ended 31 March					
	2014			2013		
	Average balance[1]	Interest income	Average rate (%)[2]	Average balance[1]	Interest income	Average rate (%)[2]
	(GEL thousands, except percentages)					
Interest-earning assets						
Due from other banks[3]	**233,877**	**1,411**	***2.4%***	**287,009**	**1,213**	***1.7%***
GEL	35,872	472	*5.3%*	69,564	963	*5.6%*
Foreign currency	198,005	939	*1.9%*	217,445	250	*0.5%*
Gross loans to customers	**2,902,701**	**112,012**	***15.6%***	**2,517,477**	**107,895**	***17.4%***
GEL	941,981	44,812	*19.3%*	654,022	38,961	*24.2%*
Foreign currency	1,960,721	67,200	*13.9%*	1,863,455	68,934	*15.0%*
Investment securities available for sale and held to maturity	**532,259**	**7,263**	***5.5%***	**419,705**	**7,385**	***7.1%***
GEL	532,259	7,263	*5.5%*	419,705	7,385	*7.1%*
Foreign currency	—	—	—	—	—	—
Investments in finance leases (net)	**36,749**	**2,082**	***23.0%***	**26,650**	**1,657**	***25.2%***
GEL	13,297	787	*24.0%*	4,779	265	*22.5%*
Foreign currency	23,453	1,295	*22.4%*	21,871	1,392	*25.8%*
Total interest-earning assets	**3,705,587**	**122,767**	***13.4%***	**3,250,841**	**118,149**	***14.7%***
GEL	1,523,409	53,333	*14.2%*	1,148,070	47,573	*16.8%*
Foreign currency	2,182,179	69,434	*12.9%*	2,102,770	70,576	*13.6%*

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency assets are principally denominated in U.S. dollars, but TBC also has foreign currency assets denominated in other currencies of both OECD and non-OECD countries. Average rate is (x) interest income divided by (y) average balance and annualised.

(3) Includes overnight deposits and correspondent accounts that are within "Cash and cash equivalents" in the Unaudited Condensed Consolidated Interim Financial Statements.

The average rate on total interest-earning assets decreased to 13.4% for the three months ended 31 March 2014 from 14.7% for the three months ended 31 March 2013, broadly in line with the general market trend of declining interest rates.

	For the year ended 31 December								
	2013			2012			2011		
	Average balance[1]	Interest income	Average rate (%)[2]	Average balance[1]	Interest income	Average rate (%)[2]	Average balance[1]	Interest income	Average rate (%)[2]
	(GEL thousands, except percentages)								
Interest-earning assets									
Due from other banks[3]	**255,709**	**3,030**	***1.2%***	**337,716**	**6,960**	***2.1%***	**247,934**	**6,113**	***2.5%***
GEL	59,711	1,578	*2.6%*	106,362	5,625	*5.3%*	71,542	3,643	*5.1%*
Foreign currency	195,998	1,453	*0.7%*	231,353	1,335	*0.6%*	176,392	2,470	*1.4%*
Gross loans to customers[4]	**2,607,909**	**433,968**	***16.6%***	**2,364,275**	**414,267**	***17.5%***	**1,829,392**	**323,769**	***17.7%***
GEL	719,058	162,463	*22.6%*	576,659	137,434	*23.8%*	420,536	106,849	*25.4%*
Foreign currency	1,888,851	271,505	*14.4%*	1,787,617	276,834	*15.5%*	1,408,856	216,920	*15.4%*
Investment securities available for sale and held to maturity	**471,340**	**30,442**	***6.5%***	**384,717**	**29,584**	***7.7%***	**281,451**	**26,895**	***9.6%***
GEL	471,340	30,442	*6.5%*	384,717	29,584	*7.7%*	281,451	26,895	*9.6%*
Foreign currency	—	—	—	—	—	—	—	—	—
Investments in finance leases (net)	**29,825**	**7,356**	***24.7%***	**24,011**	**5,733**	***23.9%***	**14,610**	**3,438**	***23.5%***
GEL	7,796	1,443	*18.5%*	3,288	851	*25.9%*	1,433	487	*34.0%*
Foreign currency	22,029	5,913	*26.8%*	20,723	4,882	*23.6%*	13,177	2,951	*22.4%*
Total interest-earning assets	**3,364,783**	**474,796**	***14.1%***	**3,110,719**	**456,544**	***14.7%***	**2,373,386**	**360,215**	***15.2%***
GEL	1,257,905	195,925	*15.6%*	1,071,026	173,494	*16.2%*	774,962	137,874	*17.8%*
Foreign currency	2,106,878	278,870	*13.2%*	2,039,693	283,050	*13.9%*	1,598,424	222,340	*13.9%*

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency assets are principally denominated in U.S. dollars, but TBC also has foreign currency assets denominated in other currencies of both OECD and non-OECD countries.

(3) Includes overnight deposits and correspondent accounts that are within "Cash and cash equivalents" in the Audited Consolidated Financial Statements.

(4) Other interest income amounting to GEL 18,000 and GEL 263,000 for the years ended 31 December 2012 and 2011, respectively, is included in interest income from gross loans to customers.

The average rate on total interest-earning assets decreased to 14.1% for the year ended 31 December 2013 from 14.7% for the year ended 31 December 2012, broadly in line with the general market trend of decreasing interest rates in the country.

The average rate on total interest-earning assets decreased to 14.7% for the year ended 31 December 2012 from 15.2% for the year ended 31 December 2011, primarily due to the decrease in the average market interest rates on investment securities available for sale, loans to customers and amounts due from other banks, in line with the general market trend of decreasing interest rates on these interest-earning assets. The decrease in the overall average rate was also influenced by a slight decrease in the proportion of loans to customers (which typically have a higher average interest rate than other interest-earning assets) in TBC's total average interest-earning assets in 2012, compared to 2011, as a result of higher liquidity levels in the second half of 2012.

The following tables set out the average balances of TBC's interest-bearing liabilities, the related interest expense and average rates for the periods indicated:

	For the three months ended 31 March					
	2014			2013		
	Average balance[1]	Interest expense	Average rate (%)[2]	Average balance[1]	Interest expense	Average rate (%)[2]
	(GEL thousands, except percentages)					
Interest-bearing liabilities						
Due to credit institutions	**645,750**	**10,520**	***6.6%***	**617,072**	**10,044**	***6.6%***
GEL	217,392	3,136	*5.8%*	154,508	2,195	*5.8%*
Foreign currency	428,358	7,385	*7.0%*	462,564	7,850	*6.9%*
Customer accounts[3]	**2,756,536**	**27,416**	***4.0%***	**2,419,149**	**38,364**	***6.4%***
GEL	784,192	7,425	*3.8%*	603,300	8,582	*5.8%*
Foreign currency	1,972,343	19,990	*4.1%*	1,815,848	29,782	*6.7%*
Subordinated debt	**171,454**	**4,322**	***10.2%***	**115,799**	**3,059**	***10.7%***
GEL	—	—	—	—	—	—
Foreign currency	171,454	4,322	*10.2%*	115,799	3,059	*10.7%*
Debt securities in issue	4,507	89	*8.0%*	—	—	—
GEL	—	—	—	—	—	—
Foreign currency	4,507	89	*8.0%*	—	—	—
Total interest- bearing liabilities	**3,578,246**	**42,347**	***4.8%***	**3,152,019**	**51,467**	***6.6%***
GEL	1,001,585	10,561	*4.3%*	757,808	10,777	*5.8%*
Foreign currency	2,576,662	31,786	*5.0%*	2,394,211	40,690	*6.9%*

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency liabilities are principally denominated in U.S. dollars, but TBC also has foreign currency liabilities denominated in other currencies of both OECD and non-OECD countries. Average rate is (x) interest expense divided by (y) average balance and annualised.

(3) Other interest expense amounting to GEL 71,000 and GEL 27,000 for the three months ended 31 March 2014 and 2013, respectively, is included in interest expense on customer accounts.

The average rate on total interest-bearing liabilities decreased to 4.8% for the three months ended 31 March 2014, from 6.6% for the three months ended 31 March 2013, broadly in line with the general market trend of decreasing deposit rates in the country.

	For the year ended 31 December								
	2013			2012			2011		
	Average balance[1]	Interest expense	Average rate (%)[2]	Average balance[1]	Interest expense	Average rate (%)[2]	Average balance[1]	Interest expense	Average rate (%)[2]
	(GEL thousands, except percentages)								
Interest-bearing liabilities									
Due to credit institutions	**570,118**	**38,645**	***6.8%***	**683,958**	**47,946**	***7.0%***	**516,271**	**31,212**	***6.0%***
GEL	146,772	7,479	*5.1%*	128,237	7,057	*5.5%*	86,103	5,861	*6.8%*
Foreign currency	423,346	31,165	*7.4%*	555,721	40,889	*7.4%*	430,168	25,351	*5.9%*
Customer accounts[3]	**2,553,379**	**140,082**	***5.5%***	**2,246,036**	**156,723**	***7.0%***	**1,615,751**	**105,425**	***6.5%***
GEL	698,973	35,130	*5.0%*	616,643	39,422	*6.4%*	430,832	26,468	*6.1%*
Foreign currency	1,854,406	104,952	*5.7%*	1,629,392	117,301	*7.2%*	1,184,919	78,957	*6.7%*
Subordinated debt	**125,889**	**13,182**	***10.5%***	**132,739**	**13,226**	***10.0%***	**148,510**	**14,497**	***9.8%***
GEL	—	—	—	—	—	—	—	—	—
Foreign currency	125,889	13,182	*10.5%*	132,739	13,226	*10.0%*	148,510	14,497	*9.8%*
Debt securities in issue	2,949	237	*8.0%*	—	—	—	—	—	—
GEL	—	—	—	—	—	—	—	—	—
Foreign currency	2,949	237	*8.0%*	—	—	—	—	—	—
Total interest- bearing liabilities	**3,252,335**	**192,146**	***5.9%***	**3,062,732**	**217,895**	***7.1%***	**2,280,532**	**151,134**	***6.6%***
GEL	845,745	42,609	*5.0%*	744,880	46,478	*6.2%*	516,935	32,329	*6.3%*
Foreign currency	2,406,589	149,536	*6.2%*	2,317,852	171,416	*7.4%*	1,763,597	118,806	*6.7%*

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency liabilities are principally denominated in U.S. dollars, but TBC also has foreign currency liabilities denominated in other currencies of both OECD and non-OECD countries.

(3) Other interest expense amounting to GEL 169,000, GEL 89,000 and GEL 38,000 for the years ended 31 December 2013, 2012 and 2011, respectively, is included in interest expense on customer accounts.

The average rate on total interest-bearing liabilities decreased to 5.9% for the year ended 31 December 2013, from 7.1% for the year ended 31 December 2012, broadly in line with the general market trend of decreasing deposit rates in the country. These decreases more than offset the increased interest expense on subordinated debt associated with two additional subordinated debt borrowings in June and December 2013.

The average rate on total interest-bearing liabilities increased to 7.1% as at 31 December 2012, from 6.6% for the year ended 31 December 2011, reflecting an increase in the average rates on all of TBC's interest-bearing liabilities. The increase in the total average rate was primarily driven by the increase in deposit rates on customer accounts to 7.0% in 2012, compared to 6.5% in 2011, reflecting a general trend of increasing deposit rates in the Georgian market in 2012.

Interest-Earning Assets, Yields, Margins and Spreads

The following tables set out the net interest income, yields, margins and spreads for TBC, for the periods indicated:

	For the three months ended 31 March	
	2014	2013
	(GEL thousands)	
Net interest income		
GEL	42,772	36,796
Foreign currency	37,648	29,886
Total	**80,420**	**66,683**
	(%)	
Yield[1] (%)		
GEL	14.2%	16.8%
Foreign currency	12.9%	13.6%
Weighted Average	**13.4%**	**14.7%**
Margin[2] (%)		
GEL	11.4%	13.0%
Foreign currency	7.0%	5.8%
Weighted Average	**8.8%**	**8.3%**
Spread[3] (%)		
GEL	9.9%	11.0%
Foreign currency	7.9%	6.7%
Weighted Average	**8.6%**	**8.1%**

Notes:

(1) "Yield" is interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the three months ended 31 March 2014 and 2013 and annualised.

(2) "Margin" is net interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the three months ended 31 March 2014 and 2013 and annualised.

(3) "Spread" is the difference between the average rate of interest income on interest-earning assets and the average rate of interest expense on interest-bearing liabilities and annualised.

	For the year ended 31 December		
	2013	2012	2011
	(GEL thousands)		
Net interest income			
GEL	153,316	127,015	105,545
Foreign currency	129,334	111,634	103,535
Total	**282,650**	**238,649**	**209,080**
	(%)		
Yield[1] (%)			
GEL	15.5%	16.1%	17.7%
Foreign currency	13.2%	13.9%	13.9%
Weighted Average	**14.1%**	**14.7%**	**15.2%**
Margin[2] (%)			
GEL	12.1%	11.8%	13.6%
Foreign currency	6.1%	5.5%	6.5%
Weighted Average	**8.4%**	**7.7%**	**8.8%**
Spread[3] (%)			
GEL	10.5%	9.9%	11.5%
Foreign currency	7.0%	6.5%	7.2%
Weighted Average	**8.2%**	**7.5%**	**8.5%**

Notes:

(1) "Yield" is interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the years ended 31 December 2013, 2012 and 2011.

(2) "Margin" is net interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the years ended 31 December 2013, 2012 and 2011.

(3) "Spread" is the difference between the average rate of interest income on interest-earning assets and the average rate of interest expense on interest-bearing liabilities.

For a discussion of net interest income, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Volume and Rate Analysis

The following tables set out certain information regarding changes in TBC's interest income, interest expense and net interest income due to changes in volumes and interest rates calculated as interest

income/expense for the period divided by the relevant average balance of interest-earning assets/interest-bearing liabilities for the periods indicated.

	For the three months ended 31 March 2014/2013		
	Increase/(Decrease) due to changes in		
	Volume[1]	Rate[2]	Total[3]
	(GEL thousands)		
Interest income attributable to:			
Due from other banks	**(225)**	**422**	**198**
GEL	(466)	(25)	(491)
Foreign currency	(22)	711	689
Loans and advances to customers	**16,510**	**(12,394)**	**4,116**
GEL	17,154	(11,303)	5,851
Foreign currency	3,598	(5,333)	(1,735)
Investment securities available for sale and held to maturity	**1,980**	**(2,102)**	**(122)**
GEL	1,980	(2,102)	(122)
Foreign currency	—	—	—
Investments in finance leases	**628**	**(203)**	**425**
GEL	472	50	522
Foreign currency	101	(198)	(97)
Total interest income	**16,527**	**(11,910)**	**4,617**
Interest expenses attributable to:			
Due to credit institutions	**467**	**9**	**476**
GEL	893	48	941
Foreign currency	(580)	115	(465)
Customer accounts	**5,350**	**(16,299)**	**(10,948)**
GEL	2,573	(3,731)	(1,157)
Foreign currency	2,567	(12,358)	(9,791)
Subordinated debt	**1,470**	**(207)**	**1,263**
GEL	—	—	—
Foreign currency	1,470	(207)	1,263
Debt securities in issue	**—**	**89**	**89**
GEL	—	—	—
Foreign currency	—	89	89
Total interest expenses	**6,960**	**(16,079)**	**(9,120)**
Net change in net interest income	**9,568**	**4,169**	**13,737**

Notes:

(1) Changes in volume are changes in average outstanding balances multiplied by the prior period's average interest rate.

(2) Changes in rate are changes in average interest rate multiplied by the average outstanding balances at the end of the current period.

(3) Net changes attributable to changes in both volume and interest rate have been allocated proportionately to the changes in volume and the changes in interest rate at the ratio each component bears to the absolute value of their total.

	For the years ended 2013/2012			For the years ended 2012/2011		
	Increase/(Decrease) due to changes in			Increase/(Decrease) due to changes in		
	Volume[1]	Rate[2]	Total[3]	Volume[1]	Rate[2]	Total[3]
	(GEL thousands)					
Interest income attributable to:						
Due from other banks	**(1,690)**	**(2,240)**	**(3,930)**	**2,214**	**(1,367)**	**847**
GEL	(2,467)	(1,580)	(4,048)	1,773	209	1,982
Foreign currency	(204)	322	118	770	(1,905)	(1,135)
Loans and advances to customers	**42,689**	**(22,989)**	**19,701**	**94,665**	**(4,167)**	**90,498**
GEL	33,938	(8,908)	25,029	39,667	(9,083)	30,584
Foreign currency	15,677	(21,006)	(5,329)	58,317	1,597	59,914
Investment securities available for sale and held to maturity	**6,669**	**(5,812)**	**858**	**9,826**	**(7,137)**	**2,689**
GEL	6,669	(5,812)	858	9,826	(7,137)	2,689
Foreign currency	—	—	—	—	—	—
Investments in finance leases	**1,388**	**235**	**1,623**	**2,212**	**83**	**2,295**
GEL	1,167	(575)	592	631	(267)	364
Foreign currency	308	723	1,031	1,690	241	1,931
Total interest income	**37,396**	**(19,144)**	**18,252**	**111,870**	**(15,541)**	**96,329**
Interest expenses attributable to:						
Due to credit institutions	**(7,980)**	**(1,321)**	**(9,301)**	**10,138**	**6,596**	**16,734**
GEL	1,020	(597)	423	2,868	(1,672)	1,196
Foreign currency	(9,740)	16	(9,724)	7,399	8,138	15,538
Customer accounts	**21,446**	**(38,087)**	**(16,641)**	**41,125**	**10,173**	**51,298**
GEL	5,263	(9,555)	(4,292)	11,415	1,538	12,954
Foreign currency	16,199	(28,548)	(12,349)	29,617	8,727	38,344
Subordinated debt	**(683)**	**639**	**(43)**	**(1,539)**	**268**	**(1,271)**
GEL	—	—	—	—	—	—
Foreign currency	(683)	639	(43)	(1,539)	268	(1,271)
Debt securities in issue	**—**	**237**	**237**	**—**	**—**	**—**
GEL	—	—	—	—	—	—
Foreign currency	—	237	237	—	—	—
Total interest expenses	**13,489**	**(39,238)**	**(25,749)**	**51,838**	**14,922**	**66,760**
Net change in net interest income	**23,907**	**20,094**	**44,001**	**60,032**	**(30,463)**	**29,569**

Notes:

(1) Changes in volume are changes in average outstanding balances multiplied by the prior period's average interest rate.

(2) Changes in rate are changes in average interest rate multiplied by the average outstanding balances at the end of the current period.

(3) Net changes attributable to changes in both volume and interest rate have been allocated proportionately to the changes in volume and the changes in interest rate at the ratio each component bears to the absolute value of their total.

Loan Portfolio

Loans to customers represent the largest part of TBC's assets. Net loans to customers represented 62.5% of total assets as at 31 March 2014, compared to 62.9% as at 31 December 2013, 60.8% as at 31 December 2012 and 60.9% as at 31 December 2011.

Total net loans to customers decreased by GEL 29.1 million, or 1.0%, to GEL 2,772.6 million as at 31 March 2014 from GEL 2,801.7 million as at 31 December 2013, after having increased, in 2013, by GEL 431.5 million, or 18.2%, from GEL 2,370.2 million as at 31 December 2012 and GEL 2,008.7 million as at 31 December 2011.

For a discussion of the average interest rates on TBC's loan portfolio for the periods ending 31 March 2014, 31 December 2013, 2012 and 2011, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Three Month Periods ended 31 March 2014 and 2013—Consolidated results of operations—Interest income*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years ended 31 December 2013 and 2012—Consolidated results of operations—Interest income*" and "*Management's Discussion and Analysis*

of Financial Condition and Results of Operations—Results of Operations for the Years ended 31 December 2012 and 2011—Consolidated results of operations—Interest income".

Loans to customers by sector

The following table sets out an analysis of TBC's total gross loans to customers, by economic sector, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Individual	1,134,017	39%	1,102,863	37%	868,119	34%	784,073	36%
Service	506,611	17%	539,825	18%	487,938	19%	398,698	18%
Real estate	132,243	5%	132,321	5%	149,328	6%	140,708	6%
Oil and gas	124,101	4%	121,921	4%	143,355	6%	114,798	5%
Consumer goods and automobile trading	143,897	5%	130,152	4%	132,579	5%	120,311	6%
Food industry	103,086	4%	158,865	5%	109,031	4%	90,781	4%
Construction	101,150	3%	101,879	3%	108,914	4%	83,168	4%
Agriculture	180,646	6%	164,441	6%	119,935	5%	64,685	3%
Energy	106,907	4%	106,083	4%	79,929	3%	95,615	4%
Communication	79,056	3%	102,547	4%	82,360	3%	83,982	4%
Pawn shop	114,561	4%	104,652	4%	86,343	4%	58,456	3%
Transportation	68,921	2%	67,223	2%	70,453	3%	55,020	3%
Manufacturing	31,570	1%	33,609	1%	30,073	1%	12,200	1%
Mining	49,705	2%	40,346	1%	31,140	1%	30,490	1%
Other	44,668	2%	51,854	2%	37,201	2%	34,420	2%
Gross loans to customers	**2,921,139**	**100%**	**2,958,581**	**100%**	**2,536,698**	**100%**	**2,167,405**	**100%**

Loans to individuals accounted for 38.8% of total gross loans to customers as at 31 March 2014, compared to 37.3%, 34.2% and 36.2% as at 31 December 2013, 31 December 2012 and 31 December 2011, respectively. In absolute terms, gross loans to individuals increased to GEL 1,134.0 million as at 31 March 2014, from GEL 1,102.9 million as at 31 December 2013, GEL 868.1 million as at 31 December 2012, and GEL 784.1 million as at 31 December 2011, in line with the growth of TBC's loan portfolio generally. As at 31 March 2014, loans to customers in the services sector accounted for 17.3% of TBC's total gross loans to customers, compared to 18.2%, 19.2% and 18.4% as at 31 December 2013, 2012 and 2011, respectively. In absolute terms, the services sector was the second largest contributor to the total gross loan portfolio during the first quarter of 2014 and 2013. Other economic sectors making a significant contribution to the increase of total gross loans included food industry (3.5% of total gross loans as at 31 March 2014), agriculture (6.2% of total gross loans) and energy (3.7% of total gross loans), which, with the services sector, represent the main sources of expected Georgian economic development in the coming years.

Loans to customers by type

The following table sets out an analysis of TBC's total gross loans to customers, by type of loan, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Corporate loans	1,049,789	35.9%	1,157,334	39.1%	1,142,087	45.0%	1,003,849	46.3%
Retail loans								
Consumer loans	603,386	20.7%	603,434	20.4%	482,704	19.0%	409,065	18.9%
Mortgage loans	530,631	18.2%	499,428	16.9%	385,416	15.2%	375,008	17.3%
Other loans	114,561	3.9%	104,652	3.5%	86,343	3.4%	58,456	2.7%
SME loans	404,761	13.9%	392,446	13.3%	294,217	11.6%	236,016	10.9%
Micro loans	218,011	7.5%	201,287	6.8%	145,931	5.8%	85,011	3.9%
Total gross loans to customers	**2,921,139**	**100.0%**	**2,958,581**	**100.0%**	**2,536,698**	**100.0%**	**2,167,405**	**100.0%**

Retail loans accounted for the largest portion of total gross loans to customers, representing 42.7% of the total as at 31 March 2014, compared to 40.8%, 37.6% and 38.9% as at 31 December 2013, 2012 and 2011, respectively. The increase in the percentage of total gross loans to customers represented by retail loans as at 31 December 2013 was primarily due to reduced growth in corporate loans resulting from reduced appetite of corporate customers in the first nine months ended 30 September 2013 as well as due to TBC's strategy of diversifying its loan portfolio by increasing the share of the higher interest yielding retail, SME and micro loans in the portfolio.

Retail loans increased in absolute terms by GEL 41.1 million, or 3.4%, to GEL 1,248.6 million as at 31 March 2014, from GEL 1,207.5 million as at 31 December 2013, having increased, in 2013, by GEL 253.1 million, or 26.5%, from GEL 954.5 million as at 31 December 2012, and in 2012 by GEL 111.9 million, or 13.3%, from GEL 842.5 million as at 31 December 2011. The increase as at 31 December 2013 compared to 31 December 2012 was primarily due to the increase in both consumer and mortgage loans, reflecting growth in the Georgian economy and consumer confidence and TBC's strategy to optimise the segment mix of its loan portfolio. See "*Business Description—Strategy—Grow market share in the retail, SME and micro segments*". Similarly, the 13.3% increase as at 31 December 2012 compared to the previous year reflected growth in the Georgian economy generally and a related increase in the number of banking customers.

Corporate loans decreased by GEL 107.5 million, or 9.3% to GEL 1,049.8 million as at 31 March 2014, having increased by GEL 15.2 million, or 1.3%, to GEL 1,157.3 million as at 31 December 2013 from GEL 1,142.1 million as at 31 December 2012, and in 2012 by GEL 138.2 million, or 13.8%, from GEL 1,003.8 million as at 31 December 2011. The slight increase in 2013 was primarily due to the reduced demand from corporate customers as well as TBC's strategy to reduce the share of corporate loans in the total portfolio. The 13.8% increase as at 31 December 2012 compared to the previous year reflected the continued demand by corporate customers for financing, particularly in the first half of 2012.

SME loans increased by GEL 12.3 million, or 3.1%, to GEL 404.8 million as at 31 March 2014, having increased by GEL 98.2 million, or 33.4%, to GEL 392.4 million as at 31 December 2013 from GEL 294.2 million as at 31 December 2012, and in 2012 by GEL 58.2 million, or 24.7%, from GEL 236.0 million as at 31 December 2011. The increase as at 31 December 2013 compared to 31 December 2012 was primarily due to the general economic improvement in the country and the consequent demand from SME customers, while representing the second largest contributing segment to the total loans growth (after retail loans). The 24.7% increase as at 31 December 2012 compared to the previous year was due to growth in the Georgian economy generally and a related increase in the number of banking customers.

Micro loans increased by GEL 16.7 million, or 8.3% to GEL 218.0 million as at 31 March 2014, having increased by GEL 55.4 million, or 37.9%, to GEL 201.3 million as at 31 December 2013 from GEL 145.9 million as at 31 December 2012, and by GEL 60.9 million, or 71.7%, in 2012 from GEL 85 million as at 31 December 2011. The increase in micro loans as at 31 December 2013, compared to as at 31 December 2012, was primarily due to continued demand for micro loans was mainly driven by the growth of Bank Constanta. The increase in micro loans as at 31 December 2012 compared to the previous year was due to rapid growth in TBC's micro operations following the acquisition of Bank Constanta in May 2011.

As at 31 March 2014, TBC's largest borrower accounted for 1.6% of total gross loans to customers and TBC's twenty largest borrowers accounted for 16.7% of total gross loans to customers, compared to 2.0% and 19.5%, respectively, as at 31 December 2013, 2.2% and 21.6%, respectively, as at 31 December 2012 and 2.2% and 23.2%, respectively, as at 31 December 2011.

Loans by maturity

The following table sets out information on the maturity profile of net loans to customers by TBC Bank (on a standalone basis), by type of loan, as at 31 March 2014 (based on the contractual maturity of discounted individual payments):

	Due in					
	On demand and less than one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	(GEL thousands)					
Corporate loans	81,622	119,070	235,532	419,248	117,371	972,844
Retail loans	76,339	58,888	181,868	445,011	314,082	1,076,908
Consumer loans	50,339	42,137	113,486	165,481	106,636	478,079
Mortgage loans	8,264	10,144	46,147	221,180	208,166	493,902
Other loans	17,735	6,607	22,234	58,350	—	104,927
SME loans	32,408	18,599	67,129	179,146	69,609	366,890
Micro loans	—	—	—	—	—	—
Total net loans to customers	**190,369**	**196,557**	**484,528**	**1,043,405**	**501,783**	**2,416,641**
Total loans, of which:	**190,369**	**196,557**	**484,528**	**1,043,405**	**501,783**	**2,416,641**
Loans with fixed (pre-determined) interest rates	188,685	194,223	473,804	991,209	452,152	2,300,073
Loans with floating or adjustable interest rates	1,684	2,333	52,196	49,639	49,630	116,568

The following table sets out information on the maturity profile of net loans to customers by TBC Bank (on a standalone basis), by type of loan, as at 31 December 2013 (based on the contractual maturity of discounted individual payments):

	Due in					
	On demand and less than one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	(GEL thousands)					
Corporate loans	93,071	96,938	239,689	491,992	143,937	1,065,627
Retail loans	74,847	78,035	191,437	406,358	295,580	1,046,256
Consumer loans	50,610	45,749	121,473	165,320	99,372	482,523
Mortgage loans	7,414	10,027	44,303	210,679	195,179	467,602
Other loans	16,823	22,259	25,661	30,358	1,029	96,131
SME loans	30,281	15,469	64,488	173,830	69,286	353,353
Micro loans	—	—	—	—	—	—
Total net loans to customers	**198,199**	**190,441**	**495,613**	**1,072,180**	**508,802**	**2,465,236**
Total loans, of which:	**198,199**	**190,441**	**495,613**	**1,072,180**	**508,802**	**2,465,236**
Loans with fixed (pre-determined) interest rates	196,934	188,482	486,874	1,029,055	467,743	2,369,089
Loans with floating or adjustable interest rates	1,266	1,959	8,739	43,125	41,059	96,147

The following table sets out an analysis of net loans to customers by TBC Bank (on a standalone basis), by maturity, as at the dates indicated (based on the contractual maturity of discounted individual payments):

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
On demand and less than one month	190,402	7.9%	198,199	8.0%	246,527	11.5%	144,795	7.8%
Between one and three months	196,557	8.1%	190,441	7.7%	154,558	7.2%	179,755	9.6%
Between three months and one year	484,528	20.0%	495,613	20.1%	450,032	21.1%	388,431	20.8%
Between one and five years	1,043,405	43.2%	1,072,180	43.5%	866,095	40.5%	774,306	41.5%
Over five years	501,783	20.8%	508,802	20.6%	420,278	19.7%	376,688	20.2%
Net loans to customers	**2,416,674**	**100.0%**	**2,465,236**	**100.0%**	**2,137,489**	**100.0%**	**1,863,976**	**100.0%**

The maturity profile of TBC Bank's net loans to customers has been relatively stable in recent years. The largest single category of net loans to customers granted by TBC Bank have maturities between one and five years. Loans to customers with maturities between one and five years accounted for 43.2% of total net loans to customers as at 31 March 2014, compared to 43.5% as at 31 December 2013, 40.5% as at 31 December 2012 and 41.5% as at 31 December 2011. Loans to customers with maturities for less than one year accounted for 36.1% of total net loans to customers as at 31 March 2014, compared to 35.9% as at 31 December 2013, 39.8% as at 31 December 2012 and 38.3% as at 31 December 2011.

Loans by currency

The following table sets out an analysis of TBC's net loans to customers, by currency, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Lari	849,394	30.6%	752,862	26.9%	508,465	21.5%	349,685	17.4%
Foreign currencies	1,923,235	69.4%	2,048,849	73.1%	1,861,735	78.5%	1,659,060	82.6%
Net loans to customers	**2,772,629**	**100.0%**	**2,801,712**	**100.0%**	**2,370,200**	**100.0%**	**2,008,745**	**100.0%**

The composition of TBC's net loans to customers by currency has historically been relatively stable. As at 31 March 2014, Lari-denominated loans to customers comprised 30.6% of TBC's total net loans to customers, compared to 26.9% as at 31 December 2013, 21.5% as at 31 December 2012 and 17.4% as at 31 December 2011. The increase in Lari-denominated loans to customers as a percentage of total loans to customers as at 31 December 2013, compared to 31 December 2012, was broadly aligned with recent de-dollarisation trends in Georgia. Foreign currency-denominated loans to customers principally comprise loans to customers denominated in U.S. dollars. Loans to customers denominated in foreign currency accounted for 69.4% of total net loans to customers as at 31 March 2014, 73.1% as at 31 December 2013, 78.5% as at 31 December 2012 and 82.6% as at 31 December 2011.

Loans by geographic location

As at 31 March 2014, 96.5% of TBC's gross loans to customers were to residents of Georgia, compared to 94.5% as at 31 December 2013, 95.9% as at 31 December 2012 and 97.8% as at 31 December 2011. A small proportion of loans to customers have been granted to borrowers outside Georgia, primarily due to the increased operations of TBC's subsidiary, TBC Kredit, which is incorporated and operates in Azerbaijan and accounts for the majority of loans to customers granted to clients outside Georgia. As at 31 March 2014, and 31 December 2013, 2012 and 2011, net loans to customers in Azerbaijan totalled GEL 68.4 million, GEL 70.2 million, GEL 59.6 million and GEL 45.2 million, respectively.

Amounts Due from Other Banks and Mandatory Cash Balances with the NBG

Amounts due from other banks and mandatory cash balances with the NBG together represented 6.7% of TBC's total assets as at 31 December 2013, compared to 8.9% as at 31 December 2012 and 8.8% as at 31 December 2011. Deposits placed with other banks are typically used for liquidity management purposes. Mandatory cash balances with the NBG represent amounts deposited by TBC with the NBG pursuant to meet reserve requirements.

The following table sets out a breakdown of amounts due from other banks and mandatory cash balances with the NBG, as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Due from other banks	2,619	1,708	29,542	40,942
Mandatory cash balances with the NBG	294,990	295,332	316,061	250,067

Amounts due from other banks increased by GEL 0.9 million, or 53.3% as at 31 March 2014 from GEL 1.7 million as at 31 December 2013, mainly due to a small increase in restricted cash held with a local bank under a partnership agreement relating to card processing services. Amounts due from other banks decreased by GEL 27.8 million, or 14.1%, to GEL 1.7 million as at 31 December 2013 from GEL 29.5 million as at 31 December 2012, and from GEL 40.9 million as at 31 December 2011. These decreases were driven by decreases in interest rates in the interbank market, which reduced demand for interbank borrowings.

Mandatory cash balances with the NBG decreased by GEL 0.3 million, or 0.1% to GEL 295.0 million as at 31 March 2014 compared to as at 31 December 2013. Mandatory cash balances with the NBG decreased by GEL 20.7 million, or 6.6%, to GEL 295.3 million as at 31 December 2013 from GEL 316.1 million as at 31 December 2012, which in turn had increased by GEL 66.0 million, or 26.4%, from GEL 250.1 million as at 31 December 2011. The decrease in the first quarter of 2014 was mainly due to the reduced deposit portfolio during the period, resulting in the need for TBC to hold lower levels of reserves with the NBG. The decrease in 2013 was driven by decreases in TBC's foreign currency borrowings with remaining maturities of less than a year, which have higher minimum reserve requirements than other borrowings. The repayment in 2013 of such borrowings from foreign banks and international financial institutions resulted in a need for TBC to hold lower levels of reserves with the NBG, which offset increases in reserves driven by growth in TBC's deposit portfolio over the same period. The increase in 2012 was primarily attributable to the increases in TBC Bank's deposit portfolio during 2012.

Securities Portfolio

TBC's securities portfolio consists of investment securities available for sale and investment securities held to maturity.

The following table sets out a breakdown of TBC's securities portfolio, by classification, as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Investment securities available for sale	568,865	500,651	407,733	266,436
Investment securities held to maturity	—	—	—	28,956
Total	**568,865**	**500,651**	**407,733**	**295,392**

TBC's total securities portfolio increased by GEL 68.2 million, or 13.6%, to GEL 568.9 million as at 31 March 2014 compared to GEL 500.7 million as at 31 December 2013 as a result of TBC's investment of its excess liquidity in Georgian government and NBG debt securities and the purchase of corporate bonds issued by EBRD in March 2014, a transaction in which TBC Bank acted as an underwriter. TBC's total securities portfolio increased by GEL 92.9 million, or 22.8%, to GEL 500.7 million as at 31 December 2013 from GEL 407.7 million as at 31 December 2012, after having increased in 2012 by GEL 112.3 million, or 38.0%, from GEL 295.4 million as at 31 December 2011. These increases were, in each case, due to the increase in Lari-denominated customer deposits held by corporate clients, the cash from which TBC invested in Georgian government notes, more than offsetting the redemption at maturity in 2012 of the

GEL 29.0 million Georgian government notes that comprised TBC's portfolio of investment securities held to maturity.

Investment securities available for sale

Investment securities available for sale include investment securities which TBC intends to hold for an indefinite period of time and which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices. TBC classifies investments as available for sale at the time of purchase. Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss when TBC's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is transferred from equity to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

The following table sets out a breakdown of TBC's portfolio of investment securities available for sale, by type of security, as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Certificates of deposit of NBG	354,395	321,140	187,551	168,537
Ministry of Finance treasury bills	1,730	—	19,210	61,014
Corporate bonds	25,055	—	—	—
Georgian government notes	179,252	173,974	196,004	32,942
Total debt securities	**560,432**	**495,114**	**402,765**	**262,493**
Corporate shares—unquoted	3,693	679	1,812	1,812
Corporate shares—quoted (VISA Inc.)[1]	4,741	4,858	3,156	2,131
Total investment securities available for sale	**568,865**	**500,651**	**407,733**	**266,436**

Note:

(1) VISA Inc. is a payment card company.

TBC's investment securities available for sale increased by GEL 68.2 million, or 13.6%, to GEL 568.9 million as at 31 March 2014 compared to GEL 500.7 million as at 31 December 2013, mainly as a result of TBC's investment of its excess liquidity in acquiring certificates of deposits of NBG and Georgian government notes, as well as the first-ever bonds placed by an international financial institution (EBRD) in Georgia, a transaction in which TBC Bank acted as an underwriter. TBC's investment securities available for sale increased by GEL 92.9 million, or 22.8%, to GEL 500.7 million as at 31 December 2013, from GEL 407.7 million as at 31 December 2012, after having increased, in 2012, by GEL 141.3 million, or 53.0%, from GEL 266.4 million as at 31 December 2011. The increases in investment securities available for sale in both cases were driven by TBC's investment of its excess liquidity in Lari-denominated instruments with maturity profiles aligned with TBC's anticipated liquidity needs and profitability targets.

The following table sets out the maturity profile of the debt securities in the portfolio of investment securities available for sale held by TBC Bank (on a standalone basis) as at 31 March 2014.

	As at 31 March 2014				
	Less than one year	Between one and five years	Between five and 10 years	More than 10 years	Total
			(GEL thousands)		
Total investment securities available for sale	567,073	—	—	—	567,073

The following table sets out the maturity profile of the debt securities in the portfolio of investment securities available for sale held by TBC Bank (on a standalone basis) as at 31 December 2013.

	As at 31 December 2013				
	Less than one year	Between one and five years	Between five and 10 years	More than 10 years	Total
	(GEL thousands)				
Total investment securities available for sale	500,589	—	—	—	500,589

The following table sets out the nominal interest rates and maturities of the debt securities included in TBC's portfolio of investment securities available for sale as at the dates indicated.

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
Certificates of deposit of NBG	4.09%	58 days	4.06%	88 days	6.17%	Less than 1 year	7.68%	Less than 1 year
Ministry of Finance treasury bills	8.4%	1,278 days	—	—	6.80%	Less than 1 year	9.32%	Less than 1 year
Government notes	8.35%	1,1184 days	8.11%	1,097 days	8.47%	2-3 years	12.36%	1-2 years
Corporate Bonds	4.3%	710 days	—	—	—	—	—	—

The following table sets out information on the securities held by TBC as investment securities available for sale for which TBC's holdings exceeded 10% of the shareholders' equity of TBC Bank as at 31 March 2014.

Issuer	Aggregate value
	(GEL thousands)
National Bank of Georgia	**354,395**
Certificates of Deposit	354,395
Ministry of Finance	**179,252**
Treasury Bonds	138,501
Government notes	40,751

Investment securities held to maturity

Investment securities held to maturity comprise quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that TBC has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost less impairment, if any. See Note 11 to the Audited Consolidated Financial Statements.

As at each of 31 March 2014, 31 December 2013, 31 December 2012 and 31 December 2011, TBC's entire portfolio of investment securities held to maturity comprised Georgian Government notes.

As at 31 March 2014, 31 December 2013 and 31 December 2012, TBC had no investment securities held to maturity, compared to GEL 29.0 million as at 31 December 2011 following the redemption at maturity in 2012 of the Georgian government notes that comprised TBC's entire portfolio of investment securities held to maturity at the time.

Funding Sources

The following table sets out information relating to TBC's funding sources, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Customer accounts	2,753,884	74.2%	2,886,883	77.6%	2,486,944	75.5%	1,999,256	70.6%
Term deposits	*1,284,780*	*34.6%*	*1,196,071*	*32.1%*	*1,392,388*	*42.2%*	*1,034,623*	*36.5%*
Current (settled/ demand) accounts	*1,469,104*	*39.6%*	*1,690,812*	*45.4%*	*1,094,556*	*33.2%*	*964,633*	*34.1%*
Amounts due to credit institutions	687,731	18.5%	565,806	15.2%	627,123	19.0%	628,150	22.2%
Subordinated debt	172,787	4.7%	168,274	4.5%	115,080	3.5%	142,480	5.0%
Other[1]	96,554	2.6%	100,823	2.7%	66,523	2.0%	61,354	2.2%
Total liabilities	**3,710,956**	**100.0%**	**3,721,786**	**100.0%**	**3,295,670**	**100.0%**	**2,831,240**	**100.0%**

Note:

(1) Comprises other financial liabilities, deferred income tax liability, current income tax liability, liabilities of disposal group classified as held for sale, provisions for liabilities and charges, and other liabilities.

Deposits (customer accounts) represent the largest part of TBC's funding sources. Historically, TBC has had a stable and diversified customer base, primarily comprising individual deposits. As at 31 March 2014, deposits totalled GEL 2,753.9 million, of which 59.9% were deposits of individuals. Other sources of funding include amounts due to other banks, other borrowed funds and subordinated debt.

The increase in the amount of deposits since 31 December 2011 has been influenced by a number of positive factors, including the general increased confidence in the banking sector, as well as TBC's competitiveness and overall growth of operations across its business segments, mainly from its retail and SME segments.

The following tables set forth an analysis, for TBC Bank (on a standalone basis), of short-term and long-term amounts due to customers, amounts due to other banks and other financial liabilities (i) in Lari equivalents and (ii) as a percentage of their total as at the dates indicated (based on the contractual maturity of discounted individual payments). For the expected maturity gap please, see Note 35 to the Audited Consolidated Financial Statements and Note 25 to the Unaudited Consolidated Interim Financial Statements.

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
			(GEL thousands)	
Short-term[1]	2,772,906	2,753,756	2,343,247	2,068,921
Long-term[2]	585,832	614,953	664,202	565,169
Total amounts due to customers, amounts due to other banks and other financial liabilities	**3,358,737**	**3,368,709**	**3,007,449**	**2,634,090**

Note:

(1) "Short-term" means due within one year of the relevant date and includes demand loans and deposits, loans having no stated schedule of repayments and no stated maturity, and overdrafts.

(2) "Long-term" means due after more than one year from the relevant date. Georgian legislation requires TBC to repay term deposits of individuals upon demand unless otherwise agreed between the parties (although in case of early withdrawal, the interest on such deposit may be foregone or reduced). The figures in this table reflect the agreed original deposit maturities.

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
			(%)	
Short-term[1]	81.9%	81.7%	77.9%	78.5%
Long-term[2]	18.1%	18.3%	22.1%	21.5%

Note:

(1) "Short-term" means due within one year of the relevant date and includes demand loans and deposits, loans having no stated schedule of repayments and no stated maturity, and overdrafts.

(2) "Long-term" means due after more than one year from the relevant date. Georgian legislation requires TBC to repay term deposits of individuals upon demand unless otherwise agreed between the parties (although in case of early withdrawal, the interest on such deposit may be foregone or reduced). The figures in this table reflect the agreed original deposit maturities.

Customer accounts

Customer current accounts and term deposits represented 74.2% of TBC's total liabilities as at 31 March 2014, compared to 77.6% as at 31 December 2013, 75.5% as at 31 December 2012 and 70.6% as at 31 December 2011. Customer current accounts generally bear no interest and the funds can be withdrawn on demand. Term deposits have maturities ranging from one day to in excess of five years and bear interest at different rates depending on the type of deposit.

Customer accounts by account and customer type

The following table sets out a breakdown of TBC's deposits, by type of account and customer, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
State and public organisations								
Current/settlement accounts	59,294	2.2%	134,518	4.7%	72,638	2.9%	103,619	5.2%
Term deposits	109,469	4.0%	72,463	2.5%	225,926	9.1%	70,887	3.5%
Other legal entities								
Current/settlement accounts	782,605	28.4%	935,083	32.4%	635,181	25.5%	506,432	25.3%
Term deposits	153,017	5.6%	134,143	4.6%	155,112	6.2%	219,436	11.0%
Individuals								
Current/settlement accounts	627,205	22.8%	621,211	21.5%	386,737	15.6%	354,582	17.7%
Term deposits	1,022,294	37.1%	989,465	34.3%	1,011,350	40.7%	744,300	37.2%
Total customer accounts	**2,753,884**	**100.0%**	**2,886,883**	**100.0%**	**2,486,944**	**100.0%**	**1,999,256**	**100.0%**

As at 31 March 2014, total deposits decreased by GEL 133.0 million, or 4.6%, to GEL 2,753.9 million, mainly due to the reduction of two large corporate deposits. As at 31 December 2013, total deposits increased by GEL 399.9 million, or 16.1%, to GEL 2,886.9 million from GEL 2,486.9 million as at 31 December 2012, after having increased by GEL 487.7 million, or 24.4%, from GEL 1,999.3 million as at 31 December 2011.The increase in total deposits as at 31 December 2013, compared to as at 31 December 2012, was primarily due to the increase of current deposits of legal entities as well as of individuals. The increase as at 31 December 2012, compared to as at 31 December 2011, was primarily due to the increase in of individuals as well as term deposits of state and public organisations.

Based on contractual maturity, TBC had GEL 1,620.6 million of outstanding term deposits in amounts exceeding U.S.$100,000 (or the equivalent in Lari). Of these deposits, 66.3% had three months or less remaining until maturity, 16.6% had between three and six months remaining until maturity, 11.8% had between six and 12 months remaining until maturity, and 5.3% had over 12 months remaining until maturity.

Historically, the largest portion of TBC's customer current accounts and term deposits have been individual customer accounts and term deposits, which accounted for an aggregate of 59.9% of total deposits as at 31 March 2014, 55.8% of total deposits as at 31 December 2013, 56.2% as at 31 December 2012 and 55.0% as at 31 December 2011. See "*Business Description—Principal Business Activities—Retail banking—Retail accounts and term deposits*".

The following table sets out the average balances of, and the average interest rates on, TBC's deposits, by type of account and customer, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	Average balance[1]	Average rate (%)[2]	Average balance[1]	Average rate (%)[2]	Average balance[1]	Average rate (%)[2]	Average balance[1]	Average rate (%)[2]
State and public organisations								
Current/settlement accounts	96,906	1.1%	93,871	3.2%	81,808	6.7%	77,718	9.4%
Term deposits	90,966	6.2%	148,693	4.2%	112,036	7.1%	23,637	3.6%
Other legal entities								
Current/settlement accounts	858,844	1.9%	693,423	2.5%	552,600	4.9%	408,332	4.3%
Term deposits	143,580	5.7%	155,312	11.1%	258,118	8.8%	168,041	7.0%
Individuals								
Current/settlement accounts	624,208	2.0%	508,053	2.7%	367,711	4.0%	358,639	4.2%
Term deposits	1,005,880	6.7%	988,458	8.4%	841,962	9.3%	597,329	8.8%
Total customer accounts	2,820,384	3.9%	2,587,810	5.4%	2,214,235	7.1%	1,633,696	6.5%

Note:

(1) The average balance is calculated as the average of the quarterly balances in the period.

(2) The average rate is calculated as the interest expense divided by the quarterly average of respective balances and annualised (where applicable).

Customer accounts by currency

The following table sets out certain information relating to deposits in Lari and foreign currencies, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Customer accounts in Lari	768,353	27.9%	850,319	29.5%	666,315	26.8%	560,819	28.1%
Customer accounts in foreign currencies	1,985,530	72.1%	2,036,565	70.5%	1,820,629	73.2%	1,438,437	71.9%
Customer accounts	**2,753,884**	**100.0%**	**2,886,883**	**100.0%**	**2,486,944**	**100.0%**	**1,999,256**	**100.0%**

Lari-denominated deposits (both current accounts and term deposits) decreased as a percentage of total deposits to 27.9% as at 31 March 2014, from 29.5% as at 31 December 2013 and 26.8% as at 31 December 2012, while foreign currency-denominated deposits increased to 72.1% of total deposits as at 31 March 2014, from 70.5% of total deposits as at 31 December 2013 and 73.2% as at 31 December 2012, as TBC's customers continued to place term deposits primarily in foreign currencies, particularly the U.S. dollar and the Euro. U.S. dollar-denominated deposits represented 84.1% of deposits in foreign currencies as at 31 March 2014, compared to 85.4% as at 31 December 2013, 84.1% as at 31 December 2012 and 76.6% as at 31 December 2011.

Customer accounts by maturity

The following table sets out information on the maturity profile of deposits held by TBC Bank (on a standalone basis), as at the dates indicated based on their contractual maturity:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
On demand and less than one month	1,464,923	54.6%	1,659,354	58.8%	1,176,971	48.3%	1,046,244	52.6%
Between one and three months	291,777	10.9%	216,618	7.7%	243,567	10.0%	144,539	7.3%
Between three months and one year	714,425	26.6%	702,527	24.9%	656,941	27.0%	497,635	25.0%
Between one and five years	181,794	6.8%	150,100	5.3%	334,129	13.7%	290,415	14.6%
Over five years	32,191	1.2%	95,555	3.4%	24,860	1.0%	9,126	0.5%
Customer accounts	**2,685,111**	**100.0%**	**2,824,154**	**100.0%**	**2,436,469**	**100.0%**	**1,987,958**	**99.5%**

Deposits less than one month represent the largest portion of the deposits held by TBC Bank (on a standalone basis) and decreased by GEL 194.4 million, or 11.7%, to GEL 1,464.9 million as at 31 March 2014, from GEL 1,659.4 million as at 31 December 2013 and GEL 1,177.0 million as at 31 December 2012. The increase in 2013 was mainly due to the transfer of one customer's term deposit into a current account (in the amount of GEL 59.9 million) as well as additional current deposits placed with TBC Bank in the second half of 2013.

Deposits with maturities of between one and five years increased by GEL 31.7 million, or 21.1%, to GEL 181.8 million, as at 31 March 2014, having decreased by GEL 184.0 million, or 55.1%, to GEL 150.1 million as at 31 December 2013 from GEL 334.1 million as at 31 December 2012, and having increased by GEL 43.7 million, or 15.1%, from GEL 290.4 million as at 31 December 2011 as a result of the factors described above.

Customer accounts by sector

The following table sets out the composition of TBC's deposits, by reference to the economic sector of the customer, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Individuals	1,649,499	59.9%	1,610,676	55.8%	1,398,087	56.2%	1,098,882	55.0%
Energy	64,428	2.3%	57,179	2.0%	92,121	3.7%	75,306	3.8%
Transportation	95,639	3.5%	129,096	4.5%	197,115	7.9%	175,069	8.8%
Trade and service	313,406	11.4%	344,803	11.9%	211,729	8.5%	216,710	10.8%
Construction	97,628	3.5%	131,427	4.6%	116,392	4.7%	99,521	5.0%
Real estate	46,782	1.7%	57,798	2.0%	45,116	1.8%	35,344	1.8%
Food industry	45,420	1.6%	97,421	3.4%	53,745	2.2%	34,829	1.7%
Consumer goods and automobile trading	50,148	1.8%	72,739	2.5%	50,286	2.0%	40,979	2.0%
Communication	33,725	1.2%	28,909	1.0%	19,305	0.8%	38,397	1.9%
Manufacturing	16,357	0.6%	21,013	0.7%	15,507	0.6%	8,534	0.4%
Oil and gas	126,443	4.6%	147,005	5.1%	142,173	5.7%	12,493	0.6%
Agriculture	27,733	1.0%	23,772	0.8%	14,198	0.6%	15,759	0.8%
Mining	13,186	0.5%	21,746	0.8%	6,240	0.3%	8,742	0.4%
Other	173,490	6.3%	143,299	5.0%	124,930	5.0%	138,691	6.9%
Total customer accounts	**2,753,884**	**100.0%**	**2,886,883**	**100.0%**	**2,486,944**	**100.0%**	**1,999,256**	**100.0%**

TBC's two largest sources of deposits are individuals' deposits, which accounted for 59.9%, 55.8%, 56.2% and 55.0% of total deposits as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively, and deposits held by customers in the trade and services sector, which accounted for 11.4%, 11.9%, 8.5% and 10.8% of total deposits as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively.

As at 31 March 2014, TBC's largest customer accounted for 3.2% of total deposits, and TBC's 20 largest customers accounted for 14.2% of total deposits, compared to 3.6% and 18.2%, respectively, as at 31 December, 4.9% and 19.7%, respectively, as at 31 December 2012 and 3.7% and 14.6%, respectively, as at 31 December 2011. The decrease in deposits held by one customer as at 31 December 2013, compared to 31 December 2012, resulted from the reduction of a single large customer account in 2013 in connection with TBC's efforts to reduce its overall cost of funding and dependency on one customer.

Other sources of funding

Amounts due to other banks

Amounts due to other banks represented 2.6% of TBC's total liabilities as at 31 March 2014, compared to 1.3% as at 31 December 2013, 2.3% as at 31 December 2012 and 3.9% as at 31 December 2011. Amounts due to other banks increased, in absolute terms, by GEL 47.4 million, or 100.4%, to GEL 94.7 million as at 31 March 2014 from GEL 47.3 million as at 31 December 2013, after having decreased, in 2013, by GEL 29.0 million, or 38.0%, from GEL 76.2 million as at 31 December 2012, and in 2012 by GEL 34.2 million, or 31.0%, from GEL 110.4 million as at 31 December 2011.

Amounts due to other banks by type of account

The following table sets out the composition of TBC's amounts due to other banks by type of account, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Correspondent accounts and overnight placements	31,099	32.8%	4,894	10.4%	6,569	8.6%	15,003	13.6%
Deposits from banks	63,590	67.2%	42,358	89.6%	53,700	70.5%	89,470	81.1%
Short-term loans from banks	—	—	—	—	15,935	20.9%	5,905	5.3%
Total amounts due to other banks	**94,689**	**100.0%**	**47,252**	**100.0%**	**76,204**	**100.0%**	**110,378**	**100.0%**

The increase as at 31 March 2014 compared to as at 31 December 2013 in total amounts due to other banks was primarily due to increases in correspondent accounts and overnight placements and deposits from other banks by GEL 26.2 million and GEL 21.2 million respectively, aligned with TBC's short term funding needs. The decrease in total amounts due to other banks were primarily due to the reduction in short term loans and deposits from banks, aligned with TBC's short term funding needs. The decrease in total amounts due to other banks as at 31 December 2012, compared to 31 December 2011, was primarily due to the reduction in correspondent accounts and overnight placements of other banks and term placements of banks and financial institutions resulting from TBC's high level liquidity at the end of 2012, which led to a decreased need for additional interbank funding.

Amounts due to other banks by currency

The following table sets out the composition of TBC's amounts due to other banks, by currency, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Lari	76,806	81.1%	12,977	27.5%	55,244	72.5%	36,026	32.6%
Foreign currencies	17,883	18.9%	34,275	72.5%	20,960	27.5%	74,352	67.4%
Amounts due to other banks	**94,690**	**100.0%**	**47,252**	**100.0%**	**76,204**	**100.0%**	**110,378**	**100.0%**

Amounts due to other banks were comprised 81.1%, 27.5%, 72.5% and 32.6% in Lari as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively. Amounts due to other banks were represented by 18.9%, 72.5%, 27.5% and 67.4% in foreign currencies as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively. Variations in the proportions that Lari- and foreign currency-denominated amounts bear to one another in TBC's total portfolio of amounts due to other banks are driven primarily by changes

in TBC's liquidity levels, which often create a need to shift excess liquidity in one currency to interbank borrowings denominated in another. The majority of foreign currency-denominated amounts due to other banks are denominated in U.S. dollars, which accounted for 89.2% of foreign currency-denominated amounts due to other banks as at 31 March 2014, compared to 98.7% as at 31 December 2013, 79.6% as at 31 December 2012 and 68.7% as at 31 December 2011.

Other borrowed funds

Other borrowed funds comprise liabilities of TBC to certain international and financial institutions.

The following table sets out a breakdown of TBC's other borrowed funds by lender, as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Foreign banks and international financial institutions	411,161	69.3%	417,504	80.5%	479,854	87.1%	513,006	99.1%
Local banks and financial institutions	173,730	29.3%	92,987	17.9%	63,599	11.5%	—	—
Other financial institutions	8,151	1.4%	8,063	1.6%	7,466	1.4%	4,766	0.9%
Total other borrowed funds	**593,042**	**100.0%**	**518,554**	**100.0%**	**550,919**	**100.0%**	**517,772**	**100.0%**

Loans from foreign banks and international financial institutions represented 69.3% of other borrowed funds as at 31 March 2014, compared to 80.5% as at 31 December 2013, 87.1% as at 31 December 2012 and 99.1% as at 31 December 2011. Amounts due to foreign banks and international financial institutions decreased, in absolute terms, by GEL 6.3 million, or 1.5%, to GEL 411.2 million as at 31 March 2014, having decreased from GEL 417.5 million as at 31 December 2013 and GEL 479.9 million as at 31 December 2012. The decrease in the first quarter of 2014 was due to the scheduled principal payment of borrowed funds from foreign banks and international financial institutions during the period, while the decreases in 2013 and 2012 were due to the repayment of several borrowed funds facilities aligned with the TBC's long term-funding needs and excess liquity.

Syndicated, bilateral and multilateral loans

TBC's borrowed funds include, from time to time, syndicated, bilateral and multilateral loans. As at 31 March 2014, the amount outstanding under TBC's syndicated, bilateral loans and multilateral loans was U.S.$130.8 million. As at the date of this Prospectus, TBC's syndicated, bilateral and multilateral loans, with an outstanding principal amount equal to or greater than U.S.$5.0 million comprise the following:

- In December 2007, TBC Bank entered into a loan agreement with the EBRD for a principal amount of U.S.$12 million. The loan, which was fully drawn, was used to finance TBC's mortgage loans, matures on 8 January 2018 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. TBC Bank is required under this loan agreement to comply with the financial covenants set forth in the Common Terms Agreement (as discussed below). As at 31 March 2014, U.S.$5.6 million was outstanding under this loan agreement.
- In May 2008, TBC Bank entered into a term facility agreement with FMO for a principal aggregate amount of up to U.S.$15.0 million. This loan, which was fully drawn, was used to finance mortgage loans extended by TBC, matures on 15 April 2018 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. TBC Bank is required under this facility agreement to comply with the financial covenants set forth in the Common Terms Agreement (as discussed below). As at 31 March 2014, U.S.$7.9 million was outstanding under this loan agreement.
- In December 2008, TBC Bank entered into a loan agreement with Govco LLC and Citibank, N.A. in a principal amount of U.S.$44.0 million. The loan, which was fully drawn, was used to finance TBC's SME business sector and mortgage loans, matures on 17 December 2021 and interest is paid quarterly at a rate of 8.63% (comprising a fixed fee, fixed LIBOR rate and guarantee fee). This loan agreement contains covenants requiring TBC Bank to maintain certain ratios, including a capital adequacy ratio, a ratio of liquid assets to total liabilities and a loan loss reserves to past due loans ratio, as well to

maintain TBC's net worth at a certain level. As at 31 March 2014, U.S.$28.2 million was outstanding under this loan agreement.

- In March 2010, TBC Kredit entered into a facility agreement with OPIC for a principal aggregate amount of up to U.S.$12.0 million. Loans drawn under this facility agreement were used to finance TBC Kredit's SME loans and real estate sector loans. The facility agreement terminates on 15 June 2021 and interest is paid semi-annually at a fixed rate for each tranche drawn equal to OPIC's cost of funds plus a specified margin. TBC Kredit is subject to certain covenants under this facility agreement including, but not limited to, a requirement to maintain its reserves in accordance with applicable laws and to maintain minimum cash reserves of U.S.$50,000. As at 31 March 2014, U.S.$11.0 million was outstanding under this loan agreement.
- In September 2011, TBC Bank entered into a loan agreement with the Black Sea Trade & Development Bank for a principal amount of U.S.$10.0 million. This loan, which was fully drawn, was used to finance the SME business segment and matures on 20 September 2014, with interest paid semi-annually at the London interbank rate for U.S. dollar deposits plus a specific margin. As at 31 March 2014, U.S.$3.3 million was outstanding under this loan agreement.
- In September 2011, TBC Bank entered into a loan agreement with the EBRD pursuant to which the EBRD provides loans in synthetic Lari denominated in U.S. dollars in an aggregate amount of U.S.$13.7 million. TBC Bank may request that the entire amount of the outstanding loan be converted from synthetic Georgian Lari into a U.S. dollar-denominated loan. Loans drawn under this facility, which were used by TBC to fund micro loans to customers as well as corporate loans in the agricultural sector, mature between November 2016 and August 2017. Interest is currently paid semi-annually at a fixed rate based on EBRD's cost of obtaining Lari plus a specified margin. This loan agreement contains covenants requiring TBC Bank to maintain certain ratios, including a capital adequacy ratio, a cumulative negative liquidity gap ratio, an open credit exposure ratio and other mandatory ratios established by the NBG. As at 31 March 2014, U.S.$13.7 million was outstanding under this loan agreement.
- In December 2011, TBC Bank entered into a loan agreement with the DEG for a principal amount of U.S.$10.0 million. This loan, which was fully drawn, was used to finance the SME business segment, matures on 15 February 2019 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2014, U.S.$7.7 million was outstanding under this loan agreement.
- In July 2012, TBC Bank entered into a finance contract with EIB for a principal amount of EUR 25.0 million. This loan was drawn in U.S. dollars for a total amount of U.S.$31.7 million, and matures between August 2019 and May 2020. This loan was utilised by TBC to finance the SME business segment. Interest on the loan is paid semi-annually at a rate of LIBOR plus a specified margin. Under the finance contract TBC Bank is required to comply with certain financial covenants including, but not limited to the capital adequacy ratio, liquidity ratio, non-performing loans ratio and exposure ratios. As at 31 March 2014, U.S.$29.7 million was outstanding under this loan agreement.
- In September 2012, TBC Bank entered into a facility agreement with the EBRD for a principal aggregate amount of up to U.S.$10.0 million in connection with the Caucasus Energy Efficiency Programme, matures in January 2018 and interest is currently paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2014, U.S.$10.0 million was outstanding under this loan agreement.
- In December 2012, TBC Bank entered into a loan agreement with Proparco for a principal amount of U.S.$20.0 million. This loan, which was fully drawn, was used by TBC to finance loans in the healthcare infrastructure sector and matures on 30 April 2018, with interest paid semi-annually at a rate of LIBOR plus Basis Swap Rate plus a specified margin. Under the loan agreement TBC Bank is required to comply with certain financial covenants including, but not limited to capital adequacy ratio, liquidity ratio, non-performing loans ratio and exposure ratios. As at 31 March 2014, U.S.$20.0 million was outstanding under this loan agreement.

As at the date of this Prospectus, TBC is in compliance with all financial covenants contained in the abovementioned bilateral, syndicated and multilateral loans. In addition to financial covenants, TBC Bank is also subject to various other customary covenants under its loan and facility agreements (although these vary amongst the agreements), including requirements to obtain lender consent prior to any changes in TBC Bank's legal or beneficial ownership or other change of control, and restrictions on mergers, reorganisations and certain sales and transfers of assets (including to other TBC group companies).

Subordinated debt

Subordinated debt comprises unsecured obligations of TBC, subordinated in right of payment to all present and future senior indebtedness and certain other obligations of TBC.

Subordinated debt by type

The following table sets out a breakdown of TBC's subordinated debt, by international financial institution, as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
FMO	75,133	72,815	36,806	45,542
IFC	33,291	32,222	30,617	31,120
DEG	31,028	30,968	17,152	34,613
EBRD	33,335	32,269	30,505	31,205
Total subordinated debt outstanding	**172,787**	**168,274**	**115,080**	**142,480**

TBC's subordinated debt is comprised of financing arrangements entered into with DEG, IFC, FMO and the EBRD. As at the date of this Prospectus, TBC's subordinated debt, with an outstanding principal amount equal to or greater than U.S.$5.0 million, is comprised as follows:

Common Terms Agreement

In April 2009, TBC Bank entered into the common terms agreement (the "**Common Terms Agreement**") with three of its IFI Investors: the EBRD, FMO and IFC. The Common Terms Agreement provides for the provision of finance through senior and subordinated loans entered into with each lender up to a maximum aggregate principal amount of U.S.$54.4 million in respect of senior loans and U.S.$44.0 million in respect of subordinated loans, respectively. As at 31 March 2014, TBC had fully-drawn all such amounts. The senior loans initially entered into pursuant to the Common Terms Agreement matured in February 2013. The subordinated loans entered into pursuant to the Common Terms Agreement (the "**Subordinated Loans**") mature on 12 November 2018. Under the Subordinated Loans, interest is paid semi-annually at a rate of LIBOR plus 10.0%.

The Subordinated Loans and all other loans entered into between TBC Bank and the IFI Investors require TBC Bank to comply with certain financial covenants set forth in the Common Terms Agreement. These financial covenants require TBC Bank, *inter alia*, to maintain certain ratios including (but not limited to): (i) a ratio of the aggregate foreign exchange open position to capital (calculated, with respect of any foreign currency, as the difference between assets and liabilities in that foreign currency, after giving effect to certain hedges) of not more than 20.0%; (ii) a ratio of fixed assets to capital of not more than 40.0%; (iii) a loan to deposit ratio (calculated, for any period, as total customer loans divided by customer deposits) of not more than 120.0%; (iv) a negative liquidity gap ratio (calculating by dividing (1) the product of (x) the difference between total assets and total liabilities and (y) 100, by (2) total liabilities) of not more than 30%, calculated within the various maturity bands set out therein; (v) the aggregate of on- and off-balance sheet liabilities of the Government of Georgia (except certificates of deposit issued by the NBG), budget dependent state-owned companies and sub-national governments to TBC Bank at less than 25% of capital; and (vi) the minimum general loan loss reserve to be appropriated from income at more than 2% of TBC Bank's loan portfolio. The financial covenants also require TBC Bank to comply with certain risk-weighted capital adequacy ratios, a net stable funding ratio (see "*Asset, Liability and Risk Management—Funding and Liquidity Risk Management*") as well as specified ratios governing related party, single client and other exposures, overdue and non-performing loans.

As at the date of this Prospectus, the Subordinated Loans entered into by TBC Bank were as follows:

- In April 2009, TBC Bank entered into a Subordinated Loan with the EBRD for a principal amount of U.S.$18.5 million. This loan was used to strengthen TBC Bank's tier 2 capital. Upon the occurrence of a "Conversion Trigger Event" (defined as an event where: (i) TBC Bank's tier 1 Risk Weighted Capital Adequacy Ratio, which is TBC Bank's tier 1 capital divided by its aggregate on and off-balance sheet assets weighted in accordance with BIS Guidelines, falls below 0.5% above the minimum level required by the NBG, or (ii) TBC Bank has failed to submit two consecutive tier 1

capital adequacy reports confirming compliance with such ratio), the EBRD has the option to convert the outstanding amount of the loan into shares of TBC Bank by delivering a notice to TBC Bank specifying, inter alia, the conversion price and conversion date. As at 31 March 2014, U.S.$18.5 million was outstanding under this Subordinated Loan.

- In April 2009, TBC Bank entered into a Subordinated Loan with FMO for a principal amount of U.S.$7.0 million. This loan was used to strengthen TBC Bank's tier 2 capital. FMO does not have the option to convert any outstanding amounts of the loan into shares of TBC Bank. As at 31 March 2014, U.S.$7.0 million was outstanding under this Subordinated Loan.
- In April 2009, TBC Bank entered into a Subordinated Loan with IFC for a principal amount of U.S.$18.5 million. This loan was used to strengthen TBC Bank's tier 2 capital. Upon the occurrence of a Conversion Trigger Event (as described above), IFC has the option to convert the outstanding amount of the loan into shares of TBC Bank by delivering a notice to TBC Bank specifying, inter alia, the conversion price and conversion date. As at 31 March 2014, U.S.$18.5 million was outstanding under this Subordinated Loan.

Other subordinated debt

As at the date of this Prospectus, the other subordinated debt incurred by TBC Bank comprises the following:

- In February 2008, TBC Bank entered into a loan agreement with DEG in a principal amount of U.S.$10.0 million. This loan was used to strengthen TBC Bank's tier 2 capital, matures on 15 July 2018 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. TBC Bank is required under this loan agreement to comply with certain financial covenants requiring TBC Bank, inter alia, to maintain certain ratios including (but not limited to): (i) a ratio of the aggregate foreign exchange open position to available capital of not more than 20.0%; (ii) liquid asset ratio not less than 20%; and (iii) loan to deposit ratio of not more than 120%. The financial covenants also require TBC Bank to comply with certain risk-weighted capital adequacy ratios, a net stable funding ratio (see "*Asset, Liability and Risk Management—Funding and Liquidity Risk Management*") as well as specified ratios governing related party, single client and other exposures, and non-performing loans. As at 31 March 2014, U.S.$10.0 million was outstanding under this loan agreement.
- In March 2013, TBC Bank entered into a loan agreement with DEG for a principal amount of U.S.$7.5 million. This loan was used to strengthen TBC Bank's tier 2 capital, matures on 15 June 2020 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. TBC Bank is required under this loan agreement to comply with certain financial covenants including, but not limited to (i) a ratio of the aggregate foreign exchange open position to available capital of not more than 20.0%; (ii) a liquid asset ratio not less than 20%; and (iii) a loan to deposit ratio of not more than 120%. The financial covenants also require TBC Bank to comply with certain risk-weighted capital adequacy ratios, a net stable funding ratio (see "*Asset, Liability and Risk Management—Funding and Liquidity Risk Management*") as well as specified ratios governing related party, single client and other exposures, and non-performing loans. As at 31 March 2014, U.S.$7.5 million was outstanding under this loan agreement.
- In August 2013, TBC Bank entered into a subordinated term facility agreement with FMO in a principal amount of U.S.$35.0 million. The loan was used to strengthen TBC Bank's tier 2 capital, matures on 15 April 2023 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2014, U.S.$35.0 million was outstanding under this facility agreement.

As at the date of this Prospectus, TBC is in compliance with all financial covenants contained in the above-mentioned subordinated debt.

Subordinated debt by maturity

The following table sets out information on the maturity profile of TBC's subordinated debt (all of which has been incurred by TBC Bank), as at the dates indicated:

	As at 31 March		As at 31 December					
	2014		2013		2012		2011	
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
On demand and less than one month	1,694	1.0%	833	0.5%	792	0.7%	—	0.0%
Between one and three months	3,439	2.0%	—	0.0%	—	0.0%	18,121	12.7%
Between three months and one year	372	0.2%	1,814	1.1%	1,434	1.2%	9,664	6.8%
Between one and five years	104,333	60.4%	103,604	61.6%	47,976	41.7%	68,872	48.3%
Over five years	62,949	36.4%	62,022	36.9%	64,877	56.4%	45,822	32.2%
Total subordinated debt outstanding	**172,787**	**100.0%**	**168,274**	**100.0%**	**115,080**	**100.0%**	**142,480**	**100.0%**

The following table sets out the maturity profile, by lender, of TBC's subordinated debt (all of which has been incurred by TBC Bank):

	For the year ended 31 December							
	2016	2017	2018	2019	2020	2021	2022	2023
	(GEL thousands)							
IFC	10,707	10,707	10,707	—	—	—	—	—
FMO	4,051	4,051	15,101	11,049	11,049	11,049	11,049	5,525
EBRD	10,707	10,707	10,707	—	—	—	—	—
DEG	—	—	17,363	—	13,022	—	—	—

Contingent Liabilities and Other Off-Balance Sheet Arrangements

TBC enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the business needs of its customers. These instruments, which include guarantees and letters of credit, expose TBC to credit risk and are not reflected in TBC's consolidated balance sheet. TBC's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected by Management to expire without being drawn, the total amount may not necessarily represent future cash requirements of TBC.

The table below sets out details of TBC's consolidated credit commitments, guarantees and commercial letters of credit, as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Performance guarantees issued	165,618	160,704	160,127	235,291
Financial guarantees issued	78,945	95,762	112,997	86,972
Undrawn credit lines	171,864	197,801	179,589	199,054
Letters of credit	118,228	133,603	88,698	66,091
Total credit related commitments and performance guarantees (before provision)	**534,655**	**587,870**	**541,411**	**587,408**
Provision for performance guarantees	(3,742)	(4,153)	(2,332)	(5,426)
Provision for credit related commitments and financial guarantees	(3,539)	(4,927)	(842)	(1,708)
Total credit related commitments and performance guarantees	**527,374**	**578,790**	**538,237**	**580,274**

* See Note 37 to the Audited Consolidated Financial Statements and Note 24 to the Unaudited Consolidated Interim Financial Statements for details of other contingencies and commitments to which TBC is subject.

Net total credit related commitments decreased by GEL 51.4 million, or 8.9%, to GEL 527.4 million as at 31 March 2014 from GEL 578.8 million as at 31 December 2013, primarily due to reductions in financial guarantees, undrawn credit lines and letters of credit by an aggregate GEL 58.1 million, which was partially offset by a GEL 4.9 million increase in performance guarantees issued. Net total credit related

commitments increased by GEL 40.6 million, or 7.5%, to GEL 578.8 million as at 31 December 2013 from GEL 538.2 million as at 31 December 2012, primarily due to increases in letters of credit issued and undrawn credit lines, which more than offset the decrease in financial guarantees issued. As at 31 December 2012, net total credit related commitments decreased by GEL 42.0 million, or 7.2%, to GEL 538.2 million from GEL 580.3 million as at 31 December 2011, primarily due to the decrease in performance guarantees issued and undrawn credit lines, which was partially offset by an increase in commercial letters of credit issued.

As at 31 March 2014, the ten largest guarantees issued by TBC amounted to 53.6% of TBC's total guarantees issued and represented 26.7% of TBC's total equity, compared to 50.4% and 27.0%, respectively, as at 31 December 2013, 36.5% and 32.7%, respectively, as at 31 December 2012 and 40.5% and 50.7% as at 31 December 2011.

TBC's commitments related to undrawn credit lines decreased by GEL 25.9 million, or 13.1%, to GEL 171.9 million as at 31 March 2014 from GEL 197.8 million as at 31 December 2013, after having increased by GEL 18.2 million, or 10.1%, from GEL 179.6 million as at 31 December 2012, and having decreased by GEL 19.5 million, or 9.8%, in 2012 from GEL 199.1 million as at 31 December 2011. The increase in commitments related to undrawn credit lines as at 31 December 2013, compared to 31 December 2012, was broadly aligned with TBC's overall business growth. The decrease in commitments related to undrawn credit lines as at 31 December 2012, compared to 31 December 2011, was primarily related to the decrease in the performance guarantees portfolio in 2012.

The following table sets out the residual maturity of TBC Bank's credit related commitments, as at 31 March 2014:

	Residual maturity of credit related commitments					
	Total balance	Less than three months	Three to six months	Six months to one year	Over one year	Overdue contingent liabilities
	(GEL thousands)					
Performance guarantees	165,618	23,010	47,307	45,690	49,610	4,487
Financial guarantees issued	78,836	26,784	11,553	32,289	8,210	2,892
Undrawn credit lines	177,612	177,612	—	—	—	—
Letters of credit	118,228	77,056	21,373	10,002	9,797	—
Total credit related commitments (gross)	**540,294**	**304,462**	**80,233**	**87,981**	**67,617**	**7,379**

As at 31 March 2014, all of credit related commitments had a residual maturity of up to thirty days.

Provisions for contingent liabilities

The following table sets out TBC's provisions for issued guarantees and letters of credit, as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
	(GEL thousands)			
Provision for performance guarantees	3,742	4,153	2,332	5,426
Provision for credit related commitments and financial guarantees	3,539	4,927	842	1,708
Total	**7,281**	**9,080**	**3,174**	**7,134**

Provisions for contingent liabilities decreased in the first quarter of 2014, primarily due to a decrease in provisions for credit related commitments and financial guarantees. Provisions for credit related commitments and financial guarantees decreased by GEL 1.4 million, to GEL 3.5 million as at 31 March 2014 from GEL 4.9 million as at 31 December 2013, primarily due to the reduction in the respective balances of credit related commitments and financial guarantees.

Provisions for contingent liabilities increased in 2013, primarily due to the increase in provision for credit related commitments and financial guarantees. Provisions for credit related commitments and financial guarantees increased by GEL 4.1 million, to GEL 4.9 million as at 31 December 2013 from GEL 0.8 million as at 31 December 2012, primarily due to a GEL 44.9 million increase in the amounts of

letters of credit as well as an increased provision reserve for one corporate borrower, Goodwill LLC (see "*Business Description—Legal Proceedings*").

Provisions for contingent liabilities decreased in 2012 primarily due to the decrease in provision for performance guarantees, which decreased by GEL 3.1 million, to GEL 0.8 million as at 31 December 2012 from GEL 1.7 million as at 31 December 2012, primarily due to a GEL 75.2 million decrease in the outstanding amount of performance guarantees.

Capital and Capital Adequacy

TBC's total equity decreased by GEL 2.4 million, or 0.3%, to GEL 726.9 (comprising 16.4% of total assets) as at 31 March 2014, from GEL 729.3 million (comprising 16.4% of total assets) as at 31 December 2013, having increased by 20.7% from GEL 604.0 million (15.5% of total assets) as at 31 December 2012. As at 31 December 2012, TBC's total equity increased by GEL 135.2 million, or 28.8%, from GEL 468.8 million (14.2% of total assets) as at 31 December 2011. These increases were primarily as a result of an increased profit attributable to equity owners as well as a capital raising transaction from TBC's shareholders which started in 2012 and finalised in the first half of 2013. The 2012 increase resulted from GEL 96.5 million of profit attributable to TBC's shareholders in the year and the raising in December of GEL 24.5 million in additional equity from TBC's existing shareholders, including IFC, EBRD, DEG and FMO.

The following table sets out certain information regarding TBC's tier 1 and tier 2 capital ratios and its risk-weighted capital adequacy ratio, as at the dates indicated based, on BIS Guidelines, the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Tier 1 capital				
Share capital	257,730	259,123	247,644	218,479
Retained earnings and disclosed reserves	413,593	404,659	303,023	207,452
Less: Goodwill	(2,726)	(2,726)	(2,726)	(2,726)
Non-controlling interest	13,186	14,667	11,419	9,134
Total tier 1 capital	**681,783**	**675,723**	**559,360**	**432,341**
Tier 2 capital				
Revaluation reserves	42,426	50,840	41,939	33,162
General reserve	40,013	40,403	36,148	31,829
Subordinated debt	132,174	131,312	99,733	79,239
Total tier 2 capital	**214,613**	**222,555**	**177,820**	**144,230**
Gross tier 1 and tier 2 available capital	**896,396**	**898,278**	**737,179**	**576,571**
Total risk-weighted assets	3,189,114	3,135,542	2,787,393	2,438,709
Tier 1 capital adequacy ratio (%)	21.4%	21.6%	20.1%	17.7%
Total risk-weighted capital adequacy ratio(1) (%)	**28.1%**	**28.6%**	**26.4%**	**23.6%**

Note:

(1) Total risk-weighted capital adequacy ratio is (a) tier 1 and tier 2 capital, divided by (b) total risk-weighted assets.

Pursuant to NBG requirements, TBC also has to maintain a ratio of regulatory capital to risk-weighted assets ("**statutory capital ratio**") of 12%. The following table sets out certain information regarding

TBC Bank's (on a stand-alone basis) capital adequacy ratio, as at the dates indicated based on NBG standards:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
		(GEL thousands)		
Share capital	264,201	261,045	251,785	224,659
Retained earnings and other disclosed reserves	284,726	290,585	253,057	222,985
General loan loss provisions (up to 1.25% of risk-weighted assets)	50,203	51,038	44,224	42,172
Less intangible assets	(21,552)	(18,197)	(14,048)	(6,380)
Less Investments into subsidiary companies and capital of other banks	(61,750)	(59,129)	(68,615)	(70,764)
Subordinated debt (included in regulatory capital)	132,174	131,312	99,733	79,239
Total regulatory capital	**648,002**	**656,654**	**566,136**	**491,911**
Risk-weighted Exposures				
Credit risk weighted assets (including off-balance obligations)	3,331,539	3,340,518	3,030,372	2,701,318
Currency Induced Credit Risk	1,296,275	1,321,561	1,232,923	1,118,611
minus general and special reserves	(173,359)	(166,377)	(137,411)	(65,889)
Risk-weighted assets	**4,454,455**	**4,495,702**	**4,125,884**	**3,754,040**
Tier 1 Capital adequacy ratio	**11.4%**	**10.6%**	**11.2%**	**8.5%**
Total Regulatory Capital adequacy ratio(1)	14.5%	14.6%	13.7%	13.1%

Note:

(1) Total Regulatory Capital adequacy ratio is (a) Total Regulatory Capital divided by (b) total risk-weighted assets.

As at 31 March 2014, TBC Bank's total regulatory capital adequacy ratio (on a stand-alone basis) calculated in accordance with the NBG standards was 14.5%, and TBC Bank's tier 1 capital adequacy ratio was 11.4%. TBC Bank was in compliance with the NBG's capital adequacy ratio requirements as at 31 March 2014.

The main difference in the calculation of TBC Bank's capital adequacy ratio in accordance with NBG standards and BIS Guidelines is that, for purposes of calculating the NBG ratio, a risk weighting is applied to loans and advances to customers denominated in foreign currencies, unless the borrower has a demonstrable source of foreign currency earnings. In January 2011, this risk-weighting was increased from 150% to 175%. No such risk-weighting is applied to the calculation of the capital adequate ratio in accordance with BIS Guidelines. In addition, the NBG ratio is calculated on the basis of TBC Bank's standalone figures, whereas TBC's consolidated figures are used to calculate the capital adequacy ratio in accordance with BIS Guidelines. This, in turn, affects the calculation of retained earnings, risk-weighted assets and treatment of investments in subsidiaries under the two methodologies.

In addition, in October 2013, the NBG introduced its new NBG version of the Basel II/III capital adequacy regulations. Georgian banks will be required to comply with this regulation beginning in June 2014. According to these new regulations, TBC will be required to maintain a ratio of total regulatory capital to risk-weighted assets at 10.5% or more calculated in accordance with the new regulations. In connection with the final version of its Basel II/III regulation, the NBG in October 2013 disclosed that it plans to introduce additional capital buffers. According to the NBG, current minimum Basel II/III capital ratio (10.5%) incorporates 2.5% requirement for the conservation buffer. At a later stage, they expect to segregate it explicitly by defining minimum ratio at 8%.

As for the countercyclical buffer, it is to some extent accounted for under current ratios in the form of additional 75% risk weighting for foreign currency denominated exposures (CICR). The NBG expects that, together with the introduction of an additional countercyclical buffer, the risk weight for CICR would decrease so that part of the current capital charge intended for countercyclical purposes would be netted (meaning that risk-weighted assets would be decreased). The countercyclical buffer would normally range between zero and 2.5% based on the status of the credit cycle. According to the NBG, at the moment as overheating is not evidenced, the existing capital requirements incorporate only part of the 2.5% countercyclical buffer.

The NBG assesses various risk categories of commercial banks (GRAPE) and analyses the adequacy of ICAAP, which could affect the capital requirements applicable to a bank. Various factors, including (but not limited to) shareholder strength and reputation and the presence of strategic investors will be analysed and taken into consideration in the assessment of each bank.

In order to reduce the uncertainty regarding minimum capital buffers, TBC has received a non-binding letter from the NBG dated 28 February 2014, requesting that TBC implement a buffer of 3% over any minimum in the current NBG total capital requirements as calculated in accordance with both current NBG and NBG Basel Pillar 1 guidelines. The NBG emphasised in this letter that it will be consistent in its regulatory approach across banks (including with respect to capital buffers), and Management accordingly believes that the NBG's approach to capital would be applied to all Georgian banks over which the NBG exercises regulatory oversight.

As at 31 March 2014 and 31 December 2013, TBC Bank's capital ratios under the NBG's Basel II/III regulation are as follows:

	As at 31 March 2014		As at 31 December 2013	
	Pillar 1	Pillar 2	Pillar 1	Pillar 2
	(GEL thousands)			
Tier 1 capital				
Share capital	264,202	264,202	261,045	261,045
Retained earnings and disclosed reserves	284,726	284,726	290,585	290,585
General Reserves	40,360	40,360	40,460	40,460
Less: Intangible assets	(21,552)	(21,552)	(18,197)	(18,197)
Less: Revaluation reserves on assets	(40,360)	(40,360)	(40,460)	(40,460)
Less: Investments more than 10% in other commercial entities	(7,209)	(7,209)	(7,209)	(7,209)
Less: Surplus to threshold	(1,873)	(1,873)	—	—
Less: Investments in own shares	(1)	(1)	(1)	(1)
Total tier 1 capital	**518,293**	**518,293**	**526,223**	**526,223**
Tier 2 capital				
General reserve	50,203	50,203	51,038	51,038
Subordinated debt	132,174	132,174	131,312	131,312
Less: Significant investments in the tier 2 capital	(4,400)	(4,400)	(4,400)	(4,400)
Total tier 2 capital	**177,977**	**177,977**	**177,950**	**177,950**
Gross tier 1 and tier 2 available capital	**696,270**	**696,270**	**704,174**	**704,174**
Total risk-weighted assets	4,880,514	4,535,080	4,900,993	4,584,355
Tier 1 capital adequacy ratio	10.62%	11.43%	10.74%	11.48%
Total risk-weighted capital adequacy ratio (%)	**14.27%**	**15.35%**	**14.37%**	**15.36%**

The data for previous periods is not available.

The primary differences between existing NBG regulations and the NBG Basel II/III regulation include the introduction of capital requirements for foreign-exchange and operational risks and changes in the risk weighting of different assets classes, such as increased risk weighting for investment property and decreased risk weighting for retail and mortgage exposures.

For Pillar 2 capital calculation purposes TBC Bank considers additional risks, including interest rate risks, reputational and strategic risks, and uses advanced models to estimate capital charges for several risk charges. See "*Asset, Liability and Risk Management—Basel II/III Implementation Project*".

Return on Assets and Equity

The following table sets out certain selected financial ratios of TBC, for the periods indicated:

	For the three months ended 31 March	For the years ended 31 December		
	2014	2013	2012	2011
	(GEL thousands except percentages)			
Profit for the period	35,939	124,270	97,811	91,625
Average total assets	4,444,483	4,014,274	3,622,598	2,776,431
Average total equity	728,112	664,212	526,346	420,222
Average total equity/average total assets (%)	16.4%	16.5%	14.5%	15.1%
Return on assets[1] (%)	3.3%	3.1%	2.7%	3.3%
Return on equity[2] (%)	20.0%	18.7%	18.6%	21.8%
Dividend payout ratio[3]	21.3%	18.3%	—	25.3%
Total comprehensive income attributable to owners of TBC Bank	27,001	130,517	105,823	92,247

Notes:

(1) Annual return on assets is (x) profit for the year, divided by (y) quarterly average total assets. Quarterly return on assets is (a) profit for the period, divided by (b) average of total assets for the current and previous quarter and annualised.

(2) Annual return on equity is (x) profit for the year, divided by (y) quarterly average total equity. Quarterly return on equity is (a) profit for the period, divided by (b) average of total equity for the current and previous quarter and annualised.

(3) Dividend payout ratio is (x) dividends declared, divided by (y) consolidated profit for the previous year.

Average total assets increased by GEL 430.2 million, or 10.7%, to GEL 4,444.5 million for the three months ended 31 March 2014, from GEL 4,014.4 million for the year ended 31 December 2013. Average total assets increased by GEL 391.8 million, or 10.8%, to GEL 4,014.4 million for the year ended 31 December 2013 from GEL 3,622.6 million for the year ended 31 December 2012, primarily due to an increase in total loans and advances to customers, and investments available for sale as well as the general growth in TBC's business. Average total assets increased by GEL 846.2 million, or 30.5%, to GEL 3,622.6 million for the year ended 31 December 2012 from GEL 2,766.4 million for the year ended 31 December 2011. This year-on-year increase was primarily due to an increase in total loans and advances to customers, as well as the general growth in TBC's business.

Return on assets (on an annualised basis) increased to 3.3% for the three months ended 31 March 2014 from 3.1% for the corresponding period in 2013, mainly due to the increase in profit by GEL 16.2 million, or 82.0%. Return on assets increased to 3.1% for the year ended 31 December 2013 from 2.7% in 2012, mainly due to the increase in TBC's profit for the year ended 31 December 2013. Return on assets decreased to 2.7% for 2012 from 3.3% for 2011, primarily reflecting the significant 30.5% increase in average total assets and reduced interest margins that were in line with declining margins in the Georgian market generally.

TBC's average total equity increased by GEL 64.0 million, or 9.6%, to GEL 728.1 million for the three months ended 31 March 2014 from GEL 664.2 million for the year ended 31 December 2013, having increased by GEL 137.8 million, or 26.2% from GEL 526.3 million for the year ended 31 December 2012, primarily due to an increase in the profit realised by TBC as well as an additional capital raise. TBC's average equity increased by GEL 106.1 million, or 25.3%, to GEL 526.3 million for the year ended 31 December 2012 from GEL 420.2 million for the year ended 31 December 2011. This increase primarily reflected the increase in capital of GEL 24.5 million from TBC's existing shareholders during 2012.

TBC's ROE (on an annualised basis) increased by 7.0 percentage points to 20.0% for the three months ended 31 March 2014 from 13.0% for the three months ended 31 March 2013, primarily due to increased profit in the first quarter of 2014. TBC's ROE remained broadly the same and increased slightly by 0.1 percentage points to 18.7% for the year ended 31 December 2013 from 18.6% for the year ended 31 December 2012, primarily due to the increase in profit which surpassed the growth in average equity during 2013. TBC's ROE decreased in 2012, compared to 2011, as a result of increased provision expenses and a reduced net interest margin caused by the general trend of declining net interest margins in Georgia and a temporarily increased liquidity position as well as the increase in capital of GEL 24.5 million from TBC's existing shareholders during 2012.

BUSINESS DESCRIPTION

Overview

TBC is a leading universal banking group in Georgia, with a total market share of 26.4% of loans and 28.1% of deposits in Georgia as at 31 March 2014, according to data published by the NBG. It holds the number one position in deposits of individuals, the number two position in loans (both to individuals and to legal entities) and in deposits of legal entities, according to NBG data, and has a particular expertise in the fast-growing SME and micro sectors.

TBC offers a wide range of banking products and services to its retail, corporate, SME and micro clients. TBC's lending activities include providing business, mortgage, consumer and micro loans, as well as guarantees, letters of credit and overdrafts. TBC also offers current and savings accounts and term deposits, credit and debit cards, currency exchange facilities and other products. Apart from its core activities, TBC offers certain leasing, brokerage and other services through its subsidiaries. In addition, TBC has credit operations in Azerbaijan and operations in Israel focused on deposit collection.

TBC has a leading and award-winning multichannel distribution platform, with particular expertise in remote access electronic distribution channels. TBC's distribution platform in Georgia at 31 March 2014 comprised 59 branches of TBC and 57 branches of Bank Constanta (which are currently in the process of being upgraded, rebranded and more fully integrated into TBC's network) and a broad range of pioneering electronic banking operations, including internet and mobile phone banking and electronic payment terminals. Management believes that TBC has the most productive distribution network of any bank in Georgia by volume of loans, deposits and revenue per branch. In addition, TBC has one of the largest networks of ATMs and POS terminals in Georgia, consisting of 316 ATMs (of which 262 are TBC Bank's) and 2,836 POS terminals.

TBC's operations are predominantly focused on the Georgian banking market, which operations accounted for 98.3% of TBC's total assets and 97.1% of its profit as at and for the three months ended 31 March 2014. TBC's retail and corporate segments are its key business areas, accounting for 42.7% and 35.9% of its total gross loans as at 31 March 2014, respectively. Although TBC's SME and micro businesses experienced significant growth of 33.4% and 37.9%, respectively, in value of total gross loans in 2013, these segments are still currently relatively small, accounting for 13.9% and 7.5%, respectively, as at 31 March 2014. Management believes that TBC's SME and micro segments in particular continue to have significant growth potential.

As at 31 March 2014, TBC had total assets of GEL 4.4 billion, total gross loans and total deposits of GEL 2.9 billion and GEL 2.8 billion, respectively, and total equity of GEL 726.9 million. TBC's profit was GEL 35.9 million for the three months ended 31 March 2014 and GEL 124.3 million for the year ended 31 December 2013. TBC's cost to income and ROE ratios were 47.6% and 20.0%, respectively, for the three months ended 31 March 2014 and 52.1% and 18.7%, respectively, for the year ended 31 December 2013. As at 31 March 2014 TBC had 4,441 employees.

TBC Bank is financially robust and has a high quality balance sheet, with a gross loan to deposit ratio of 106.1%, a Non-performing Loan to gross loan portfolio ratio of 1.0% and a net stable funding ratio of 116.3% as at 31 March 2014. TBC's capital adequacy ratio has been maintained at well above the minimum required by the BIS Guidelines with its tier 1 capital ratio (under Basel I methodology) standing at 21.4% and total capital ratio (under Basel I methodology) standing at 28.1% as at 31 March 2014, compared to the BIS minimum requirements of 4% and 8%, respectively. As 31 March 2014, as calculated under NBG methodology (which is stricter than that of the BIS), TBC's tier 1 capital adequacy ratio stood at 11.4% and its total capital ratio stood at 14.5%, compared to the NBG minimum requirements of 8% and 12%, respectively. Moreover, the NBG has also adopted Basel II/III standards under a stricter local methodology, according to which TBC's tier 1 capital adequacy ratio and its total capital ratio stood at 10.6% and 14.3% under Pillar 1, respectively, above the NBG minimum requirements of 8.5% and 10.5%, respectively. Management believes that these capital levels provide a strong capital base to support TBC. See "*Banking Sector and Banking Regulation in Georgia—Banking Supervision—Mandatory Prudential Ratios*".

On 14 June 2013, Fitch affirmed TBC Bank's Viability Rating at "BB−", TBC Bank's Long—term Issuer Default Rating at "BB−" with a stable outlook, Supporting Rating at 4, and assigned Supporting Rating Floor of "B". On 2 April 2014, Moody's affirmed TBC Bank's foreign-currency deposit rating at "B1", local currency deposit ratings at "Ba3", and baseline credit assessments at "Ba3".

TBC has won numerous local and international awards for its business, customer service and innovative technology applications. These include being named as "Best Bank in Georgia" six times by *Global Finance* magazine, six times by *The Banker* and twice by *EMEA Finance* and *Euromoney*. TBC has also been named as the "Best Consumer Internet Bank in Georgia" and the "Best Integrated Consumer Bank site in Central and Eastern Europe", and has received "Best Bill Payment & Presentment" and "Best Integrated Consumer Bank Site" consumer internet banking global awards from *Global Finance* magazine.

History

TBC Bank was founded in December 1992 by Mr Mamuka Khazaradze who was joined shortly thereafter by Mr Badri Japaridze. TBC's longstanding relationships with IFIs began with the entrance into certain debt financing arrangements in 1998, followed by IFC and DEG becoming shareholders of TBC Bank by each acquiring a 10% stake in 2000. With its business initially dedicated to servicing corporate clients, TBC in 2006 began expanding its strategic focus by offering products and services to retail as well as corporate and SME business customers. EBRD, FMO, JP Morgan plc and Ashmore became shareholders of TBC Bank in 2009 as part of a recapitalisation after the severe economic downturn in 2008 and 2009, in connection with which the IFIs also provided equity and debt financing to support TBC's growth over the years. In May 2011, TBC continued its growth by acquiring an 80% shareholding in Bank Constanta, which specialises in micro-finance banking in Georgia, and plans to legally merge it into TBC Bank.

Key Strengths

Management believes that TBC has the following key strengths that will enable it to maintain and strengthen its position as one of the leading Georgian banking groups:

Leading positions in an attractive market poised for profitable growth

TBC is one of the two leading banks in the Georgian banking market, which together held more than 58.1% and 58.3% of all loans and deposits in Georgia, respectively, as at 31 March 2014, with a substantial gap between them and all other banks in Georgia. The total combined assets of TBC Bank and Bank Constanta amounted to GEL 4,332 million as at the same date, more than three times the assets of the next largest bank in Georgia, according to data published by the NBG. As at 31 March 2014, TBC was the largest retail bank in Georgia by value of deposits of individuals with a 33.0% market share, and was the second largest bank in Georgia in terms of loans to individuals (27.7% market share), loans to, and deposits of, legal entities (25.3% and 23.0% market share, respectively) and total assets (24.7% market share), according to data published by the NBG.

Georgia has benefited from strong economic growth in recent years. According to data prepared by the NBG, the compound annual growth rate ("**CAGR**") of Georgia's real GDP for the five year period ended 31 December 2013 was 3.7% (notwithstanding the global financial crisis and the 2008 Conflict), with 2014 real GDP growth of 5% forecasted by the IMF. Georgia has an international reputation as a country with a favourable investment environment, being ranked in recent World Bank & IFC Doing Business Reports as one of the top ten easiest countries in the world in which to do business and one of the top reformers in the world. TBC has benefited from Georgia's recent strong macroeconomic performance, and Management believes that TBC is well placed to continue to benefit from projected growth in Georgia as a consequence of TBC's strong market share across its business segments, its focus on continued product development, and its award-winning distribution platform and multichannel capabilities, among other factors.

In addition, Management believes that TBC has a leading position in the attractive retail, SME and micro sectors of the Georgian banking market. Loans in the retail, SME and micro sectors typically have higher margins than, and are consequently more profitable than corporate loans. Management believes the fast-growing SME and micro markets in particular have significant additional growth potential and that TBC's expertise in those sectors will enable it to continue its growth in those areas.

Strong track record of growth and profitability

TBC's successful execution on its strategy of focusing on certain key products and services has driven strong growth and profitability, allowing TBC to maintain robust margins despite increasing margin pressure in the market generally. The CAGR of the aggregate value of TBC's total loans to customers for the three years ended 31 December 2013 was 24.1%. In the same three-year period, TBC achieved a CAGR of the aggregate value of its total deposits of 28.3% and a profit CAGR of 36.0% whilst maintaining a high average ROE of 19.7% over that same period (in an environment of increasing capital

requirements). TBC also maintained strong margins while achieving this growth, recording net interest margins of 8.4%, 7.7% and 8.8% in the years ended 31 December 2013, 2012 and 2011, respectively.

Business model focused on core banking activities in Georgia

TBC operates primarily in Georgia, with its Georgian operations accounting for 96.7%, 96.8%, 97.5% and 97.6% of TBC's total interest income for the three months ended 31 March 2014, and the years ended 31 December 2013, 2012 and 2011, respectively, allowing TBC to build on its knowledge of and position in the Georgian market. TBC has a streamlined business with a clear strategic focus on its core banking activities in Georgia. Moreover, Management believes that TBC's business structure, with most of its subsidiaries operating in the financial services industry, clearly differentiates TBC from other diversified banking groups in Georgia, enabling TBC's operations and its Management to remain focused on traditional banking activities. This, in turn, enables TBC to maintain a straightforward and resilient balance sheet and a stable, customer-focused source of funding.

Strong brand, superior customer experience and an award-winning franchise

TBC is one of the most well-known and trusted brands in Georgia driven by, amongst other factors, its high level of customer service, strong reputation, longstanding relationships with customers, focus on social responsibility and targeted marketing campaigns. TBC has received a number of prestigious awards, including being named as "Best Bank in Georgia" six times by *Global Finance* magazine, six times by *The Banker* and twice by *EMEA Finance* and *Euromoney*. TBC has won the highest number of *The Banker* awards in Georgia.

Management believes that superior customer experience is one of the differentiators of TBC. Based on internal and external research, Management believes TBC is a market leader in customer experience. A "Mystery Shopping" study conducted by IPM (a leading Georgian market research company) named TBC as the friendliest provider of banking services in Georgia. The TRI*M (measuring, managing and monitoring) Index is a single number score that measures the level of customer retention through standardised indicators such as overall performance, likelihood of repurchase, likelihood to recommend and competitive advantage. A TRI*M study conducted by research firm TNS in July 2013 named TBC as a leader in many customer experience characteristics. When compared to TBC's closest competitor, the same study showed that the gap between TBC and its closest competitor widened from 2 points in 2012 to 6 points in 2013. In addition, TBC conducts regular loyalty surveys of randomly chosen active (mass retail) customers of TBC Bank. The most recent such survey, which measures the likelihood that a customer would recommend TBC to a friend using the Net Promoters Score (NPS) methodology, TBC achieved a net score (calculated as the percentage of loyal, enthusiastic customers minus the percentage of dissatisfied customers) of 65% as at 31 December 2013, compared to 57% as at 31 December 2012. In order for TBC to continue to develop this advantage, Management plans continuous improvements, including the design of branches and remote access channels, personnel professionalism, wide product range and supplementary services and improvements in its information technology systems.

A leading multichannel distribution platform

Management believes TBC has a more productive, modern and visually appealing branch network in Georgia than any other bank. TBC's loan-per-branch ratio of GEL 25,000 is higher than any other Georgian bank, and TBC's deposit-per-branch and operating income-per-branch ratios of GEL 23,000 and GEL 3,500, respectively, as at 31 March 2014, are significantly higher than any other Georgian bank as at the same date, according to data published by the NBG. TBC invests significant care in the appearance of its branches, with lighting, colour and layout specifically designed to increase customer satisfaction. TBC also recently introduced sensory marketing in its branches, which includes scent and audio marketing designed to emotionally appeal to customers, and a digital signage project to improve advertising effectiveness in branches.

TBC's internet-based banking services and other remote access channels complement its branches. TBC has continuously invested in developing innovative products and efficient new client servicing capabilities, including cash-in terminals and e-channels (such as internet banking and mobile banking), as well as the establishment of a call centre. TBC's strong multichannel capabilities have been acknowledged by *Global Finance* magazine naming TBC in 2012 as "Best Consumer Internet Bank in Georgia" and "Best Integrated Consumer Bank Site in Central and Eastern Europe". In 2013, TBC also received global "Best Bill Payment & Presentment" and "Best Integrated Consumer Bank Site" consumer internet banking

awards from *Global Finance* magazine. TBC continues to implement new ways of delivering its products and services, particularly through remote access channels, without unnecessary expense or branch network expansion.

Resilient and high quality balance sheet

TBC's primary source of funding is deposits (which accounted for 74.2% of total liabilities as at 31 March 2014), of which retail deposits accounted for 59.9% of total deposits. As at 31 March 2014, TBC's gross loan to deposit ratio was 106.1%. Other sources of funding are amounts due to credit institutions (including a range of wholesale funding from various credit institutions and international financial institutions and amounts due to other banks), which accounted for 18.5% of total liabilities as at 31 March 2014, and subordinated debt from international financial institutions (including TBC's shareholders), which accounted for 4.7% of total liabilities as at 31 March 2014. TBC has historically experienced low customer withdrawals, even during the 2008 Conflict and the global financial crisis. Since 1 January 2011, the maximum amount of deposits withdrawn during any one month was 7.4% of total deposits.

TBC has a well-diversified loan portfolio split across its segments, with retail, corporate, SME and micro loans accounting for 42.7%, 35.9%, 13.9% and 7.5%, respectively, of TBC's total gross loans as at 31 March 2014, and across all regions and major economic and industry sectors in Georgia. As at 31 March 2014, TBC Bank's loans to customers within its corporate segment were spread across major industries, with 23.0% of loans to the trade and services sector, 11.1% to the oil and gas sector, 9.9% to the energy sector, 9.2% to the consumer goods and automotive trading sector and the remaining 46.9% to the other sectors. Gross loans to related party customers accounted for only 0.6% of total capital calculated in accordance with BIS Guidelines as at 31 March 2014.

As a result of its prudent risk management policies, TBC maintains a high quality loan portfolio. As at 31 March 2014, TBC's ratio of Non-performing Loans to total gross loans was 1.0% and TBC's ratio of Restructured Loans (defined as the principal amount of all Restructured Loans less Restructured Loans in respect of which principal and interest payments have been met for a period of 12 months) to total gross loans was 4.7%. Moreover, TBC believes that its Non-performing Loan plus Restructured Loan coverage ratio (defined as loan loss provisions divided by the sum of Non-performing Loans and Restructured Loans), which was 109.0% as at 31 March 2014, provides substantial protection against potential future loan losses. See "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy—Non-performing and Restructured Loans*".

TBC has a strong capital base with a tier 1 capital adequacy ratio of 21.4% and a total capital adequacy ratio of 28.1% as at 31 March 2014 in accordance with BIS Guidelines. As at 31 March 2014, TBC Bank had a tier 1 capital adequacy ratio of 11.4% and a total regulatory capital adequacy ratio of 14.5% in accordance with NBG methodology (which is stricter than the BIS methodology). TBC Bank's capital ratios are also higher than the Basel II/III minimum requirements, as adopted by the NBG under a stricter local methodology, with a tier 1 capital adequacy ratio of 10.6% and a total regulatory capital adequacy ratio of 14.3% as at 31 March 2014 calculated under this methodology.

Experienced management team and high quality corporate governance

TBC has an experienced management team with a proven track record in leading TBC's operations. The seven members of the Management Board have been with TBC for an average of 11 years, two of the members (including the Chief Executive Officer (the "**CEO**")) since 1993. All members of the Management Board have significant experience in the banking and finance industry, with most having at least 10 (and some more than 20) years of banking experience. In addition, three members of the Management Board have degrees from universities in western Europe or the United States, and three have experience working in global banks or international financial institutions. Mr Butskhrikidze, the CEO, has also been named "Best Businessman of the Year" by *Georgian Times Magazine* and "Best Banker 2011" by the GUAM Organization for Democracy and Economic Development.

TBC's shareholders currently include DEG, the EBRD, FMO and the IFC, which, in aggregate, own 56.2% of TBC's share capital, as well as other international institutional investors, such as JPMorgan plc and Ashmore. TBC has historically benefited from the participation and expertise of these leading institutions. For example, the IFI Investors have provided strategic assistance in respect of TBC's wholesale funding, credit recovery and risk management strategies and are represented on the Supervisory Board. See "*Management—Supervisory Board*". TBC's shareholders have also provided senior and

subordinated debt funding to TBC. See "*Selected Statistical and Other Information—Funding Sources—Other Sources of Funding—Other Borrowed Funds*".

Management believes that the presence of the IFI Investors as TBC's shareholders has contributed to the implementation and maintenance of high corporate governance standards. TBC is a party to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009, which was drafted with the guidance of the IFC based on internationally recognised principles of good corporate governance. Since the implementation of the Basel II project in 2012, TBC further strengthened its corporate governance in order to comply with the relevant Basel standards. TBC's financial statements have been audited by one of the four major international accounting firms for the last 14 years and TBC has an established audit committee, which reports directly to the Supervisory Board.

Strategy

TBC's overall strategy is to deliver strong, sustainable growth and profitability without compromising asset quality or TBC's risk management processes. This strategy is focused on the following areas:

Grow market share in the retail, SME and micro segments

To sustain TBC's growth and profitability, Management intends to expand TBC's market share in the attractive retail, SME and micro segments, which are characterised by high margins and rapid growth. Loans in the retail, SME and micro sectors typically have higher margins than loans to corporate customers and are consequently more profitable. Management plans to increase the significance of TBC's retail, SME and micro segments relative to the corporate segment, which is characterised by high competition and downward interest margin pressure.

Despite TBC's strong position of being the largest bank in Georgia in terms of deposits of individuals as at 31 March 2014, Management plans to further solidify TBC's presence in the retail customer segment by becoming the leader by market share of loans to individuals in Georgia. In order to capitalise on TBC's strong position in the Georgian retail market, Management intends to leverage on TBC's strong reputation, high quality of customer experience and refined multichannel capabilities, which Management believes are TBC's differentiating factors. In addition, Management believes that it will significantly expand TBC Bank's geographic coverage with the integration into TBC Bank of the branches of the former Bank Constanta, which will be rebranded under a TBC brand and include an upgraded suite of products and services. Furthermore, Management believes that the introduction of a refined customer relationship management system developed by Oracle will enhance TBC's ability to further solidify its position in this market by improving product and service capabilities and enhancing the customer experience.

TBC's strategy is also to become the clear market leader in the micro and SME segments in Georgia, which Management believes have significant growth potential. TBC's ability to further improve its share of these markets will be driven by its strong and proven SME capabilities, such as its diversified product range and value-added services, including consultancy and training for SME clients. Furthermore, in the micro segment, TBC has a strong expertise acquired through Bank Constanta, wide branch coverage (via Bank Constanta) across many regions and diversified products and services tailored to clients operating in rural areas. Management believes there is significant growth potential in the under-penetrated rural market and aims to attract a significant new client base in the short term, both in terms of deposits and micro lending.

Expand product offerings and sales capabilities to large corporate businesses

TBC plans to introduce new products and services that complement its current offering to corporate clients, including foreign currency forwards and swaps, hedging, insurance packages and escrow and other custodian services, and to strengthen its capabilities in trade and product finance. TBC believes that its innovative services, individual client approach and established reputation as one of the most trusted business partners in Georgia will help strengthen its relationship with its large existing corporate client base and developing additional clients. To further improve corporate sales capabilities, in March 2014, in consultation with McKinsey & Company, Management introduced a large scale project to improve frontline sales capabilities and organisational structure, including the introduction of new sales tools such as an account planning system, pipelines and daily huddle boards, increased product offerings and end-to-end process enhancement for new customers. Management also plans to introduce new account planning and customer relationship management systems to strengthen TBC's sales capabilities.

Increase fee and commission income from core banking franchise

TBC aims to further diversify its revenue base by increasing non-interest income sources therein. Management believes this will help TBC to sustain its profitability by becoming less reliant on interest margins, which have suffered from a declining trend across the entire Georgian banking sector. Accordingly, TBC's strategy is to increase its fee and commission income generating capabilities by growing fees from existing sources, such as debit and credit card operations, guarantees, settlement transactions and trade finance, and by introducing new commission-based products and services related to TBC's core banking business. These initiatives include contactless debit and credit cards (which increase the number of card transactions), bancassurance sales of third-party insurance products, new money transfers, mobile payments and advisory and other services for its corporate and other key clients.

Focus on continuous cost efficiency improvements

TBC expects that improvements in its operational efficiency will lead to better customer experiences and a lower cost to income ratio, with the goal of achieving a stable cost to income ratio at or below 50% over the medium term. Management believes that, amongst other factors, this can be achieved through the increase of automation and productivity. Accordingly, TBC (in consultation with McKinsey & Company) in 2012 implemented a "Lean Banking" model throughout its branches and in a majority of its back offices, streamlining the number of employees in order to improve customer services and decrease service costs.

As part of these operational efficiency improvements, in 2014 TBC launched a large-scale project of integrating Bank Constanta fully into TBC Bank. Management believes that Bank Constanta reached the scale where it was important to leverage synergies. As a result, TBC intends to legally merge Bank Constanta into TBC Bank, in tandem with an initiative to extract synergies by integrating main administrative functions of TBC Bank and Bank Constanta, including information technology, human resources, finance and other functions. This initiative is intended to enable TBC to improve its operational efficiency through optimisation of staff costs and back office processes.

In 2012, TBC completed a GEL 2.2 million multichannel strategic project to increase services provided through internet and mobile telephone banking channels and decrease transaction costs while improving the customer experience. TBC is also developing its automated services and operations in order to standardise its customer services and back office processes, such as the introduction of a chain of TBC Pay terminals through which customers can conduct a variety of transactions using automated processes, thereby reducing the level of human resources necessary to conduct such transactions.

Management believes that IT capabilities represent one of the core competencies necessary for leading banks to maintain and further strengthen their positions in the market. TBC's IT strategy is to develop IT capabilities and cutting edge technologies that support TBC's robust, long-term development, including by developing automated services and operations to standardise TBC's customer services and back office processes, such as the core banking system transformation project, which is intended to increase operational efficiency and the level of straight-through processing, as well as the Oracle Siebel CRM project, which will involve the automation of various sales, service and call centre functions. This is also intended to reduce the amount of administrative time required, allowing personnel to spend more time on advisory services and sales. Implementation of the CRM system is also expected to allow TBC to benefit from more efficient cross-selling initiatives.

Further develop award-winning multichannel distribution platform capabilities

Management believes that TBC's multichannel capabilities are one of its distinguishing characteristics in the market, as indicated by the multiple awards TBC has received from *Global Finance* magazine (see "*—Key strengths—A leading multichannel distribution platform*"). In order to fully develop this competitive advantage, TBC intends to continue to improve and enhance its branch network with the aim of delivering a superior customer experience. As part of TBC's initiative to fully integrate Bank Constanta into TBC Bank, TBC plans to rebrand all existing Bank Constanta branches under a TBC brand and upgrade the suite of products offered at those branches. This is expected to significantly increase the overall quality of TBC's branch network nationwide.

In addition, TBC plans to further strengthen its ATM, POS, TBC Pay, cash-in terminal and other kiosk banking capabilities (which currently account for a significant percentage of TBC's total banking transactions) as part of its multichannel development initiative. This ongoing multichannel development project facilitates TBC's ability to serve more customers without the need for significantly increasing the

number of branches, allowing staff more time to focus on sales and advisory services and enhancing the customer experience, whilst reducing overall transactional costs. TBC's remote access channel operations comprised 81% of its total non-cash transactions for the year ended 31 December 2013.

Build value by delivering superior customer experience, which translates into customer loyalty and profitability

TBC believes that customer experience is key to its competitiveness in the market and its long-term profitability. TBC's ability to generate loyalty amongst its clients is critical to its strategy to maintain and grow its share of the Georgian banking market, and is a significant factor in TBC's ability to improve profitability. Customer loyalty generates repeat business and cross-selling opportunities for TBC's other products and services; provides TBC with a cheaper, more stable source of funding from long-term customer deposits; and reduces pressure on TBC's margins by lessening the need for TBC to lower its loan interest rates or raise deposit interest rates in order to attract or retain customers.

As a result, to further increase TBC's leading position among Georgian banks in customer experience (see "*—Key strengths—Strong brand, superior customer experience and an award-winning franchise*"), Management plans to intensify its effort to further strengthen this advantage and increase the gap between TBC and its competitors. In doing so, Management plans to reinforce the value of customer centricity in corporate culture, continue investing in staff competencies, further refine user experience in digital channels and introduce simpler, uniform designs and navigation and new and improved processes for managing customer experience across every channel and segment.

In 2011, TBC began implementing its sophisticated multichannel platform, followed by the Oracle Siebel customer relationship management project and other front-end solutions intended to significantly improve TBC's capabilities. These projects are intended to improve the customer experience, better manage customer relationships, shorten the decision-making process when selling products and permit the offering of better-tailored services. Management believes that TBC's strong brand could help to attract new customers that would be retained through loyal relationships built on a superior customer experience.

Achieve targeted levels of profitability whilst maintaining prudent levels of capital adequacy

As TBC continues to grow its business over the years to come, Management will establish various financial objectives over the medium term as part of its strategic plans. TBC intends to focus on ROE as a key indicator when setting these financial performance targets. Based on its current strategy, TBC intends to grow net income on an annual basis and achieve an average return on equity in excess of 18% in future years.

As a matter of policy, TBC intends to continue to implement its prudent approach to managing the levels of its capital adequacy to ensure a material margin relative to the minimum requirements prevailing at any given time. In particular, based on current Basel II/III methodology, TBC intends to maintain an equity Tier 1 capital adequacy ratio of approximately 12.5%.

Investors are cautioned that the above targets are goals set by Management and should not be construed as a prediction of future performance. These objectives are based upon a number of assumptions and estimates that, while considered reasonable by TBC, are inherently subject to significant business, operational, economic, competitive and regulatory uncertainties and contingencies, many of which are beyond TBC's control, and upon assumptions with respect to future business decisions that are subject to change. These targets also assume the success of TBC's strategy, which is subject to uncertainties and contingencies beyond TBC's control. There can be no assurance that TBC will achieve these and other targets that it sets. The targets may vary materially from the actual results. Prospective investors in the GDRs are cautioned not to place undue reliance on this information and make their own projections about TBC's future financial performance on the basis of their own examination of TBC and the contents of this Prospectus. See "*Presentation of Financial and Other Information—Forward-Looking Statements*" and "*Risk Factors*".

Principal Business Activities

Introduction

TBC's core business is focused on providing banking and ancillary financial services to retail, corporate, SME and micro banking clients. TBC conducts the majority of its business operations in Georgia, but also services clients in Azerbaijan and markets deposit products to clients in Israel.

As at 31 March 2014, corporate and retail loans accounted for 35.9% and 42.7% of TBC's total gross loans, respectively, and corporate and retail deposits accounted for 24.4% and 59.9% of total deposits, respectively. Despite TBC's SME and micro loan portfolios still being a relatively small component of its total portfolio, Management believes that there is significant growth potential in these business segments and intends to increase its activities in these areas in the future. See "—*Strategy*".

TBC services its clients through a diversified multichannel system comprising one of the largest networks of ATMs and POS terminals in Georgia, branches, internet banking, mobile phone banking (including SMS services and smartphone banking applications), call centre and TBC Pay terminals and kiosks (electronic payment terminals).

Categorisation of segments

In its core banking business, TBC categorises each customer as falling within one of its retail, corporate, SME and micro segments and uses the following definitions for this purpose:

- **Retail:** all individual customers of TBC and legal entity 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 of U.S.$1.5 million or more (GEL 2.6 million). 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 TBC 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 U.S.$150,000 (GEL 264,000).

The following table sets out the allocation of TBC's total loans to customers and deposits as at 31 March 2014 and 31 December 2013, as well as the allocation of other selected items for the three months ended 31 March 2014 and the year ended 31 December 2013 across its retail, corporate, SME and micro segments.

	As at and for the three months ended 31 March 2014				
	Retail	Corporate	SME	Micro	Total
	(GEL thousands, except percentages)				
Gross loans to customers	1,248,578	1,049,789	404,761	218,011	2,921,139
Share of total gross loans to customers	42.7%	35.9%	13.9%	7.5%	100.0%
Customer accounts	1,649,498	672,221	427,966	4,199	2,753,884
Share of total customer accounts	59.9%	24.4%	15.5%	0.2%	100.0%
Net interest income	35,565	15,213	9,471	8,588	80,420[1]
Provision for loan impairment	(7,031)	(5,652)	(603)	(1,300)	(14,586)
Fee and commission income	9,467	3,610	1,974	755	15,809[2]
Fee and commission expense	(5,512)	(474)	(222)	(214)	(6,464)[3]
Gains less losses from trading in foreign currencies	1,948	2,847	2,472	344	9,493[4]

Notes:

(1) Figures reflect application of intra-segment adjustments (the "transfer pricing" mechanism). Total includes GEL 11.6 million net interest income allocated to TBC's corporate centre.

(2) Total includes GEL 3 thousand fee and commission income allocated to TBC's corporate centre.

(3) Total includes GEL 42 thousand fee and commission expense allocated to TBC's corporate centre.

(4) Total includes GEL 1.9 million gain less losses allocated to TBC's corporate centre.

	As at and for the year ended 31 December 2013				
	Retail	Corporate	SME	Micro	Total
	(GEL thousands, except percentages)				
Gross loans to customers	1,207,514	1,157,334	392,446	201,287	2,958,581
Share of total gross loans to customers	40.8%	39.1%	13.3%	6.8%	100.0%
Customer accounts	1,610,676	819,780	451,985	4,443	2,886,883
Share of total customer accounts	55.8%	28.4%	15.7%	0.2%	100.0%
Net interest income	135,041	44,989	33,069	35,714	282,650[1]
Provision for loan impairment	(13,377)	(17,035)	(88)	(2,471)	(32,971)
Fee and commission income	40,823	15,881	7,349	2,444	66,497
Fee and commission expense	(17,627)	(4,688)	(1,089)	(620)	(24,301)[2]
Gains less losses from trading in foreign currencies	8,614	12,522	9,244	1,513	37,894[3]

Notes:

(1) Figures reflect application of intra-segment adjustments (the "transfer pricing" mechanism). Total includes GEL 33.8 million net interest income allocated to TBC's corporate centre. See "*Management's Discussion And Analysis Of Financial Condition And Results Of Operations—Results of Operations for the Years ended 31 December 2013 and 2012—2013 segment analysis*".

(2) Total includes GEL 0.3 million fee and commission expense allocated to TBC's corporate centre. See "*Management's Discussion And Analysis Of Financial Condition And Results Of Operations—Results of Operations for the Years ended 31 December 2013 and 2012—2013 segment analysis*".

(3) Total includes GEL 6.0 million gain less losses allocated to TBC's corporate centre. See "*Management's Discussion And Analysis Of Financial Condition And Results Of Operations—Results of Operations for the Years ended 31 December 2013 and 2012—2013 segment analysis*".

The following table sets out TBC's yield analysis on average gross loans to customers for the three months ended 31 March 2014 and the years ended 31 December 2013, 2012 and 2011 across its retail, corporate, SME and micro segments.

	For the three months ended 31 March 2014	For the years ended 31 December		
		2013	2012	2011
Retail	17.5%	19.6%	21.4%	21.7%
Mortgage	*11.1%*	*12.5%*	*14.8%*	*13.8%*
Consumer and pawn	*22.2%*	*24.3%*	*26.2%*	*28.1%*
Corporate	12.4%	12.1%	13.4%	13.9%
SME	12.5%	13.5%	14.8%	15.0%
Micro	25.1%	29.0%	31.5%	39.6%

Note:

* Yield on average gross loans for 2013, 2012 and 2011 is calculated as a ratio of interest income to the quarterly averages of the respective balances. Yield on average gross loans for the first quarter of 2014 is calculated as a ratio of interest income to the average of the respective balances for the current and previous quarter and annualised.

The following table sets out TBC's effective rates on average deposits to customers for the three months ended 31 March 2014 and the years ended 31 December 2013, 2012 and 2011 across its retail, corporate, SME and micro segments.

	For the three months ended 31 March 2014	For the years ended 31 December		
		2013	2012	2011
Retail	4.9%	6.4%	7.8%	7.0%
Corporate	3.0%	4.8%	7.3%	6.1%
SME	1.8%	2.3%	2.9%	2.1%
Micro	5.3%	9.2%	7.8%	20.5%[1]

Notes:

* Effective rates on average deposits are calculated as interest expense divided by the quarterly averages of the respective balances. First quarter 2014 rates are calculated based on the average of the respective balances for the current and previous quarter and annualised. 2011 rates are calculated based on year end averages.

(1) Micro segment effective rate for 2011 is calculated as interest expense over the balance of micro deposits as of 31 December 2011. TBC acquired Bank Constanta in May 2011.

In addition to its core banking business that TBC conducts within these four segments, TBC also conducts some operations that it considers "non-core banking operations". These operations are typically conducted by subsidiary companies and include, *inter alia*, leasing and brokerage services, card processing and payment collection services, banking software support services and certain marketing efforts in Israel. TBC classifies its "non-core banking operations" and its treasury and other support and back office functions under a "corporate centre and other operations" segment.

Retail banking

Overview

TBC has developed a diversified retail banking product mix, including the provision of traditional and innovative services designed to address the needs of its customers. TBC offers a full range of loan, account and deposit products through its refined multichannel platform, with special offers and services offered to affluent clients. In addition, following the implementation of the Customer Relationship Management IT platform in 2013, TBC's sales representatives have more efficient access to comprehensive client information, allowing them to tailor sales and services to clients' individual needs. Management believes that TBC's strong brand and reputation among its customers, results from its standards of service, the design of its branches and its qualified and well-trained staff. In addition, TBC provides certain retail banking services in Azerbaijan through TBC Kredit. As at 31 March 2014, TBC's retail segment accounted for 42.7% of TBC's total gross loans and 59.9% of total deposits.

TBC classifies its retail customers as "affluent" or "mass retail" customers. Among "affluent" customers, TBC categorises customers who have deposits of U.S.$100,000 (GEL 176,000) or more as "VIP clients" and customers with deposits of between U.S.$40,000 to U.S.$100,000 (GEL 70,500 to GEL 176,000), an outstanding loan amount of U.S.$40,000 or more and monthly income of at least GEL 5,000 as "Status clients". As at 31 March 2014, TBC had over 1,000 VIP clients and over 4,500 Status clients. Customers who have deposits and loans of less than U.S.$40,000 are categorised as "mass retail clients". As at 31 March 2014, TBC Bank (on a standalone basis) had approximately 614,000 registered mass retail clients accounting for 55.7% of the total value of its retail loans and 47.5% of the total value of its retail deposits.

Retail accounts and term deposits

According to data published by the NBG, as at 31 March 2014, TBC Bank had the largest amount of deposits of individuals of any bank in Georgia, with a market share of 33.0%.

TBC offers a broad range of current and savings accounts and term deposits to its retail customers, as well as other deposit products such as Term Plus deposits, Gold Deposit, and other types of savings accounts and certificates of deposits. The Term Plus deposit allows additional amounts to be deposited throughout the term of the deposit with interest accrual on such additional amounts. Gold Deposit offers corporate clients a structured deposit product linked to the price of gold with an annual interest rate capped at 8%. The offering of a wide variety of deposit products is designed to allow customers to save for a designated purpose and for different terms.

As at 31 March 2014, TBC had over one million retail customer accounts, with GEL 627.2 million in retail current and savings accounts (on demand) and GEL 1,022.3 million of retail term deposits (compared to GEL 621.2 million and GEL 989.5 million, respectively, as at 31 December 2013, GEL 386.7 million and GEL 1,011.4 million, respectively, as at 31 December 2012 and GEL 354.6 million and GEL 744.3 million, respectively, as at 31 December 2011), having terms generally ranging from three months to 24 months. As at 31 March 2014, TBC's average annual interest rates for retail term deposits was 6.8%. As at 31 March 2014, 82.0% of TBC's total retail deposits were denominated in currencies other than Lari. As at 31 March 2014, 82.9% of all retail deposits of TBC Bank (on a standalone basis) were held in Tbilisi and 12.1% in other regions in Georgia.

Deposits of individuals are a key funding source for TBC. In order to continue to attract deposits from individuals, TBC has launched integrated marketing campaigns that emphasise TBC's brand strength, convenient branches and high service quality, which Management believes is most important for retail depositors. TBC strives to ensure that its product offerings are fine-tuned to the clients needs, and expects the implementation of the CRM model to further enable this ability. TBC's branch and other sales personnel are trained in cross-selling and upselling to appeal to potential depositors. In addition, TBC continuously introduces new deposit products to its core and prospective customers, such as, in 2013, the offering of certificates of deposit.

Retail lending

According to data published by the NBG, as at 31 March 2014, TBC had the the second largest amount of loans to individuals of any bank in Georgia, with a market share of 27.7%.

TBC offers different types of loan products to its retail clients, including mortgage loans, consumer loans, credit cards, pawn loans, automobile loans, student loans, instalment cards, POS loans and overdrafts. As at 31 March 2014, TBC had a total of 409,212 loans outstanding to retail customers, with a total value of GEL 1,248.6 million (compared to GEL 1,207.5 million, GEL 954.5 million and GEL 842.5 million as at 31 December 2013, 2012 and 2011, respectively), with an average interest rate of 17.5%. As at 31 March 2014, 83.2% of TBC's retail loans (including consumer loans) were collateralised, with 52.6% being secured by real estate, 18.2% by inventory and equipment, 9.2% by jewellery and 2.7% by cash deposits (see "*Lending Policies and Procedures—Collateral Policies*"). As at the same date, 56.5% of TBC's total loans to retail customers were denominated in currencies other than Lari.

The following table sets out the breakdown of the value of the most significant types of gross retail loans of TBC Bank (on a standalone basis) by product, as at 31 March 2014 and 31 December 2013, 2012 and 2011.

	Percentage of the total value of TBC Bank's gross retail loan portfolio[1]			
	As at 31 March	As at 31 December		
Type of Product	2014	2013	2012	2011
		(%)		
Mortgage loans	45%	44%	42%	46%
Consumer loans	16%	17%	19%	20%
Fast consumer loans	15%	16%	11%	8%
Credit cards	12%	11%	13%	14%
Pawn shop loans	9%	9%	9%	7%
Cash covered loans	2%	3%	4%	5%

Notes:
(1) Figures are for TBC Bank on a standalone basis. Consolidated figures are not available for TBC as a whole.

As at 31 March 2014, 70.5% of the retail loans of TBC Bank (on a standalone basis) were originated in Tbilisi and 29.5% in other regions in Georgia.

Mortgage loans

The highest share of retail loans was accounted for by mortgage loans, which amounted to 42.5% of the total value of outstanding retail loans as at 31 March 2014 and represented a total of approximately 9,284 outstanding mortgage loans with an aggregate value of GEL 530.6 million (compared to GEL 499.4 million and GEL 385.4 million as at 31 December 2013 and 2012, respectively). TBC's mortgage loans can be offered for up to 15 years for the purchase or renovation of real estate. Such loans are secured by a pledge of the real estate being purchased or a pledge of alternative property. As at 31 March 2014, 85.3% of TBC's gross mortgage loan portfolio accrued interest at fixed rates, and 14.7% accrued interest at variable rates. The average maturity period of TBC's outstanding mortgage loan portfolio as at 31 March 2014 was 6.1 years.

In May 2013, the NBG launched its repo programme, pursuant to which the NBG provides financing to Georgian banks through GEL denominated loans linked to the NBG's refinancing rate. The NBG repo programme, which allows TBC Bank to issue GEL-denominated mortgage loans at rates lower than foreign currency denominated mortgage loan rates, is expected to support the growth of TBC Bank's overall and particularly its GEL-denominated mortgage loan book. Within this programme, TBC Bank may, from time to time, need to pledge corresponding portion of its receivables from the mortgage loans in favour of the NBG.

Consumer loans

TBC offers a variety of types of consumer loans for different purposes, including automobile loans, student loans, fast consumer loans (which are unsecured loans typically issued within one day to payroll clients) and cash cover loans (which are loans secured by customers' existing deposits). These consumer loans are offered as fixed-term, fixed-instalment loans for a period of between one month and ten years, up to a maximum principal amount of GEL 80,000, with interest rates that vary amongst loan types. TBC also offers VISA and MasterCard debit, credit and instalment cards, classifying loans made under these cards

as consumer loans as well. As at 31 March 2014, TBC had GEL 603.4 million in consumer loans outstanding (compared to GEL 603.4 million and GEL 482.7 million as at 31 December 2013 and 2012, respectively).

Fast consumer loans

Fast consumer loans (also known as POS loans) are extended solely in Lari and are issued directly in retail shops in connection with the purchase of consumer goods. These loans are approved very quickly and typically have a small loan size (an average of GEL 1,835 as at 31 March 2014) and short maturity (an average contractual maturity of 31 months as at 31 March 2014). These loans had an average interest rate of 14.1% as at 31 March 2014. These loans help TBC to grow the number of clients to whom it can later cross-sell additional products. As at 31 March 2014, TBC had GEL 170.7 million in fast consumer loans outstanding (compared to GEL 172.2 million and GEL 98.7 million as at 31 December 2013 and 2012, respectively).

Credit cards and debit cards

Credit and debit card penetration in the Georgian market (calculated as the number of cards issued divided by the total population) has grown steadily over the past three years. According to NBG data, credit card penetration in Georgia grew to 32% as at 31 March 2014 from 31%, 25% and 13% as at 31 December 2013, 2012 and 2011, respectively. Debit card penetration was 118%, 102%, 92% and 76% as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively.

TBC believes it has a market leading position in the credit card market in Georgia based on the outstanding number of credit cards as at 31 March 2014, when it had in issue approximately 229,000 credit cards and instalment cards (which enable clients to purchase products and pay for them in instalments). TBC offers a variety of credit cards, including both Visa and MasterCard credit cards, the significant majority of which were Visa cards at the end of the first quarter of 2014. As at 31 March 2014, TBC had GEL 82.0 million in credit card loans (with an average balance of GEL 1,011 as at 31 March 2014) and GEL 23.6 million in instalment card loans outstanding (with an average balance of GEL 672 as at 31 March 2014) (compared to GEL 75.6 million and GEL 25.4 million, respectively, as at 31 December 2013, and GEL 68.3 million and GEL 28.7 million, respectively, as at 31 December 2012). These credit card loans and instalment card loans had an average interest rate of 35.9% and 31.5% as at 31 March 2014, respectively. Credit card loans are extended solely in Lari and are unsecured.

TBC also offers VISA and MasterCard debit cards that entitle their holders to make cash withdrawals and payments with their cards in any currency. Debit card holders are also offered overdraft limits. As at 31 March 2014, TBC had in issue approximately 400,000 debit cards, with GEL 12.8 million in debit card overdrafts outstanding (compared to GEL 11.3 million and GEL 7.3 million as at 31 December 2013, and 2012, respectively).

Based on data provided by Visa and MasterCard, in the Georgian market TBC had a 14% market share in the number of Visa cards (credit and debit) issued with a 28% market share of Visa transaction volume, and a 4.5% market share in the number of MasterCard cards (credit and debit) issued with a 10% market share of MasterCard's transaction volume as at and for the year ended 31 December 2013. In 2013, TBC introduced contactless credit and debit cards, allowing cardholding clients to make payments up to GEL 45 in a much faster way than with an ordinary card. TBC is a member of VISA International and MasterCard, and is able to accept Visa and MasterCard chip cards in its ATMs and POS terminals. TBC also holds VISA and MasterCard licences for electronic commerce merchant acquiring, allowing it to accept payments online.

Products and services to affluent clients

TBC offers tailored services to its VIP clients, including preferential terms on banking products, personalised service quality and dedicated account managers. VIP clients enjoy many other benefits from TBC, including discounts, gifts and various events specifically held for VIP clients.

TBC Status is TBC's personal banking service specifically designed for TBC's Status clients. The service focuses on establishing unique, long-term business relationships with each client, which are tailored to customer needs and lifestyle. Status clients also benefit from TBC's wide range of special offerings, including shopping and event discounts.

Other retail products and services

In addition to the retail banking products and services discussed above, TBC also offers a variety of other products and services to its retail clients. Given the high dollarisation rate within the Georgian economy, foreign currency operations represent a significant revenue stream for TBC, and comprised 35.3% of TBC's non-interest income in 2013. TBC offers spot currency conversion transactions to its customers in all major currencies, offering preferential rates for the conversion of amounts equal to or exceeding U.S.$5,000. TBC also offers various payment and money transfer services, which are carried out through its branch network, ATMs and remote channels such as internet and telephone banking. TBC also offers derivative products such as forwards, swaps and other financial instruments to assist clients in managing currency risk exposure.

Corporate banking

Overview

TBC's corporate banking operations include syndicated lending, accounts and term deposits, corporate cards, foreign exchange operations (including forwards and swaps), hedging, trade and project finance products, payroll projects, escrow services, cash collection, insurance packages (through GPI Holding, a partner insurance company) and certain leasing and brokerage services.

TBC began its operations by focusing on corporate clients and has historically had a strong corporate banking segment, based on its well-developed relationships with many leading Georgian corporations which, with TBC's financial and advisory support, have grown with TBC over the years. TBC provides tailored financial solutions across all key corporate business sectors, with its clients grouped into 21 industry sectors. TBC has a particularly strong corporate banking presence in the trade and services, oil and gas, mining and energy and food and agriculture sectors.

TBC offers its corporate banking services and products from its head office in Tbilisi, as well as by assisting its customers through internet banking and a call centre located in Tbilisi. In addition, every corporate client is allocated its own qualified relationship manager, who specialises in several industry groups and is familiar with the business challenges or opportunities facing the client. These relationship managers act as financial advisers, providing dedicated customer service.

As at 31 March 2014, TBC's corporate segment had approximately 1,300 clients and accounted for 35.9% of TBC's total gross loans and 24.4% of total deposits.

Corporate accounts and term deposits

According to data published by the NBG, as at 31 March 2014 TBC was the second largest holder of deposits from legal entities (comprising deposits of corporate, SME and micro clients) in Georgia, with a market share of 23%.

TBC offers a range of current and savings accounts and term deposits to its corporate customers, as well as deposits with specifically tailored terms. Deposit products include Term Plus and Gold Deposit. For a description of Term Plus and Gold Deposit, see "*—Retail banking—Retail accounts and term deposits*".

As at 31 March 2014, TBC had a total of 3,052 corporate deposits with a value of GEL 672.2 million (compared to GEL 819.8 million, GEL 800.3 million and GEL 699.6 million, as at 31 December 2013, 2012 and 2011, respectively), comprising GEL 468.9 million in corporate current and savings accounts (on demand) and GEL 203.3 million of corporate term deposits, having terms generally ranging from three months to 24 months. As at 31 March 2014, TBC's average annual interest rate for corporate term deposits was 7.1%. As at the same date, 61.0% of TBC's total corporate deposits were denominated in currencies other than Lari. As at 31 March 2014, 95% of TBC's total corporate non-cash transactions were conducted through remote channels.

Corporate on demand and savings accounts represent an important source of funding for TBC as they are a less expensive source of funding than term deposits. Corporate on demand accounts typically bear interest at lower rates than do term deposits.

Corporate lending

According to data published by the NBG, as at 31 March 2014, TBC Bank was the second largest bank in Georgia in terms of loans to legal entities (including corporate, SME and micro clients), with a market share of 25.3%.

TBC offers a wide range of different types of loans and credit lines to its corporate clients, including balance sheet finance, syndicated loans, trade finance, overdrafts, short- to medium- term loans to finance working capital, medium- to long-term project finance loans, acquisition finance loans and energy efficiency loans (such as "energocredit" loans which are supported by the EBRD and are specifically designed to promote energy efficient investment by companies), as well as other customised financing packages.

As at 31 March 2014, TBC had a total number of 679 loans outstanding to corporate customers, with a total value of GEL 1,049.8 million as at 31 March 2014 (compared to GEL 1,157.3 million, GEL 1,142.1 million and GEL 1,003.8 million, as at 31 December 2013, 2012 and 2011, respectively). As at the same date, 91.9% of TBC's loans to corporate clients were collateralised, out of which 64.9% were secured by real estate, 19.3% by inventory and equipment, 4.6% by cash deposits and 3.1% by other types of security (see "*Lending Policies and Procedures—Collateral Policies*"). As at 31 March 2014, TBC's average annual interest rates for loans to corporate clients was 10.9%. As at 31 March 2014, 75% of TBC's total loans to corporate customers were denominated in currencies other than Lari, and the largest single loan to one client, as a percentage of total value of gross loans, stood at 1.6%.

TBC's corporate loan portfolio is diversified with oil and gas, mining and energy constituting the biggest sector exposure, amounting to 25.1% of the total value of TBC Bank's corporate loan portfolio as at 31 March 2014. The following table sets out the breakdown of TBC Bank's gross corporate loan portfolio by sector, as at 31 March 2014 and 31 December 2013, 2012 and 2011.

	Percentage of the total value of TBC Bank's gross retail loan portfolio			
	As at 31 March	As at 31 December		
Type of Product	2014	2013	2012	2011
		(%)		
Trade and services	24%	24%	23%	24%
Oil and gas	11%	10%	12%	11%
Energy	10%	9%	7%	9%
Consumer goods and automobile trading	9%	7%	9%	10%
Real estate	9%	8%	11%	12%
Communication	7%	9%	7%	8%
Construction	6%	6%	7%	6%
Food industry	6%	10%	7%	6%
Agriculture	5%	5%	4%	2%
Transportation	5%	5%	6%	5%
Mining	5%	3%	3%	3%
Manufacturing	2%	2%	2%	—
Other	1%	2%	2%	3%
Total	**100%**	**100%**	**100%**	**100%**

Management considers corporate lending to be a lower risk operation (compared to retail lending) that also affords cross-selling opportunities. TBC intends to strengthen its position as a core bank for large corporate businesses, although as TBC also aims to increase its retail, SME and micro lending operations, Management expects the share of corporate lending in TBC's total loan portfolio to decrease.

Trade finance products

TBC began offering export/import financing operations in 1998, and currently offers a wide range of trade finance products and services to its corporate customers, including the provision of guarantees and letters of credit for both domestic and international operations, import financing, pre-export financing, documentary collections and factoring. These products and services are offered worldwide in cooperation with TBC's network of correspondent banks and international commercial banks as well as the Global

Trade Finance Programme with IFC, the ADB Trade Programme and the Trade Facilitation Programme with EBRD.

Management believes that TBC has one of the fastest growing trade finance portfolios in Georgia. As at 31 March 2014, TBC's trade finance portfolio was GEL 362.8 million and included local and international guarantees and letters of credit. As at 31 March 2014, TBC had trade finance limits from non-Georgian banks amounting to, in aggregate, GEL 298.9 million, from entities including Commerzbank, UBS, Citibank, EBRD, IFC, Eximbank and ADB.

Payroll services

TBC offers payroll services to its corporate clients. TBC's payroll clients also benefit from wide range of retail products which are offered to the corporate customer employees at a special terms and conditions. As at 31 March 2014, TBC had 5,216 active corporate payroll accounts.

Guarantees

TBC issues guarantees, import letters of credit and irrevocable commitments to extend credit at the request of its corporate customers. These guarantees include financial guarantees on behalf of customers and performance guarantees to provide compensation in the event that pre-specified contractual defaults occur. As at 31 March 2014, TBC had GEL 535.7 million in guarantees and other credit-related commitments outstanding. See Note 24 to the Unaudited Consolidated Interim Financial Statements.

Cash collection and shipment

TBC offers to its corporate customers cash collection services and delivery of cash in banknotes of particular denominations or coins. Cash collection services include cash collection and transportation services from collection points of TBC's customers engaged in retail trade to TBC's vaults.

Other corporate products and services

TBC offers a range of other products and services to its corporate clients, including factoring services and credit cards offered to corporate customers, with cash withdrawals typically limited to U.S.$15,000 in any period of 24 hours, although terms may vary depending on the particular corporate customer's financial performance. In addition, TBC offers other products and services to its corporate clients similar to those services offered retail clients, including foreign currency operations, money transfers and direct debit.

SME banking

Overview

Management considers the SME segment as core to the country's economic development with a high level of growth potential. TBC focuses on providing financial solutions to SME customers through its diversified product range and TBC is continuously developing new products and services for its SME customers. TBC also offers loan products to SME clients in Azerbaijan through TBC Kredit.

As at 31 March 2014, TBC's SME segment had approximately 48,600 clients and accounted for 13.9% of TBC's total gross loans and 15.5% of total deposits.

SME accounts and term deposits

Management believes that the banks with the largest share of the banking market for clients in the SME sector (as defined by TBC) in Georgia are Bank of Georgia, TBC and Procredit, according to publicly available reports and other information published by its competitors. Based on the information available in these reports, Management estimates that TBC had the leading market share of SME deposits in Georgia as at 31 March 2014, although there is no official data published by the NBG or other sources regarding the SME sector (as defined by TBC) on a standalone basis.

As at 31 March 2014, TBC had 40,235 SME deposits with a total value of GEL 428.0 million (compared to GEL 452 million, GEL 285.2 million and GEL 199.7 million, as at 31 December 2013, 2012 and 2011, respectively), comprising GEL 371.1 million in SME current and savings accounts (on demand) and GEL 56.9 million of SME term deposits, having terms generally ranging from three months to 24 months. As at 31 March 2014, TBC's annual interest rates for SME term deposits varied from 1% to 12.5%. As at the

same date, 51.8% of TBC's total SME deposits were denominated in currencies other than Lari. As at 31 March 2014, 82% of TBC's total SME non-cash transactions were conducted through remote channels.

As at 31 March 2014, 87.1% of the total value of SME deposits (representing 81.7% of the total number of such deposits) were held in Tbilisi, with the remainder in other regions in Georgia.

SME lending

Based on information derived from publicly available reports published by its competitors in the Georgian banking market, Management estimates that TBC had the second largest market share of loans to SME customers in Georgia as at 31 March 2014.

TBC offers a wide variety of loan products that are tailored specifically to SME businesses in order to meet the expectations of customers in this segment. These include short- to medium- term loans to finance working capital seasonal needs, sales growth, acquisitions, construction and expansion of production, as well as for other purposes.

As at 31 March 2014, TBC had a total number of 5,189 loans to SME accounts, with a total value of GEL 404.8 million (compared to GEL 392.4 million, GEL 294.2 million and GEL 236.0 million as at 31 December 2013, 2012 and 2011, respectively). As at the same date, 96.3% of TBC's loans to SME clients were collateralised, out of which 92.1% was secured by real estate, 2.3% by cash deposits and the remaining 1.8% by other types of security (see "*Lending Policies and Procedures—Collateral Policies*"). As at 31 March 2014, TBC's average annual interest rate for loans to SME clients was 12.3%. As at 31 March 2014, 83.1% of TBC's total loans to SME customers were denominated in currencies other than Lari.

TBC's SME business has a strong presence in various industries, including the services, real estate, construction, food and consumer goods and automobile trading industries. The following table sets out the breakdown of the gross SME loan portfolio of TBC Bank (on a standalone basis) by sector, as at 31 March 2014 and 31 December 2013, 2012 and 2011.

	Percentage of the total value of TBC Bank's gross SME loan portfolio[1]			
	As at 31 March	As at 31 December		
Sector	2014	2013	2012	2011
		(%)		
Trade and services	40%	41%	47%	43%
Construction and real estate	20%	19%	20%	21%
Food and agriculture	13%	14%	11%	15%
Consumer goods and automobiles	12%	12%	11%	11%
Oil and gas, mining and energy	3%	4%	2%	3%
Manufacturing	2%	2%	2%	3%
Communication and transportation	3%	2%	2%	3%
Other	7%	7%	4%	3%
Total	**100%**	**100%**	**100%**	**100%**

Note:

(1) Figures are for TBC Bank on a standalone basis. Consolidated figures are not available for TBC as a whole.

As at 31 March 2014, 60% of the total value of SME gross loans of TBC Bank (on a standalone basis) (representing 62.6% of the total number of such loans) were originated in Tbilisi, with the remainder in other regions in Georgia.

Other SME products and services

TBC undertakes various initiatives in order to strengthen its relationships with its SME clients. Together with several partner organisations (including IFC, PricewaterhouseCoopers, Ernst & Young and Asian Development Bank), TBC pioneered the launch of the first-in-Georgia SME Business Support Programme designed to help customers achieve their development goals more effectively. This programme offers seven solutions custom-tailored to client needs, including trainings, conferences, consultations, a special Online Business Platform, and multichannel banking (mobile, SMS and internet). This innovative project has received significant recognition, including by winning the Marketing Brilliance Award for the "Year's Best

Direct Marketing Campaign'' in October 2013 which recognises the most innovative marketing and public relations achievements across different industries in Georgia.

TBC also offers a variety of other products and services to its SME clients similar to those services offered corporate clients, including foreign currency operations, wire transfers, business cards, payroll services, trade finance, cash collection, money transfers and direct debit.

Micro banking

Overview

With the acquisition of 80% of the share capital of Bank Constanta in May 2011, TBC significantly expanded its micro operations. At the time of the acquisition, Bank Constanta was well-established in the micro-finance market, with branches across Georgia that supplemented TBC's network and were spread over rural areas where other banks did not have a significant presence. To improve operational efficiency and leverage synergies, in 2014 TBC launched a large-scale project intended to integrate Bank Constanta fully into TBC Bank. As a result, TBC intends to legally merge Bank Constanta into TBC Bank, and is currently in the process of integrating the main administrative functions of TBC Bank and Bank Constanta (including information technology, human resources and finance operations) to optimise staff costs and back office processes.

TBC's micro client base is primarily composed of farmers and individual entrepreneurs. Management believes that the micro finance market has significant growth potential and, accordingly, micro will, in time, grow into one of the main business segments of TBC.

As at 31 March 2014, TBC's micro segment had approximately 30,000 clients and accounted for 7.5% of TBC's total gross loans and 0.2% of total deposits.

Micro accounts and term deposits

Management believes that the banks with the largest share of the banking market for clients in the micro sector (as defined by TBC) in Georgia are TBC, Bank of Georgia and FINCA, according to publicly available reports and other information published by its competitors. Based on the information available in these reports, Management estimates that TBC had a leading market share of micro deposits in Georgia as at 31 December 2013, although there is no official data published by the NBG or other sources regarding the micro sector (as defined by TBC) on a standalone basis.

TBC offers different types of current and savings accounts and term deposits to its micro clients. As at 31 March 2014, TBC had approximately 4,100 micro customer accounts and TBC's total micro deposits amounted to GEL 4.2 million (compared to GEL 4.4 million, GEL 3.3 million and GEL 1.1 million as at 31 December 2013, 2012 and 2011, respectively), comprising GEL 1.9 million in current and savings accounts (on demand) and GEL 2.3 million of term deposits, having terms generally ranging from three months to 24 months. As at 31 March 2014, TBC's average annual interest rate for micro term deposits was 9.3%. As at the same date, 32.1% of TBC's total micro deposits were denominated in currencies other than Lari.

As at 31 March 2014, 74.2% of the total value of micro deposits (representing 54.2% of the total number of such deposits) were held in Tbilisi, with the remainder in other regions in Georgia.

Micro lending

Based on information available in the publicly available reports published by its competitors in the Georgian banking market, Management estimates that TBC had a leading market share of micro loans in Georgia as at 31 March 2014.

TBC offers specifically designed short- to medium- term loans to its micro clients, up to a maximum of U.S.$50,000 per loan. The loans are granted for various specific purposes, such as increasing working capital, purchasing fixed assets and expanding borrowers' businesses, and include the following:

- **Mini loans:** these loans are designed for micro business owners active in any field, who are in need of a small amount of cash either for business or personal purposes. The maximum loan amount is U.S.$1,700, with a maximum maturity period of 15 months.

- **Business loans:** these loans are offered to micro clients with growing businesses in need of cash to fund expansion. The maximum loan amount is U.S.$50,000, with a maximum maturity period of 60 months.
- **Agricultural loans:** these loans are offered specifically to micro clients operating in the agricultural sector. The maximum loan amount is U.S.$50,000, with a maximum maturity period of 60 months.
- **Seasonal loans:** these loans are designed for businesses operating in the tourism sector in need of cash to expand their business activities. These loans provide payment options and grace periods tailored to the particular borrower's business needs. The payment options and grace periods are determined on an individual customer basis. The maximum loan amount is U.S.$50,000, with a maximum maturity period of 60 months.

As at 31 March 2014, TBC had a total number of 29,819 loans to micro customers, with a total value of GEL 218.0 million (compared to GEL 201.3 million, GEL 145.9 million and GEL 85.0 million as at 31 December 2013, 2012 and 2011, respectively). As at the same date, 52.1% of TBC's loans to micro clients were collateralised, out of which 52% were secured by real estate and the remaining 0.1% by other types of security (see "*Lending Policies and Procedures—Collateral Policies*"). As at 31 March 2014, TBC's average annual interest rate for loans to micro clients was 23.3%. As at the same date, 43.7% of TBC's total loans to micro customers were denominated in currencies other than Lari.

The following table sets out the breakdown of TBC's gross micro lending by sector, as at 31 March 2014 and 31 December 2013, 2012 and 2011.

	Percentage of the total value of TBC Bank's gross micro loan portfolio			
	As at 31 March	As at 31 December		
Sector	2014	2013	2012	2011
		(%)		
Business	43.7%	48.1%	48.3%	52.9%
Agriculture	34.6%	31.2%	34.0%	31.3%
Mini	21.7%	20.4%	17.3%	15.3%
Other	—	0.4%	0.4%	0.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

As at 31 March 2014, 26% of the total value of micro gross loans (representing 14.8% of the total number of such loans) were originated in Tbilisi, with the remainder in other regions in Georgia.

Other micro products and services

A significant portion of the micro segment's income is generated from money transfer services. This service enables customers to send and receive money through TBC's diversified branch network. To reach as many customers as possible, if a Bank Constanta branch is not present in a specific area, Bank Constanta communicates with its clients via "consuls", which are specialised relationship management agents which act as Bank Constanta's regional ambassadors. TBC also offers a variety of other products and services to its micro clients, similar to those services offered to its other business clients, including foreign currency operations, direct debit, and cash delivery services. In 2013, TBC launched an innovative deposit product, "Inbox", which enables customers to make deposits into their term deposit account in any amount from fast payment terminals, creating a savings product for low income individuals.

Bank Constanta

Although the majority of Bank Constanta's business is with micro clients, it also has customers in the SME and retail segments. As at 31 March 2014, out of the GEL 312.0 million of total gross loans by Bank Constanta, 0.1% and 30.0% were to SME and retail customers, respectively (compared to 0.3% and 30.0%, 0.6% and 25.4%, and 1.0% and 27.5% as at 31 December 2013, 2012 and 2011, respectively).

As at 31 March 2014, out of the GEL 74.4 million of total deposits held by Bank Constanta, 10.0% and 81.8% were from SME and retail customers, respectively (compared to 8.6% and 84.9%, 8.9% and 67.3%, and 92.0% and 0.0% as at 31 December 2013, 2012 and 2011, respectively).

The following table sets out the breakdown of Bank Constanta gross micro lending by sector, as at 31 March 2014 and 31 December 2013, 2012 and 2011.

	Percentage of the total value of Bank Constanta's gross loan portfolio			
	As at 31 March	As at 31 December		
Sector	2014	2013	2012	2011
		(%)		
Business	50.7%	33.5%	35.8%	38.4%
Agriculture	24.2%	21.7%	25.2%	22.4%
Mini	20.9%	14.2%	12.8%	10.9%
Consumer	1.1%	25.9%	22.9%	24.9%
Other	3.1%	4.8%	3.3%	3.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Bancassurance

Under TBC's standard loan agreement, retail clients are required to maintain life and/or property insurance on their mortgage and consumer loans. TBC offers such insurance to customers as an intermediary in partnership with GPI Holding, a member of Vienna Insurance Group.

Since January 2014, TBC has also offered voluntary insurance products provided by GPI Holding under a bancassurance agreement. These products include payment protection insurance (PPI), motor holding insurance (*casco*), motor third party liability insurance, extended warranties, personal accident insurance, critical illness insurance and business travel insurance.

Other operations

Although the vast majority of its operations are conducted in Georgia (representing 98.3% of TBC's assets as at 31 March 2014), TBC also operates in Azerbaijan and Israel through subsidiaries, TBC Kredit and TBC Invest, respectively. Acquired in 2008, TBC Kredit is a non-banking credit organisation focused on SME and retail customers, with extensive experience in dealing with various types of loans, including SME, consumer and mortgage loans. TBC currently holds a 75.0% equity interest in TBC Kredit.

In addition to its core banking business that TBC conducts within its retail, corporate, SME and micro segments through TBC Bank, Bank Constanta and TBC Kredit, TBC also conducts some operations that it considers "non-core banking operations". These operations are typically conducted by subsidiary companies and include, inter alia, leasing and brokerage services, card processing and payment collection services, banking software support services and certain marketing efforts in Israel. These non-core banking operations generated 1.9% of TBC's profit in the three months ended 31 March 2014 (compared to 3.2%, 2.3% and 1.2% in the years ended 31 December 2013, 2012 and 2011, respectively). TBC's Treasury Department also acts as an extra-segmental corporate centre, managing intra-segment adjustments to net interest income across all segments and recognising gains and losses from liquidity, interest rate and market risk management.

TBC Invest is a wholly-owned subsidiary established by TBC Bank in 2011 to act as an intermediary, providing Israeli clients with information and access to the Georgian banking system. It offers information to individuals (primarily Georgian emigrants) and companies (mostly Israeli businessman connected with Georgia and family offices) in Israel regarding TBC's products and services, fees and interest rates.

In addition, TBC offers leasing services in Georgia through TBC Leasing, its majority-owned subsidiary (together with ERBD). TBC Leasing was established in 2004 and as at 31 March 2014 had a 64.6% market share of the leasing market (based on Management estimates). TBC offers finance leasing, leaseback, residual leases, and service leases, under which TBC Leasing purchases a specified asset (such as machinery or equipment) and leases it to the customer for a term ranging from 24 to 60 months, following which ownership of the asset is either turned over to the customer or held by TBC Leasing. Leasing arrangements are primarily entered into with customers in the construction, medical, agriculture, transportation and service sectors. TBC Leasing's diversified customer base provides TBC with significant cross-selling opportunities and growth potential.

TBC also offers its customers in Georgia a variety of products and brokerage services through TBC Broker, a wholly-owned subsidiary of TBC Bank. TBC's subsidiaries JSC United Financial Corporation

and TBC Pay LLC are involved in processing payment cards and supplying payments collection services to providers of self-service machines and POS, WAP and Windows terminals. Another subsidiary, JSC Real Estate Management Fund, manages property repossessed by TBC for future sale and Banking Systems Service Company (BSSC) LLC provides technical services and software support to the electronic banking systems (such as POS and cash machines).

Distribution network

TBC has developed a leading sophisticated multichannel distribution platform that allows it to service its customers through a combination of a brick-and-mortar branch network and a variety of award-winning remote channels. These remote channels include technologically state-of-the-art options (such as internet and mobile phone banking) as well as more traditional options (such as ATMs, cash-in terminals and a call centre).

Branch network

As at 31 March 2014, TBC Bank's branch network comprised 59 branches of TBC Bank (each of which employs an average of 24 staff and has a surface area of approximately 540 square metres), and 57 branches of Bank Constanta (each of which employs an average of 17 staff and has a surface area of approximately 270 square metres), consisting of service centres, full branches and micro outlets. TBC Bank has 59 branches located in Tbilisi and 21 in other parts of Georgia. The branches of the former Bank Constanta are mostly located in rural areas of Georgia where TBC previously did not have a branch presence.

TBC Bank's branches are highly standardised, with the aim of delivering a superior customer experience in line with, and enhancing, TBC's brand. As part of TBC's strategy to fully integrate Bank Constanta fully into TBC Bank and following Bank Constanta's anticipated legal merger into TBC Bank, TBC plans to rebrand all existing Bank Constanta branches under a TBC brand and upgrade the suite of products offered at those branches at an anticipated expense of between GEL 25,000 and GEL 100,000 per branch (depending on branch size and other factors), which is expected to significantly increase the geographic scope of TBC's retail banking offerings. In the years ended 31 December 2011, 2012 and 2013 and the three months ended 31 March 2014, TBC opened a total of 39 new branches and incurred total expenses of GEL 8.9 million in connection with its branch network expansion.

Remote access channels

TBC has also developed significant electronic remote access capabilities, such as internet banking and mobile phone banking (including via SMS and smartphone banking applications). As at 31 March 2014, TBC had approximately 230,000 internet and mobile phone banking customers, representing 23% of TBC's total customers, including 123,000 "active" internet banking users (who utilised TBC's internet/mobile banking services during the three previous months) and 28,000 "active" mobile phone banking users. The importance of remote access channels for TBC's operations is significant. In the three months ended 31 March 2014, 90% of TBC's non-cash transactions were conducted through remote channels, compared to 86% in the year ended 31 December 2013, 79% in 2012 and 75% in 2011. In the year ended 31 December 2013, 87%, 81% and 83% of TBC's retail, corporate, and SME non-cash transactions, respectively, were conducted through remote channels. In the year ended 31 December 2013, 32%, 21%, 19%, 15% and 13% of the total number of TBC Bank's transactions were conducted through ATMs, POS terminals, internet banking, branches, and cash-in terminals, respectively.

In addition, as at 31 March 2014, TBC operated a network of 316 ATMs (262 by TBC Bank and 54 by Bank Constanta), 2,836 POS terminals (1,600 of which have contactless payment capabilities), 2,608 cash-in terminals, located within TBC's branches, at shopping centres, supermarkets and other locations throughout Georgia. Cash-in terminals allow clients to perform various transactions remotely: clients can pay loans, utility bills, car parking fees and parking fines, mobile and internet bills through these terminals. TBC has recently introduced payments by cards through these terminals.

TBC also offers its clients a customer call centre in Tbilisi through which transactions between customer accounts and interbank transfers up to GEL 5,000 can be conducted, in addition to typical call centre client services. As at 31 March 2014 TBC's call centre employed approximately 95 staff.

Competition

As at 31 March 2014, there were 21 commercial banks registered in Georgia, all of which have general banking licences issued by the NBG enabling them to perform banking transactions. The banking system is entirely privately owned and relatively concentrated, with the two largest banks, Bank of Georgia and TBC, controlling approximately 60% of both loans and deposits, nearly six times more than that of the next largest bank. According to information published by the NBG, as at 31 March 2014, the aggregate assets of all banks in Georgia were approximately GEL 17.6 billion, with the five largest banks accounting for approximately 78.5% of such assets.

The following tables set out information on the loans and deposits of the five largest banks in Georgia as at 31 March 2014. This information is derived from data published by the NBG, which was compiled from standalone financial information filed with the NBG by Georgian banks.

	As at 31 March 2014					
	Loans to individuals		Loans to legal entities		Total loans	
	(GEL billions)	(% of total)	(GEL billions)	(% of total)	(GEL billions)	(% of total)
Bank of Georgia	1,431	28.4%	1,981	34.6%	3,412	31.7%
TBC Bank/Bank Constanta	1,396	27.7%	1,449	25.3%	2,845	26.4%
Procredit	177	3.5%	544	9.5%	722	6.7%
Liberty Bank	649	12.9%	69	1.2%	718	6.7%
Republic	442	8.8%	259	4.5%	701	6.5%
Other banks	938	18.6%	1,429	24.9%	2,368	22.0%
Total	**5,035**	**100.0%**	**5,731**	**100.0%**	**10,766**	**100.0%**

Source: NBG

	As at 31 March 2014					
	Deposits of individuals		Deposits of legal entities		Total deposits	
	(GEL billions)	(% of total)	(GEL billions)	(% of total)	(GEL billions)	(% of total)
Bank of Georgia	1,485	30.1%	1,435	30.4%	2,921	30.2%
TBC Bank/Bank Constanta	1,628	33.0%	1,088	23.0%	2,716	28.1%
Procredit	579	11.7%	622	13.2%	1,201	12.4%
Republic	385	7.8%	167	3.5%	552	5.7%
Liberty Bank	232	4.7%	273	5.8%	504	5.2%
Other banks	630	12.7%	1,139	24.1%	1,769	18.3%
Total	**4,939**	**100.0%**	**4,724**	**100.0%**	**9,662**	**100.0%**

Source: NBG

As at 31 March 2014, TBC Bank was the largest bank in Georgia based on deposits of individuals and the second largest bank in Georgia based on deposits of legal entities, loans to individuals, loans to legal entities and total assets. According to data published by the NBG (based on standalone financial information filed with the NBG by Georgian banks), TBC's market shares of loans to individuals and loans to legal entities were 27.7% and 25.3%, respectively, as at 31 March 2014, compared to 27.7% and 26.9%, respectively, as at 31 December 2013, 27.9% and 28.5%, respectively, as at 31 December 2012 and 27.4% and 27.5%, respectively, as at 31 December 2011. TBC's market shares of deposits of individuals and deposits of legal entities were 33.0% and 23.0%, respectively, as at 31 March 2014, compared to 33.1% and 26.0%, respectively, as at 31 December 2013, 36.1% and 28.3%, respectively, as at 31 December 2012 and 34.6% and 24.9%, respectively, as at 31 December 2011.

TBC considers its principal competitors to be domestic banks such as Bank of Georgia and Liberty Bank, and subsidiaries of foreign banks, such as ProCredit Bank, Bank Republic and VTB. The number of major competitors in the Georgian banking market has remained relatively stable recently, with TBC and Bank of Georgia maintaining their positions as the two largest banks by most measures and holding their overall market share, despite recent gains in market share by other banks vis-à-vis one another and the entry of subsidiaries of foreign credit institutions into the Georgian banking market. See "*Risk Factors—Risks Relating to TBC's Business—TBC faces significant competition, which may increase in the future and have an adverse impact on its business*" and "*Banking Sector and Banking Regulation in Georgia—Commercial Banks in Georgia*".

Properties

TBC owns 2,623 square metres of land, on which its head office, located at 7 Marjanishvili Street in Tbilisi and consisting of 6,729 square metres, is built. The land and the building had a combined carrying value of GEL 29.6 million as at 31 December 2013. This building comprises of a branch of TBC Bank, a significant part of TBC's back office departments, the headquarters of TBC Brokerage and TBC Gallery, which is frequently used for art exhibitions. TBC also owns a 1,548 square metre office building at 5 Politkovskaia Street in Tbilisi (which had a carrying value of GEL 2.7 million as at 31 December 2013), where some of its back office functions are located.

In 2012 TBC purchased 43,019 square metres of land and office building located at 2 University Street in Tbilisi for an aggregate purchase price of GEL 11.1 million. This property had a carrying value of GEL 26.2 million as at 31 December 2013. TBC plans to move its head office to the new building following the completion of renovations in 2017. As at 31 December 2013, TBC had incurred approximately GEL 14.7 million in expenditures in connection with the purchase, renovation and other expenses. TBC also rents the head office of Bank Constanta located at 117 Tsereteli Avenue in Tbilisi, and the head office of TBC Kredit located at 33, 28 May Street, Baku, Azerbaijan.

TBC's branch network consists of 59 branches of TBC Bank and 57 branches of Bank Constanta in Georgia and five branches of TBC Kredit in Azerbaijan, out of which 49 are owned and 70 are leased. TBC also rents the premises of a data centre in Georgia.

As at 31 December 2013, the total net book value of the real estate and land owned by TBC was GEL 238 million, not including properties comprising repossessed collateral acquired by TBC in settlement of overdue loans, other than those classified as investment property.

Information Systems

Customer service systems

All of TBC's IT solutions are centralised, focused on customer needs and highly customised to TBC's business requirements. TBC invests heavily in the further development of its IT capabilities. Beginning in 2011, TBC initiated an IT transformation programme (the "**IT Transformation**") intended to improve the customer experience, better manage customer relationships and improve product and service capabilities (including fast time to market) as well as increase operational efficiency and level of straight-through processing.

The first step of the IT Transformation was the implementation in 2011 of a multichannel project to provide extensive remote access banking services to TBC's customers, followed in 2012 by the launch of the first ever Georgian banking applications for iPhone and Android mobile devices and for PDA devices. This project is based on a state-of-the-art platform provided by the Czech vendor BSC. It is based on an Oracle database and IBM Websphere application server, ensuring a high level of scalability and system reliability.

In 2012, TBC began the Oracle Siebel CRM implementation project to further enhance the customer experience and increase sales performance by improving cross-selling and up-selling capabilities. The project is expected to be implemented in multiple phases, beginning with a sales force automation and performance analytics, followed by service and call centre automation and finally by the addition of advanced analytics, segmentation and marketing capabilities.

TBC is also focused on the development of services supporting branch operations and the development of its distribution channels, including ATMs and kiosk devices.

Other operational systems

TBC's banking operations in Georgia use the local Georgian core banking system (used by 12 other banks in Georgia), heavily complemented by in-house developed solutions. The integration of the IT operations of TBC Bank and those of Bank Constanta is currently underway to realise cost and operational efficiencies.

One of the key next steps of the IT Transformation is the core banking system transformation project to replace existing systems with new systems in order to increase standardisation and homogeneity to accommodate future business demands. Management believes that the new systems will enable TBC to improve its ability to more quickly and efficiently introduce new products and services in response to

market demand. The vendor selection process is currently underway with the aim to launch the project in 2014/2015. Following the core banking system transformation, TBC expects to have a robust platform based on a modern international package solution, thus reducing operational risk and dependency on local vendors with sub-optimal delivery capabilities.

TBC has already introduced the TIBCO BusinessWorks, Enterprise Service Bus middleware system, for the enterprise-wide integration of different software solutions to enable platform independent connectivity between various systems. Initially deployed to integrate the Oracle Siebel CRM with the existing core banking system, in the future the middleware is expected to become the integration hub for all software.

TBC also utilises Qlickview business intelligence tools to aggregate, analyse and distribute sales, operational and financial information to different business users. These tools are based on ultramodern in-memory database technology and allow users to quickly analyse large amounts of data and trend information to make informed business decisions.

Information security and data management

TBC initiated an information security improvement programme in 2011 which included a complete overhaul of ICT infrastructure and the establishment of risk management processes compliant with the ISO 27001 information security management system standard. As a result, TBC has in place a business continuity planning process intended to minimise data loss risks. TBC has introduced strategies for data management and data storage that accommodate international standards. All services which TBC considers to be critical are replicated in two separate data centres and additional backups are moved to a third location on a monthly basis. TBC also has systems to prevent intrusion and other types of intervention or information leakage. Information security risk management processes have been established to assure continuous improvement of practices and to address emerging risks in the future. In addition, an information security awareness programme was conducted for TBC Bank and its subsidiaries to provide employees with awareness training in relation to information security risks and policies. An international information security auditor performs information security risk assessments of TBC's information technology systems on an annual basis. TBC has a catalogue of Mission Critical Services and appropriate fail-over procedures. These procedures are updated and tested on a regular basis, at least twice a year.

Employees and Training

The following table sets out the number of TBC's employees, as at the dates indicated:

	As at 31 March 2014	As at 31 December		
		2013	2012	2011
TBC Bank				
Head office	1,363	1,384	1,236	1,174
Branches (including call centre)	1,524	1,522	1,654	1,479
Total	**2,887**	**2,906**	**2,890**	**2,653**
Bank Constanta				
Head office	302	294	229	152
Branches (including call centre)	933	962	753	401
Total	**1,235**	**1,256**	**982**	**553**
Other	323	309	265	211
Total	**4,445**	**4,471**	**4,137**	**3,417**

As at 31 March 2014, TBC had 4,445 employees, of whom 98.0% worked full time. As at the same date, 4,350 of its employees (or 97.9% of the total) were based in Georgia. TBC Bank is the largest employer within TBC, with 2,887 employees as at 31 March 2014.

Management believes that TBC's employee turnover rate (approximately 0.67% per month in 2013) is low compared to other companies in Georgia due to TBC's competitive compensation and benefits policies, career development opportunities and its strategy of internal promotions.

TBC provides its employees with competitive pension and health insurance benefits. TBC's contributions to these benefit programmes vary according to the employees' position and salary level. Participation in the

pension scheme is voluntary, and TBC's monthly contributions to the pension programme are relatively minimal (less than GEL 25 per month per employee). TBC's contribution obligations under the pension scheme terminate with an individual's employment, with no contribution obligations to that employee thereafter. TBC does not have any pension liabilities towards its employees.

TBC's employment strategy is to attract and retain skilled and well-trained employees at all levels. Its human resource management system is supported by a tailored IT system to manage personnel through recruitment, career planning, training, and performance evaluations. TBC provides mandatory training programmes on all key skills, including customer services, negotiation skills, conflict resolution, time management, business communication, team building and banking products. It has also implemented performance management systems with quantitative targets at the front office and goal-driven targets at the back office. Based on the results of performance evaluations, financial incentives are determined for the top performing employees.

Intellectual Property

TBC has registered several trade marks and logos, including those belonging to TBC Bank, Bank Constanta and TBC Kredit. In addition, TBC has registered multiple domain names in Georgia and elsewhere. A number of software licenses granted to TBC also comprise a part of TBC's intellectual property. Other than trademarks and logos, Management does not consider any of its intellectual property assets to be material to its business.

Legal Proceedings

From time to time and in the normal course of business, TBC is subject to legal actions and complaints.

TBC Bank is currently involved in legal proceedings with Murtaz Khurtsilava International Football School, Champion 2004, Ltd. ("**Murtaz**") before the Tbilisi City Court regarding TBC Bank's collection of a defaulted loan to Murtaz and the foreclosure on and sale of collateral used by Murtaz to secure the loan. The claim is for a total amount of U.S.$10 million. On 24 January 2014, the case was decided in TBC Bank's favour and was appealed by Murtaz. The appeal is currently pending. Management believes the suit is without merit and is vigorously defending it.

TBC Bank is also currently involved in legal proceedings initiated by China Chengdu Import & Export Group Co., Ltd in the Sichuan Province Higher People's Court in China regarding termination of a payment under a counter guarantee issued by a Chinese commercial bank in favour of TBC Bank. The total value of these claims is approximately U.S.$10 million, GEL 16.9 million (U.S.$9.7 million) of which TBC recognized as gross value of receivables as at 31 March 2014, out of which GEL 6.1 million (U.S.$3.5 million) had been provided for at the same date. If the claims are not decided in TBC's favour, it may result in TBC recording an additional provision expense for the remaining U.S.$6.2 million. The cases are currently pending. Management believes the suits are without merit and is vigorously defending them.

TBC Bank is also currently involved in four legal proceedings with the insolvent hypermarket chain Goodwill LLC ("**Goodwill**") and its founding partner Giorgi Shevardnadze before the Tbilisi City Court. TBC Bank's claim against Mr. Shevardnadze (in the amount of U.S.$1.05 million) relates to the collection of defaulted loans to Goodwill and the insolvent food producer Marshe LLC ("**Marshe**") based on a surety agreement entered into by Mr. Shevardnadze. At the same time Mr. Shevardnadze brought a claim against TBC Bank for invalidation of his surety and related pledge agreement. Goodwill has also filed a U.S.$23.8 million claim against TBC Bank for alleged damages incurred by Goodwill and other creditors of Marshe as a result of TBC Bank's enforcement actions relating to Marshe's assets and has obtained a court injunction prohibiting TBC Bank from disposing of assets previously transferred to TBC Bank in connection with the enforcement of the pledge agreement. Management believes that suits of Goodwill and Mr. Shevardnadze are without merit and is vigorously defending them.

On 17 March 2014, a claim was filed in the Tbilisi City Court by the non-entrepreneurial (non-commercial) Legal Entity Fund Constanta (the "**Fund**") against TBC Bank and the board members of the Fund relating to the sale by the Fund of its shares in Bank Constanta (which currently comprise 38.8% of Bank Constanta's total share capital) (the "**Disputed Shares**") to TBC Bank in May 2011. In the claim, the Fund, which is effectively controlled by two individuals, one of whom also serves as Bank Constanta's Supervisory Board Chairman and one who has served as Bank Constanta's CEO but who left Bank Constanta as of 1 June 2014, alleged a breach of duty of the named board members by taking action in excess of their authority in agreeing to the sale of the Disputed Shares to TBC Bank and that the sale price did not reflect

the actual price of Bank Constanta shares at the time, and requested that the court annul the sale. At the request of the Fund, the Tbilisi City Court issued a preliminary injunction on 18 March 2014 preventing the transfer or encumbrance of the Disputed Shares. On 26 March 2014, TBC Bank filed an appeal requesting that the injunction be lifted pending the resolution of the case. Unless the court removes the injunction, TBC Bank may be unable to proceed with the legal merger of Bank Constanta into TBC Bank until the claim is resolved, which may take up to 18 months. On 11 April 2014, the Tbilisi City Court issued a second preliminary injunction preventing TBC's planned merger of Bank Constanta into TBC Bank. Management believes that this claim is without merit and is contesting the substance. Although TBC is currently in discussions with the Fund to settle the claim, if the claim is decided in favour of the Fund, TBC Bank would likely be required to return the Disputed Shares to the Fund for the value of the original sale price as determined by the court (which TBC believes is likely to be less than the current market value of the Disputed Shares).

If TBC were required by the Georgian courts to return the Disputed Shares to the Fund, TBC Bank's current shareholding of 99.6% of Bank Constanta's shares would decrease to 60.8%, although TBC would continue to control Bank Constanta. See "*Risk Factors—Risks Relating to TBC's Business—TBC may not be able to successfully integrate the operations of Bank Constanta into TBC Bank*". Because it is a subsidiary of TBC Bank, four of the five members of Bank Constanta's Supervisory Board are TBC Bank representatives and Bank Constanta's operations are effectively managed and controlled at the TBC group level. As a result, Management does not expect the relationship of Bank Constanta's Supervisory Board Chairman and CEO with the Fund or their initiation of the claim against TBC Bank over the Disputed Shares to have any significant impact on TBC's ability to continue to control the operations and management of Bank Constanta pending a resolution of the claim.

Except as disclosed in the preceding paragraphs, there are no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which TBC is aware) involving TBC Bank or any of its subsidiaries that may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of TBC.

LENDING POLICIES AND PROCEDURES

Lending Policies

TBC lends to retail, corporate, SME and micro clients, providing loans, credit lines, overdrafts, credit cards, letters of credit and guarantees. TBC's credit policies establish a framework for lending decisions reflecting TBC's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels (including approval authority for policy exceptions), counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

TBC divides its credit portfolio into four segments in order to manage it more effectively: retail, corporate, SME and micro. The credit portfolio of each segment is governed by the rules set out in the corresponding policies and procedures, which have been approved by the Supervisory Board or the Management Board.

Retail loans

The loan approval procedures for retail loans depend on the type of credit facility sought. Different processes are in place for the processing of: (i) mortgage, consumer and auto loans; and (ii) POS loans and credit cards, which are unsecured loans up to a maximum principal amount of GEL 15,000. Applications for retail loans other than POS loans originate in TBC's branches. Because web applications are becoming increasingly popular, TBC also plans to leverage its strength in e-channels by increasing retail loan sales via internet banking in 2014.

For mortgage, consumer and auto loans, the application and approval process involves a client interview conducted by a branch loan officer to obtain information relating to: the intended purpose of the loan, the borrower's income, repayment capacity and credit history and collateral offered for the loan. Checks are then conducted on TBC Bank's internal database, as well as external databases (including that maintained by JSC Credit Information Georgia ("**CIG**")) in relation to the potential borrower's financial position and credit history. If the borrower is not a "payroll" client of TBC (whose income is deposited directly into their TBC accounts), the potential borrower's income is verified with his or her employer during a on-site visit. In general, the collateral for the loan is appraised by an internal appraiser (or, if the borrower is related or connected with TBC, an independent external appraiser). Following the conclusion of the initial review, the loan officer prepares a presentation for approval by the retail Loan Approval Committee with the appropriate approval level. In 2012, TBC Bank (together with Experian) developed an application scorecard model for consumer loans and a behavioural scorecard model for all types of retail loans, allowing TBC to automatically approve certain loan applications meeting predefined cut off scores. In 2014, these models will be utilised in the loan application approval process, in the cardholder limit management process and in connection with loan preapprovals for existing borrowers. See "*—Loan Classification and Provisioning Policy—Grading policies*".

Loan Approval Committees are responsible for reviewing mortgage, consumer and automobile loan applications and approving credit products. Each Loan Approval Committee operates from TBC's head office and consists of at least two persons with sufficient credit experience. TBC classifies its Loan Approval Committees under various "approval levels" according to the title and function of the individual committee members. Based on its approval level, a Loan Approval Committee is subject to specified limits as to the risk level of the customer that it may approve for a loan. In the case of retail loans, these limits are determined by the loan's classification as either a "standard" or "nonstandard" loan. For these purposes, a "nonstandard" loan is defined as a Restructured Loan or a loan whose application does not satisfy certain underwriting criteria.

Credit card applications are originated in TBC's branches by sales consultants or loan officers, as well as via internet banking and call centres. POS loan applications are originated by merchants acting as TBC's agents or TBC staff located at the merchant. POS loan preapproval web applications are also in place. Credit cards and POS loans are processed using software to access internal and external databases. This software, implemented in 2007, was developed for TBC by Creditinfo Solutions. This software is also used for assessing mortgage, consumer and auto loans. The software automatically takes information from all relevant databases and applies pre-defined approval strategies for different products. TBC's credit scoring models, which were developed with external consultants (Shorebank Advisory Services and FICO), have been used in the loan approval process since 2008 for POS loans and 2012 for credit cards. Scoring is applied once the borrower meets the minimum requirements for the product, such as age, minimum

income, and similar criteria. Automated approval decisions are subject to risk determined cut-offs, and certain applications undergo a manual review process by a designated group in the Centralised Operations Processing Department. Credit bureau grading is extensively used in the credit card and POS loan decision making process.

In 2005, TBC Bank jointly with other Georgian banks and with Creditinfo Group, a provider of credit information solutions, established CIG to serve as a centralised credit bureau in Georgia, with which Georgian banks and micro-finance institutions share customer information. Most Georgian banks have shared negative customer credit information with CIG since 2005, and positive customer credit information since 2007. In 2011, Creditinfo Group developed a customer rating system based on the accumulated statistical data.

Corporate loans

TBC evaluates corporate banking customers on the basis of several factors, including their business operations and development milestones, financial standing, market position and industry, corporate governance and ownership structure, strategy and development plan and credit history. TBC also thoroughly evaluates the loan purposes (including the scope of the project that the loan is intended to finance) and loan repayment sources, as well as the quality of the collateral offered to secure the loan.

Applications for corporate loans are initially submitted to the Corporate Customers Department at TBC's head office and are analysed by a credit analyst and a banker specialising in one or more industry segments and thus aware of current industry trends and developments. The analyst is responsible for gathering sufficient information in order to assess the borrower's risk profile, structure the credit and determine the type of credit facility that best meets the applicant's needs. A thorough analysis of each credit application is conducted, including the review of information relating to the potential borrower, its owners and management, its related and connected parties, its financial statements, the amount and purpose of the loan and the collateral offered, which is appraised by an internal appraiser (or, if the borrower is related or connected with TBC, an independent external appraiser), and on-site visits to assess the customer's business operations. In order to encourage consistency, TBC uses standardised spreadsheet-based systems to conduct this analysis. Based on the gathered data, the analyst structures the loan and assigns a grade. See *"—Loan Classification and Provisioning Policy—Grading policies"*. The objective of the analysis is to structure the credit facility and, to the maximum extent possible, limit all critical risks related to the borrower and the financing of the project, and to define the primary and secondary sources for the repayment of the credit. In the event that the credit analyst determines that the potential borrower is eligible for a loan, he or she will prepare a presentation containing certain key information in relation to the potential borrower and loan for the relevant Loan Approval Committee. Corporate loans for amounts greater than GEL 2 million are also reviewed by the Corporate Credit Risk Management Department prior to presentation to the relevant Loan Approval Committee. A credit risk manager ensures that the analysis provided by the credit analyst is complete, all risks and mitigating factors are identified and adequately addressed and the loan is properly structured.

Loan Approval Committees for corporate loans are classified under approval levels that are subject to specified limits as to the risk level of customers that may be approved for a loan. For corporate, these limits are determined based on a customer's total direct and related liabilities, including (i) loans and other credit facilities disbursed to other borrowers under the customer's guarantee and (ii) loans and other credit facilities that have the same repayment source or collateral as the given loan. The approval level for corporate borrowers is determined by the risk level of the customer defined as "standard", "watch" and "substandard" according to NBG classification categories. For example, a low risk corporate loan of less than GEL 2 million (or GEL 1 million to a new client) would be reviewed by a Loan Approval Committee with a low approval level consisting of a deputy corporate business director and the head of the Corporate Credit Risk Department. By contrast, a large or higher risk corporate loan would be reviewed by a Loan Approval Committee with a higher approval level, such as one including the CEO, Corporate Business Director and Chief Risk Officer. A corporate loan to a "large borrower" (a borrower with exposure to more than 5% of TBC Bank's Basel capital) would require the review and approval of the Risk, Ethics and Compliance Committee.

SME loans

TBC evaluates SME banking customers on the basis of several factors, including the purpose of the proposed loan and source of repayment, the risk profile of the borrower, the borrower's repayment history

and current capacity to repay, terms and conditions of the proposed credit and, where applicable, the quality of the collateral offered to secure the loan.

SME applications are submitted in the branches. A loan officer is responsible for gathering and reviewing preliminary information and determining the type of credit facility that best meets the applicant's needs. As in the case of corporate loans, a thorough analysis of each credit application is conducted, including the review of information relating to the potential borrower, its owners and management, its connected and related parties, its financial statements, the amount and purpose of the loan and the collateral offered, which is appraised by an internal appraiser (or, if the borrower is related or connected with TBC, an independent external appraiser), and on-site visits to assess the customer's business operations. If the borrower's total liabilities, including the proposed loan from TBC, exceed GEL 100,000, the loan officer assigns a grade to the borrower. See "*—Loan Classification and Provisioning Policy—Grading policies*".

In the event that the loan officer determines that the potential borrower is eligible for a loan, he or she will prepare a presentation containing certain key information in relation to the potential borrower and loan for the relevant Loan Approval Committee. SME loans are reviewed by the originating branch's internal committee to ensure completeness of the loan application documents and the loan officer's analysis prior to submission to the corresponding Loan Approval Committee.

As in the case of corporate loans, Loan Approval Committees for SME loans are classified under approval levels that are subject to specified limits as to the risk level of customers that may be approved for a loan. These limits are determined based on a customer's total direct and related liabilities, including (i) loans disbursed to other borrowers under the customer's guarantee and (ii) loans that have the same repayment source or collateral as the given loan. In the event that all members of the relevant Loan Approval Committee agree unanimously, the loan is approved. If not, the application will either be referred to a Loan Approval Committee with a higher approval level at the request of the relevant loan officer or be rejected.

Micro loans

Credit applications for micro loans originate in Bank Constanta's branches. Loan officers are responsible for gathering the relevant information from the borrower and preparing a loan report, with collateral appraised by Bank Constanta's internal appraisers. Depending on the size of the loan, the loan approval decision is made by at least two people either locally in the originating branch or in a centralised credit committee at Bank Constanta's head office. Branches have different decision making limits based on the experience of the individuals involved in the loan approval process. The maximum loan amount that may be approved at the branch level is U.S.$7,000.

Following and in connection with the anticipated legal merger of TBC Bank and Bank Constanta, TBC Bank intends to integrate Bank Constanta's systems and personnel and assume all micro credit department responsibilities currently performed by Bank Constanta.

Loans to related parties

Loans to related parties of TBC (as defined under TBC's internal policies) are processed according to TBC's standard credit policies. Loans to related parties are approved by the Supervisory Board. The Supervisory Board has delegated to the Management Board approval authority for loans of amounts less than U.S.$100,000.

TBC's Risk Appetite Statement sets limits for single and aggregated exposure to related parties. These limits are calculated by reference to the following ratios:

- a related party exposure ratio of not more than 5% to any one related party (other than a Financial Subsidiary), calculated as (i) the aggregate of on- and off-balance sheet liabilities of that related party to TBC Bank, divided by (ii) total regulatory capital required by the NBG; and
- a related party exposure ratio of not more than 15% to all related parties (other than Financial Subsidiaries) on an aggregate basis, calculated as (i) the aggregate of on-balance sheet and off-balance sheet liabilities of all such related parties to TBC Bank, divided by (ii) total capital (calculated in accordance with Basel I requirements).

For these purposes, "Financial Subsidiary" means any subsidiary of TBC Bank involved in the financial services industry (including banking, leasing, consumer credit and insurance) and of which TBC Bank holds at least 75% of its share capital.

Historically, TBC's credit exposure to related parties (as defined under IFRS) has been very small, amounting to 0.19% of TBC's gross credit portfolio as at 31 March 2014, compared to 0.38%, 1.19% and 1.10% as at 31 December 2013, 2012 and 2011, respectively. Collateral for loans to related parties is appraised by external independent appraisers and subject to coverage ratios of at least 110%.

Collateral Policies

TBC requires collateral from most of its retail, corporate, SME and micro borrowers. Collateral on loans extended by TBC may include, but is not limited to, real estate, vehicles, equipment, inventory, receivables, cash deposits, securities and third party guarantees. The value of collateral accepted against a loan depends on the type of collateral, on the type of credit product and on the credit risk of the borrower.

TBC's loan portfolio has historically been well-secured. As at 31 March 2014, 85.8% of TBC's loan portfolio was secured, compared to 85.7%, 81.9% and 82.8% as at 31 December 2013, 2012 and 31 December 2011, respectively. The following table sets out certain information relating to the collateralisation of TBC's gross loan portfolio, as at the dates indicated:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
	(% of gross loans)			
Real estate	62.4%	60.3%	58.9%	59.4%
Inventory and equipment	14.9%	15.6%	14.0%	15.5%
Cash deposits	3.1%	5.0%	3.8%	4.1%
Jewellery	3.9%	3.5%	3.4%	2.7%
Other assets	1.4%	1.3%	1.8%	1.1%
Total secured	**85.8%**	**85.7%**	**81.9%**	**82.8%**
Unsecured loans	**14.2%**	**14.3%**	**18.1%**	**17.2%**

Unsecured loans include unsecured loans and the unsecured portion of partially-secured loans (so-called "under-collateralised assets"). The value of the collateral used to secure loans in TBC's portfolio can vary over time, and in certain cases may be lower than the carrying value of an asset. See "*Risk Factors—Risks Relating to TBC's Business—Collateral values may decline, which could adversely affect TBC's asset quality*" and Note 9 to the Audited Consolidated Financial Statements and Note 9 to the Unaudited Consolidated Interim Financial Statements. As at 31 March 2014, GEL 254.4 million (8.7%) of the total gross loan portfolio was under-collateralised, compared to GEL 404.5 million (13.7% of total gross loans), GEL 331.9 million (13.1% of total gross loans) and GEL 144.8 million (6.7% of total gross loans) as at 31 December 2013, 2012 and 2011, respectively.

Collateral provided in respect of loans is appraised, in accordance with TBC's internal policies, by TBC's Internal Appraisal Group (other than loans to related parties, for which external appraisers are used). The Internal Appraisal Group is independent from the loan granting process in order to ensure that adequate appraisals are obtained and proper appraisal procedures are followed.

Loan officers and appraisers inspect proposed collateral for new loans in order to determine whether it is appropriate. Collateral of significant value (defined as cases in which the value of each of the loan and the collateral exceeds GEL 500,000) is re-evaluated annually by internal appraisers during on-site visits. Statistical methods are used to monitor the value of equipment and real-estate collateral that are of non-significant value. Inventory collateral is re-evaluated semi-annually. Collateral may require more frequent re-evaluation as a result of changes to the borrower's standing or market fluctuations. In case of repossession, any collateral is also re-evaluated within three months prior to any repossession. Requirements relating to the frequency of re-evaluations is determined in accordance with TBC's appraisal policy, which is subject to the approval of the CEO.

Credit policies outline clear guidelines for collateral registration in order to ensure that collateral is enforceable in a timely manner. As at 31 March 2014, inventories of repossessed collateral held by TBC accounted for GEL 53.9 million (net of provisioning), or 1.2% of TBC's total assets (compared to 1.1%, 1.4% and 2.5% of TBC's total assets as at 31 December 2013, 2012 and 2011, respectively).

Loan Classification and Provisioning Policy

General

The Credit Risk Management Department is responsible for monitoring TBC's credit portfolio and establishing provisions. In order to efficiently manage the portfolio, loans are classified according to risk criteria in accordance with an internal classification system corresponding to NBG policy and IFRS requirements. The risk management function has also established an internal industry and single facility grading system in order to effectively evaluate and rate the overall strength of TBC's credit portfolio.

Grading policies

Industry grading

TBC has implemented an industry grading model in order to analyse and manage industry concentrations in its credit portfolio. Factors including, but not limited to, financial stability, economic volatility, trends in demand, barriers to entry, sector competition, operational gearing and capital intensity are taken into consideration to determine the industry grade.

Industry grade scores are assigned by the Credit Risk Management Department, together with the Corporate Risk Management Department, on a semi-annual basis or more frequently, if required.

Facility grading

TBC has also established a facility grading policy with respect to retail, corporate and SME loans.

For retail loans, TBC Bank (together with Experian) has developed a statistical behavioural rating model based on five years' historical data as part of the Basel II/III Implementation Project. This model is currently used for portfolio quality monitoring purposes. In 2014, TBC also intends to utilise the model in the cardholder limit management process and in connection with loan preapprovals for existing borrowers. The model contains three separate grading systems for (a) loans secured by real estate, (b) credit limits, and (c) other retail loans, and each type is further differentiated depending on the amount of time the loan has been outstanding (with separate analyses for loans outstanding more than or less than six months). A grade is allocated to the facility based on variables relating to the borrower's demographic (including gender, work experience), credit history and payment behaviour, utilisation of facilities (frequency of credit usage and balances of loan amounts) and macroeconomic factors (such as GDP and refinance rates).

TBC's grading system for corporate and SME loans was updated in 2013 as part of the Basel II/III Implementation Project to enable TBC to identify clients with deteriorated financials in a timely manner and closely monitor the quality of the loan portfolio. The grade allocated to corporate and SME borrowers consists of a combination of (i) the industry grade score, (ii) a general borrower score reflecting the borrower's position in the industry and its corporate governance and (iii) a borrower financial score reflecting financial conditions of the borrower and its potential ability to meet financial liabilities.

The grading master scale consists of 16 grades which are grouped in four broader categories. "A category" borrowers are considered to have a strong capacity to meet their financial obligations. "B category" borrowers are considered to have adequate capacity to meet their financial obligations, but are sensitive to adverse economic conditions. "C category" borrowers have a high exposure to credit risk, although currently are able to meet their financial obligations. "D category" borrowers have a very high probability of default or have defaulted exposures. Before submitting loans to the Loan Approval Committee, credit analysts for corporate loans and loan officers for SME loans assign credit risk grades to each corporate borrower and SME borrower if the borrower's total liabilities (including the proposed loan from TBC) exceed GEL 100,000. After disbursement of the loan, the borrower's grade is updated on a quarterly basis for corporate loans and semi-annually for SME loans with aggregate liabilities exceeding U.S.$200,000 (GEL 350,000).

Comprehensive reports regarding credit portfolio grading are delivered to the Management Board on a quarterly basis.

Portfolio supervision

TBC has established a portfolio monitoring system in order to manage its credit exposure effectively. Regular monitoring is required for individual credit facilities and on an aggregated portfolio level.

Corporate and SME loans are monitored at the individual borrower level on a quarterly and semi-annual basis, respectively. Monitoring is conducted by a credit analyst (for corporate loans) and loan officer (for SME loans) and is reviewed by credit risk managers. During the monitoring process, information about the borrower's financial condition is updated, and the monitors verify the borrower's use of funds for the specified purposes and compliance with loan covenants. Based on the results of the monitoring, borrowers are classified into three categories: standard, watch and problem. The "standard" category includes borrowers with good financial standing and with no problems in loan repayments. A borrower otherwise able to repay its loan (based on its then-current financial condition) is assigned to the "watch" category if one of the following factors is deemed to be present: (i) the financial statements of the borrower or guarantor show a downward trend in profitability or liquidity; (ii) delinquencies, or a sudden reduction in the timeliness of loan payments; (iii) noncompliance with loan covenants; (iv) significant loan documentation concerns are discovered; (v) tax liens; or (vi) general concerns in the borrower's industry. A monitoring committee meets on a weekly basis to define future steps for the minimisation of risk for "watch" category borrowers. Borrowers with deteriorated financial standing that are unable to repay their loan with their primary source of repayment (requiring the loan to be repaid from other sources, such as sale of collateral), are assigned to the "problem" category and are transferred to the Problem Loans Department.

Reports for monitoring past due loans are generated on a daily basis, detailing portfolio exposures and overdue credit levels by individual borrowers, products and business segments. If a payment is not made when due, the client is contacted by the loan officer, credit analyst or centralised monitoring group for unsecured retail loans to find out the reason for non-payment and to undertake corresponding actions. If payment is not made within the predefined period the loan is transferred to TBC's Problem Loan Department or, in the case of an unsecured retail loan, to an external collection agency.

The Credit Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, portfolio quality, vintage analysis, concentrations, maturities, volumes and performance of Non-performing Loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio are presented to the Supervisory Board and the Risk, Ethics and Compliance Committee on a quarterly basis. By comparing current data with historical figures, and by analysing forecasts Management believes that it is able to identify risks and respond to them by amending its policies in a timely fashion.

Provisioning guidelines

The allowance for loss is established for financial assets when there is objective evidence that a financial asset is impaired. According to TBC's policy, TBC's loan loss reserve must be maintained at a level that is adequate to absorb all estimated inherent losses in TBC's credit portfolio at any given point in time. TBC makes every effort to maintain an adequate allowance for loss in order to properly reflect the risk affecting TBC's earnings and capital. TBC estimates loan provisions and allowance for losses according to rules set both by the NBG and IFRS.

Provisioning levels by NBG standards are defined according to the borrower's financial condition, number of days overdue and collateral coverage of the loan. Under NBG rules, retail and micro loan provisioning is done collectively, whereas corporate and SME loan provisioning levels are assessed individually. Provisioning is conducted on a monthly basis by the Credit Risk Management Department and is authorised by the CEO.

According to IFRS, the credit portfolio is assessed for provision impairment on an individual and collective basis. For provisioning purposes, borrowers or group of borrowers are classified as "significant" or "non-significant". Borrowers with total liabilities of GEL 2 million or more are regarded as significant. Significant loans with an impairment trigger event (such as a deterioration of the borrower's financial standing or delinquencies in loan repayment) are assessed for impairment on an individual basis. The remaining portfolio (non-significant loans and significant loans with no impairment) is assessed together on a collective basis.

Individual assessment is conducted based on the borrower's financial standing and discounted collateral values (with discount ratios differing by collateral type). The borrower's financial standing is assessed based on historical financials, business specifications, national economic and relevant industry trends. The assessment is made by credit analysts or loan officers and is reviewed by the Corporate Credit Risk Management Department or the SME Credit Risk Management Department.

Collective assessment is conducted by reference to compiled statistical data of five years' historical losses. The collectively-assessed portfolio is segmented according to industry (in the case of business loans) and product type (in the case of retail loans). The assessment of collective loans is conducted by the Credit Portfolio Risk Management Department.

Provisioning in accordance with IFRS is conducted monthly and is approved by the Chief Risk Officer and the CEO.

Analysis of loan portfolio in accordance with IFRS

The tables below set out information on changes in TBC's loan loss reserves for the periods indicated.

	Corporate loans	Consumer loans	Mortgage loans	SME loans	Micro loans	Other loans	Total
			(GEL thousands)				
At 1 January 2014	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**—**	**156,869**
Charge	5,652	3,557	3,460	603	1,300	14	14,586
Write-offs	(22,930)	(3,909)	(410)	(437)	(1,387)	(14)	(29,087)
Recoveries	3,591	1,406	235	442	468	—	6,142
At 31 March 2014	**93,979**	**32,758**	**11,577**	**4,923**	**5,273**	**—**	**148,510**
As % of total reserves	63.2%	22.1%	7.8%	3.3%	3.6%	—	100.0%
Ratio of charge to average gross loans during the period[1]	2.1%	2.4%	2.7%	0.6%	2.5%	0.1%	2.0%

Note:

(1) Annualised charge for the period divided by the average gross loans for the period.

	Corporate loans	Consumer loans	Mortgage loans	SME loans	Micro loans	Total
			(GEL thousands)			
At 1 January 2013	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**
Charge	17,035	18,028	(4,651)	88	2,471	**32,971**
Write-offs	(26,512)	(22,241)	(2,578)	(2,351)	(3,703)	**(57,385)**
Recoveries	4,168	4,761	2,336	1,758	1,764	**14,787**
At 31 December 2013	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**156,869**
As % of total reserves	68.6%	20.2%	5.3%	2.8%	3.1%	100.0%
Ratio of charge to average gross loans during the period[1]	1.6%	3.3%	(1.1)%	0.0%	1.4%	1.2%

Note:

(1) Charge for the period divided by the quarterly average gross loans for the same period.

	Corporate loans	Consumer loans	Mortgage loans	SME loans	Micro loans	Total
			(GEL thousands)			
At 1 January 2012	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**
Charge	1,190	15,649	649	1,198	4,468	23,154
Write-offs	(12,124)	(16,717)	(2,016)	(3,210)	(1,296)	(35,363)
Recoveries	9,803	6,391	1,892	1,373	588	20,047
At 31 December 2012	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**
As % of total reserves	67.9%	18.7%	7.9%	2.9%	2.6%	100.0%
Ratio of charge to average gross loans during the period[1]	0.1%	3.5%	0.2%	0.5%	3.8%	1.0%

Note:

(1) Charge for the period divided by the quarterly average gross loans for the same period.

	Corporate loans	Consumer loans	Mortgage loans	SME loans	Micro loans	Total
			(GEL thousands)			
At 1 January 2011	**116,440**	**24,527**	**15,924**	**10,563**	**—**	**167,454**
Charge	20,616	2,714	(3,315)	(4,282)	315	16,049
Write-offs	(29,930)	(11,385)	(5,030)	(3,841)	(365)	(50,551)
Recoveries	6,981	9,977	5,081	3,018	651	25,708
At 31 December 2011	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**
As % of total reserves	71.9%	16.3%	8.0%	3.4%	0.4%	100.0%
Ratio of charge to average gross loans during the period(1)	2.3%	0.8%	(1.0)%	(2.1)%	0.9%	0.9%

Note:

(1) Charge for the period divided by the quarterly average gross loans for the same period.

Provision charges for loan impairment amounted to GEL 14.6 million for the three months ended 31 March 2014 (compared to GEL 19.7 million for the three months ended 31 March 2013). Corporate loan book provisioning charges of GEL 5.7 million in the first quarter of 2014 were primarily due to a GEL 3.3 million charge relating to one corporate borrower. Mortgage loan provision charges also increased to GEL 3.5 million in the first three months of 2014, reflecting the exceptionally high quality (and therefore low provisioning levels) of the mortgage loan portfolio at the end of 2013, which returned to more typical levels in the first quarter of 2014.

Provision charges for loan impairment increased by GEL 9.8 million, or 42.4%, to GEL 33.0 million for the year ended 31 December 2013 from GEL 23.2 million, primarily due to loan book growth during the year and increased provision charges in 2013 for a limited number of corporate borrowers, as well as a GEL 6.2 million provision for losses incurred as a result of a a fraudulently issued guarantee, part of which crystalised in September 2013 (see "*Risk Factors—Risks Relating to TBC's Business—TBC is subject to operational risk inherent to its business activities*").

The provision level for loan impairment of GEL 148.5 million as at 31 March 2014 was GEL 32.8 million (18.1%) lower than the GEL 181.3 million provision level as at 31 March 2013, a reduction largely attributable to a GEL 20.2 million write-off of a corporate loan which was converted into financial instruments accounted as investment securities available for sale. The provision level for loan impairment decreased by GEL 9.6 million, or 5.8%, to GEL 156.9 million as at 31 December 2013, from GEL 166.5 million as at 31 December 2012, following decreased provisioning levels of corporate loans by GEL 5.3 million (due to write-offs for certain large corporate borrowers) and mortgage loans by GEL 4.9 million (due to mortgage portfolio quality improvements).

Non-performing and Restructured Loans and overdue finance leases

The following table gives information about TBC's Non-performing and Restructured Loans, calculated as a percentage of TBC's gross loan portfolio:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
	(GEL thousands, except percentages)			
Non-performing and Restructured Loans	136,206	141,875	114,759	98,450
As a percentage of gross loan portfolio	4.7%	4.8%	4.5%	4.5%
Non-performing Loans	29,514	31,615	26,275	13,849
As a percentage of gross loan portfolio	1.0%	1.1%	1.0%	0.6%

The following table sets out certain information about TBC's Non-performing and Restructured Loans, calculated as a percentage of TBC's gross loan portfolio, per segment:

	As at 31 March 2014			
	Retail	SME	Corporate	Micro
	(GEL thousands, except percentages)			
Non-performing and Restructured Loans	29,764	6,787	94,740	4,915
As a percentage of gross loan portfolio	2.4%	1.7%	9.0%	2.3%
Non-performing Loans	13,037	3,235	11,468	1,774
As a percentage of gross loan portfolio	1.0%	0.8%	1.1%	0.8%

	As at 31 December 2013			
	Retail	SME	Corporate	Micro
	(GEL thousands, except percentages)			
Non-performing and Restructured Loans	29,048	6,150	102,241	4,436
As a percentage of gross loan portfolio	2.4%	1.6%	8.8%	2.2%
Non-performing Loans	11,789	3,392	14,912	1,522
As a percentage of gross loan portfolio	1.0%	0.9%	1.3%	0.8%

In accordance with international best practice, TBC defines Non-performing Loans as loans for which any portion of principal or interest repayment is overdue for more than 90 days. By contrast, for its purposes the NBG classifies as "non-performing loans" all loans subject to provisioning levels of 30% or more (pursuant to NBG provisioning guidelines), which is much broader than TBC's definition and includes most Non-performing Loans and Restructured Loans as defined by TBC, as well as certain performing loans that are not overdue or restructured but that have been assigned higher provisioning levels under NBG guidelines. All information relating to TBC's Non-performing Loans in this Prospectus are calculated according to TBC's definition.

TBC defines Restructured Loans as loans that would otherwise be overdue or impaired, but whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay.

Both ratios in the tables above were calculated by dividing the total exposure of the loans by the gross loan portfolio. Non-performing and Restructured Loans decreased as a percentage of TBC's total gross loan portfolio to 4.7% as at 31 March 2014, compared to 4.8% as at 31 December 2013, which in turn was an increase from 4.5% as at 31 December 2012 primarily due to the restructuring of one large corporate borrower in 2013 (under which repayment terms were renegotiated). The share of Non-performing Loans as a percentage of the total gross loan portfolio remained stable, at 1.0% as at 31 March 2014, compared to 1.1% as at 31 December 2013, and 1.0% as at 31 December 2012.

TBC restructures a loan when the customer is experiencing financial difficulties and cannot meet its obligations to repay the loan. Loans are restructured only if sufficient proof is provided to TBC that the customer will be able to repay the loan following the restructuring and that such restructuring is being made for good cause. Loans are restructured by extending the loan maturity or changing the repayment schedule so that the customer is able to repay the loan with a reduced cash-flow.

Restructured Loans are assigned a "watch" status at least (in respect of which a 10% provision is required by the NBG) and are monitored accordingly. If, for a twelve month period following the restructuring, the borrower makes principal and interest payments on time, the head of the Corporate, SME or Retail Credit Risk Management Departments, as applicable, will consider re-assigning the Restructured Loans a standard status.

In addition, TBC also held interest-bearing finance leases (before provisions for impairment) totalling GEL 38.7 million as at 31 March 2014 (representing 0.9% of TBC's total assets). As at the same date, GEL 1.1 million (2.9%) of those finance leases were more than 90 days overdue.

Collection and recoveries

TBC has in place a comprehensive portfolio supervision system to identify weakened or problem credit exposures in a timely manner and take early remedial actions. See "*—Portfolio supervision*".

All loans are monitored on a daily basis in order to control past due payments. Corporate and SME loans are supervised on an individual borrower level in order identify potential problems before loans become

overdue. Loans classified in a "watch" category as a result of monitoring are closely supervised in order to identify and mitigate the causes of problems. Loans classified in the "problem" category as a result of the monitoring are transferred to the Problem Loans Department. For retail loans, a special collection system is in place to effectively manage overdue loans. This system generates a list of borrowers who should be contacted via phone calls, generates letter reminders to overdue borrowers, and records borrowers' promises to pay and other updates for further actions. SMS reminders are sent to the borrowers prior to the repayment date and on second day of overdue. Loan officers closely monitor overdue mortgage, secured consumer and automobile loans by undertaking regular phone calls and visits to the borrower's home and work place. Unsecured consumer loans, POS loans and credit cards are monitored by the centralised monitoring group.

Retail and micro loans are generally transferred to the Problem Loans Department or external collection agencies (in the case of unsecured retail loans) when 90 days overdue, although may be transferred earlier if it is evident that the borrower is unable to repay the loan. Once the loan is transferred to the Problem Loans Department, the Problem Loans Committee approves an action plan to collect the loan based on a negotiation with the overdue borrower over repayment terms. If TBC is unable to negotiate acceptable terms with the borrower, TBC directly repossesses the collateral or, if it is unable to do so (if there are legal constraints on the collateral), files a claim with the court. Following the transfer of an unsecured retail loan to an external collection agency, the agency attempts to negotiate repayment terms with the overdue borrower or files a claim with the court if it is unsuccessful in agreeing on such terms. TBC collection processes comply with applicable consumer protection laws and regulations, and TBC regulates collection methods for unsecured retail loans in the contracts with its external collection agencies.

Write-off policy

Loans are written off if it is evident that a loss has been sustained and no amounts will be collected in the near future and if it falls within one of the following cases: (i) the loan is in the "loss" category under NBG provisioning guidelines (which generally occurs once a loan is overdue more than 180 days or a business loan borrower becomes insolvent) and is unsecured; (ii) the loan is in the "loss" category and the maturity of the loan has expired; or (iii) the loan is in the "loss" category for 90 days or more. If these criteria are met, loans are written off from balance sheet accounts by the Credit Risk Management Department in accordance with standards set by the NBG.

No specific write-off procedures are required under IFRS. Loans which are written off by TBC based on NBG standards will also be written off under IFRS. All write-offs of Corporate and SME loans are authorised by the CEO, while all write-offs of retail and micro loans are authorised by the Credit Risk Management Department.

For the three months ended 31 March 2014, the net amount of loans written off by TBC (total write-offs minus recovery) was GEL 22.9 million (representing 0.8% of the total gross loan portfolio as at that date), compared to GEL 4.8 million for the three months ended 31 March 2013 (representing 0.2% of the total gross loan portfolio as at that date), due to the write-off of a portion of one corporate loan, although this did not affect TBC's profit for the period since the portion written off had already been fully provisioned.

For the year ended 31 December 2013, the net amount of loans written off by TBC (total write-offs minus recovery) was GEL 42.6 million (representing 1.4% of the total gross loan portfolio as at that date), compared to GEL 15.3 million for the year ended 31 December 2012 (representing 0.6% of the total gross loan portfolio as at that date) and GEL 24.8 million for the year ended 31 December 2011 (representing 1.1% of the total gross loan portfolio as at that date).

ASSET, LIABILITY AND RISK MANAGEMENT

General

TBC considers its risk management function to be fundamental to its business. The main objectives of risk management are to contribute to the development of TBC's business strategy by ensuring risk-adjusted profitability and guarantee TBC's sustainable development through the implementation of an efficient risk management system. The major inherent risks of TBC's business are credit risk, liquidity risk, market risk (including interest rate and foreign currency risk), operational risk, strategic risk and reputational risk. TBC's risk management process encompasses all the activities that affect its risk profile and consists of the following core elements: (i) active board and senior management oversight; (ii) adequate policies and procedures aimed at effectively controlling risk exposures; (iii) adequate risk identification, measurement and management systems; and (iv) comprehensive internal controls. TBC systematically reviews and continuously seeks to improve its risk management policies and systems in an effort to ensure that they are in line with any new challenges it faces.

TBC's risk management strategy identifies significant risks it faces, formulates risk appetite limits and communicates the risk management framework. The risk management process consists of the following stages:

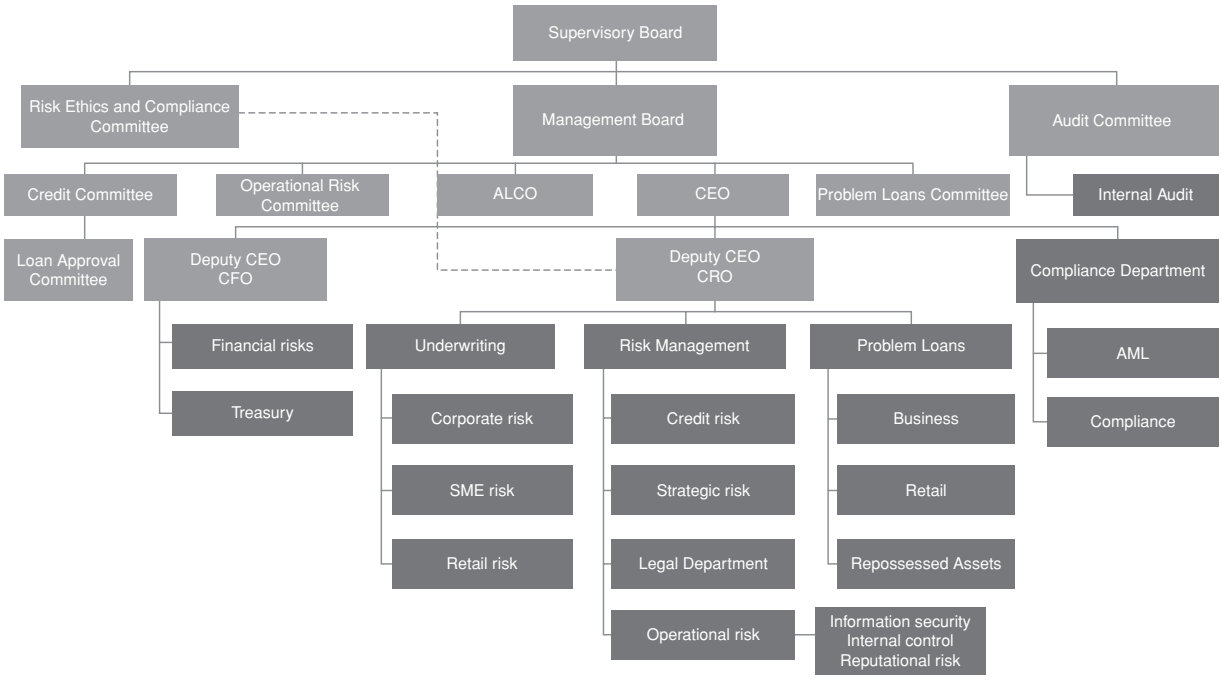
Risk identification	Identification of the full range of business level risks TBC faces.
Risk assessment	Assessment of all identified risks based on the likelihood of occurrence and significance of their impact and creation of risk maps.
Control	Establishment of key control processes and practices, including limit structures and reporting requirements, and a formalised risk monitoring process to control adherence to predefined targets and risk limits.
Reporting	Establishment of effective management information system in order to ensure a timely flow of information to the corresponding risk units.

The following principles are fundamental in the course of TBC's risk management:

- *Sustainability.* TBC conducts its business with a view towards long-term sustainability. Therefore potential impacts on sustainability of TBC are assessed when making business decisions and when managing resources and infrastructure. TBC pursues a strategy that excludes any involvement in transactions that could pose an unacceptable risk for TBC's activities, development and reputation.
- *Materiality.* The materiality of each risk to which TBC is exposed across the corresponding asset classes is mainly determined based on size of exposure, the current nature of processes and related controls. All material risks are identified based on the risk identification and assessment processes that are undertaken regularly within TBC.
- *Proportionality.* The more material a risk exposure is, the more efforts and resources are devoted to its analysis and more sophisticated approaches and complex methods are applied to its measurement.
- *Risk acceptance/risk hedging.* The risk management framework within TBC encompasses all types of risks to which TBC is exposed and that should be managed. TBC either accepts exposure to a risk or hedges against it, depending on the type of risk. TBC's accepts risk exposure according to the predefined risk appetite limits set by the Supervisory Board and Management Board. Certain types of risks, such as operational risks, interest rate risk and market risks, are hedged by means of insurance and/or derivative transactions.

Risk Management Structure

TBC conducts its risk management activities within the framework of its unified risk management system. The following chart sets forth TBC's risk management structure:



In addition to this general risk management structure, which governs the entire TBC group, several of TBC Bank's subsidiaries (Bank Constanta, TBC Kredit and TBC Leasing) also have their own internal risk management structures. Following the merger of Bank Constanta into TBC Bank, TBC Bank will assume direct responsibility for Bank Constanta's risk management.

Principal risk management bodies

The monitoring and implementation of TBC's risk management function is split among eight principal risk management bodies: the Supervisory Board, the Risk, Ethics and Compliance Committee, the Audit Committee, the Management Board, the Credit Committee, the Operational Risks Committee, the Assets and Liabilities Management Committee and the Problem Loans Committee. TBC also employs a Chief Risk Officer, who reports to the Management Board and who is responsible for supervising all risk management activities across TBC's business except for financial risk management, which is supervised by the Chief Financial Officer. The Chief Risk Officer is also required to ensure that TBC's risk exposure level is in accordance with the defined limits set forth in TBC's Risk Appetite Statement (as defined below) and that its operations are adequate in light of TBC's risk profile. The Chief Risk Officer and Chief Financial Officer have independent access to the Chairman of the Risk, Ethics, and Compliance Committee.

Supervisory Board

The Supervisory Board is responsible for TBC's overall risk management. It approves TBC's risk management strategy, risk tolerance levels and policies that are recommended by the Management Board. The Supervisory Board approves credit portfolio forecasts and budgets and monitors TBC's performance. The Supervisory Board also approves decisions that fall outside of the scope of Loan Approval Committee's authority, such as extending loans to TBC Bank's related and connected parties. The Management Board presents comprehensive report regarding compliance with risk appetite limits, credit portfolio, and results of the enterprise wide stress test to the Supervisory Board on a quarterly basis. See "*Management—Supervisory Board*".

Risk, Ethics and Compliance Committee

The Risk, Ethics and Compliance Committee is composed of four members of the Supervisory Board, at least two of which must be independent under TBC Bank's Supervisory Board Regulation. The committee

meets on a quarterly basis. The Risk, Ethics and Compliance Committee reports to the Supervisory Board. See "*Management—Principal Committees—Risk, Ethics and Compliance Committee*".

The purpose of the Risk, Ethics and Compliance Committee is to review, assess, and recommend any actions to be taken by the Supervisory Board regarding TBC's risk management strategy, risk appetite and tolerance, risk management system and risk policies. The Risk, Ethics and Compliance Committee also reviews and approves large exposures to customers in circumstances when the borrower's aggregate liability to TBC Bank exceeds 5% of TBC Bank's Basel capital. Other main responsibilities of the Risk, Ethics and Compliance Committee are to supervise TBC's commitment to the highest standards of ethical behaviour and to oversee TBC's compliance function.

Audit Committee

The Audit Committee is formed of five individual members, three of which are also members of the Supervisory Board. The Supervisory Board remains collectively responsible for decisions and actions taken by the Audit Committee. The Audit Committee reports to the Supervisory Board on a quarterly basis. See "*Management—Principal Committees—Audit Committee*".

The Audit Committee's responsibilities with regard to TBC's internal control system and risk management include reviewing the implementation of key accounting policies and financial reporting; reviewing recommendations on improvements developed by internal audits of TBC's internal controls and risk management policies and procedures; assessing the consistency of TBC's internal control, risk management and compliance functions with appropriate policies and procedures; and facilitating the activities of the internal audit and external auditors.

Management Board

The Management Board is responsible for the existence of efficient risk management systems within TBC. The Management Board transforms the strategic direction set by the Supervisory Board in the shape of policies and procedures and is responsible for instituting an effective hierarchy to execute and implement these policies. The Management Board ensures clear communication down the line. In order to effectively implement the risk management system, it delegates individual risk management functions to various decision-making and execution bodies within TBC. See "*Management—Management Board*".

Credit Committee

The Credit Committee is composed of top and middle managers of TBC Bank, is chaired by the CEO and meets once a month or more frequently, as required. The exact composition of the Credit Committee varies among the retail, corporate, SME and micro segments. The Credit Committee reports to the Management Board. See "*Management—Principal Committees—Credit Committee*".

The Credit Committee is responsible for maintaining loan portfolio quality within acceptable risk levels and ensuring that TBC's lending guidelines are consistent with relevant legislation and regulatory policies. The Credit Committee reviews the quality of TBC's loan portfolio on a regular basis and monitors and controls the recovery and collection process in respect of TBC's loans. It informs the Management Board about notable developing trends and recommends necessary actions in order to take advantage of new opportunities and maintain proper portfolio diversification.

The Credit Committee delegates its loan approval authority to the Loan Approval Committees. See "*Lending Policies and Procedures*".

Operational Risks Committee

The Operational Risks Committee has six members comprising top and middle managers of TBC Bank and is chaired by the CEO. The Operational Risks Committee reports to the Management Board.

The Operational Risks Committee is responsible for reviewing operational risks faced by TBC, overseeing these risks and making decisions in order to minimise them. Meetings of the Operational Risks Committee are held on a quarterly basis or more frequently, as required.

The Operational Risks Committee functions are to review and approve operational risk management policy; review and approve recommendations related to the development of the risk management framework; review and approve the limits of risk insurance; discuss reports on operational risks; monitor critical risks; and prepare recommendations for the Management Board on these issues.

Assets and Liabilities Management Committee (ALCO)

The ALCO has nine members, is chaired by the CEO and meets once a month or more frequently, as required. It is supported by middle management from TBC Bank's finance operations. The ALCO reports to the Management Board. See "*Management—Principal Committees—Assets and Liabilities Management Committee (ALCO)*".

The ALCO is responsible for overseeing the effective implementation of TBC Bank's asset and liability management policies in order to (i) maximise shareholder value and enhance profitability, (ii) ensure that liquidity, interest rate, foreign exchange, capital adequacy and interbank counterparty risks are managed efficiently within the Risk Appetite Statement, and (iii) ensure compliance with existing covenants and limits from the NBG, IFIs and other third parties. The functions of the ALCO include setting and monitoring risk exposure limits based on reports, analysis, forecasts, stress tests and hypothetical scenarios prepared by TBC's financial risk management and other functions; approving risk management methodologies; making decisions and amendments to TBC's asset liability structure; approving risk hedging instruments; and deciding on corrective actions in case specified limits are breached. The ALCO is given authority to make a number of decisions regarding TBC's assets and liabilities under its governing documents, although authorisation for certain decisions is reserved to the Management Board.

Problem Loans Committee

The Problem Loans Committee is chaired by the Chief Risk Officer. The Problem Loans Committee is composed of top and middle managers, with the exact composition varying depending on the type of the problem asset: business loan, retail loan or repossessed asset. The Committee meets once a month or more frequently, as required, and reports to the Management Board.

The Problem Loans Committee is responsible, under the supervision of the Chief Risk Officer, for monitoring TBC's portfolio of problem assets through all phases of collection. The Problem Loans Committee considers and makes decisions on (i) the problem asset recovery plan; (ii) repossession or liquidation of collateral; (iii) collection and recovery of all written-off loans; (iv) approval of costs associated with loan recovery; and (v) restructuring of problem loans.

Implementation

TBC's risk management policies are implemented through the committees and a number of its departments, including the Internal Audit, Financial Risk Management, Treasury, Credit Risk Management, Corporate, SME and Retail Credit Risk Management, Operational Risk Management, Legal and Compliance Departments, each of which reports to one of the principal risk management bodies referred to above.

Internal Audit Department

The Internal Audit Department is responsible for the audit of TBC's risk management processes. This audit includes in its scope the following aspects of risk management: the organization and mandates of the risk management function, including all types of risk thereunder; the compliance of procedures and decisions taken pursuant to the risk management function with predefined policies and procedures; the adequacy of risk management systems and processes for identifying, measuring, assessing, controlling, responding to, and reporting on all the risks resulting from TBC's activities; the integrity of risk management information systems, including the accuracy, reliability and completeness of the data used; and the approval and maintenance of risk models, including verification of the consistency, timeliness, independence and reliability of data sources used in such models. The Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Financial Risk Management Department

The Financial Risk Management Department is involved in the management of financial risks arising from TBC's day-to-day banking activities, including liquidity risk, interest rate risk, foreign currency exchange risk and capital adequacy risk. It prepares various reports and analysis in order to assist ALCO in performing its main functions. See "*—Funding and Liquidity Risk Management*". The Financial Risk Management Department reports to the Chief Financial Officer and monitors compliance with limits set

by the ALCO, regulators and international financial institutions, forecasts liquidity and other ratios and covenants, provides stress testing and analyses hypothetical scenarios.

Treasury Department

The Treasury Department is involved in short-term liquidity management, money-market and fixed income dealing, foreign exchange dealing and TBC Bank's overall open currency position management. See "*—Funding and Liquidity Risk*". The ALCO provides guides for the Treasury Department's operations on an ongoing basis and sets limits for bank counterparties. Treasury Department is authorised to conclude foreign exchange, money market and fixed income deals within the limits approved by ALCO, The Treasury Department, along with the Financial Risk Management Department, prepares regular reports, which are presented to the ALCO and which are the primary means by which the ALCO supervises the Treasury Department's asset and liability management functions.

The Treasury Department undertakes a number of activities in relation to liquidity, money-market and fixed income dealing, including managing the distribution of cash and non-cash liquidity among TBC Bank's branches and nostros accounts, placing free liquidity (within approved limits by ALCO) with local and foreign counterpart banks, as well as investing in local sovereign debt securities. The Treasury Department also attracts short-term funding from local and foreign counterpart banks (when necessary) and conducts ongoing analyses of risks and opportunities aimed at ensuring that TBC Bank remains in compliance with limits set by the Financial Risk Management Department. The Treasury Department then prepares recommendations in respect of revised risk exposure limits for the ALCO. The Treasury Department also undertakes a number of functions to manage and constantly monitor TBC Bank's overall open currency position and to ensure compliance with the prudential ratios set by the NBG, as well as TBC Bank's internal policies. In addition, the Treasury Department is responsible for setting foreign exchange bid and ask rates, as well as monitoring and authorising certain transactions on non-standard rates, conducting foreign exchange and derivative transactions with large clients in accordance with TBC Bank's foreign exchange pricing policy and advising clients on foreign exchange issues. See also "*—Market Risk—Foreign exchange risk*".

Credit Risk Management Department

The Credit Risk Management Department reports to the Chief Risk Officer and is responsible for the management of credit portfolio risk. See "*—Credit Risk Management*" below. The Credit Risk Management Department ensures the maintenance of a balanced loan portfolio and the correspondence of actual risks to the predefined limits.

The Credit Risk Management Department prepares policies and procedures for efficient credit risk management, which are approved by the Supervisory Board or Management Board. The Credit Risk Management Department is responsible for the timely identification and assessment of credit risks and outlining mitigation actions regarding those risks that should be reduced. This department develops adequate tools and models for effective credit risk management, such as application and behavioural scorecards and rating models. The department develops models for stress testing in order to assess credit exposures under various scenarios and make corresponding conclusions for capital adequacy purposes.

The Credit Risk Management Department on a regular basis reviews and analyses portfolio dynamics, analyses underwriting standards and outlines recommendations for managing portfolio risks more efficiently. The Credit Risk Management Department prepares regular reports to the Management Board, Supervisory Board, Credit Committee and Risk, Ethics and Compliance Committee in order to communicate, in a timely manner, information about portfolio quality trends and structure, compliance with risk appetite limits, TBC's related and connected party exposures, results of stress tests and outputs of the risk assessment process.

Corporate, SME, Micro and Retail Credit Risk Management Departments

The Corporate, SME and Retail Credit Risk management departments are involved in the applications approval process as members of corresponding loan approval committees. See "*Lending Policies and Procedures*". Corporate, SME and retail credit risk managers review loan presentations on credit exposures prepared by the loan officers and credit analysts to ensure that the analysis is complete, that comprehensive information is gathered to assess the borrower's risk profile, that all relevant risks are identified and adequately addressed and that the loan is properly structured.

Corporate and SME credit risk managers also oversee the monitoring process of individual transactions in order to discover in a timely manner any deterioration in a borrower's repayment capability and undertake corresponding measures. See "*Lending Policies and Procedures—Loan Classification and Provisioning Policy—Portfolio supervision*". The Corporate, SME and Retail Credit Risk Management Departments report to the Chief Risk Officer.

Applications for micro loans, which are not approved at the branch level, are reviewed by Bank Constanta's Credit Risk Management Department. See "*Lending Policies and Procedures—Lending Policies—Micro loans*". In addition to application reviews, this department is responsible for micro loans portfolio quality monitoring and development models for credit portfolio management.

Operational Risk Management Department

The Operational Risk Management Department implements a framework for identifying, assessing, measuring and reporting principles of operational risks. See "*—Operational Risk Management*" below. This operational risk management framework enables TBC's identification and assessment of operational risk categories within TBC's processes and operations; the detection of critical risk areas or groups of operations with an increased risk level; the development of response actions and the imposition of restrictions in critical risk zones to neutralise identified risk; and the development of business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. It ensures that operational risk is within TBC's risk appetite. The Operational Risk Management Department reports to the Chief Risk Officer.

Legal Department

The Legal Department ensures that TBC's activities conform to applicable legislation and works to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in TBC's activities in a timely manner, the investigation of TBC's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks and participation in legal proceedings on behalf of TBC where necessary. The Legal Department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in TBC's procedures, instructions, manuals, templates and other relevant documentation.

Compliance Department

The Compliance Department is focused on improving the entire compliance system. It is responsible for coordinating the identification, assessment and documentation of compliance risks associated with TBC's activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships or material changes in the nature of such relationships and other related measures. The Compliance Department is authorised to plan and administer TBC's overall compliance systems, perform compliance-related direction and supervision, and instruct on corrective action and other measures to branches, offices, divisions, headquarters, subsidiaries, and affiliates, both in and out of Georgia, upon the occurrence of violations of compliance, all in an integrated fashion.

Anti-money laundering is one of the Compliance Department's main functions, established according to the compliance legislation and recommendations of competent international organisations. TBC is committed to high standards of anti-money laundering and requires Management and employees to adhere to these standards in order to prevent the use of TBC's products and services for money laundering purposes. Adherence to this policy is mandatory for all TBC group companies and for all employees. TBC has developed an anti-money laundering policy and internal control procedures aimed at preventing money laundering and terrorist financing of individuals and legal entities engaged in terrorist activities, as well as procedures for the identification of customers and their beneficial owners; for the risk-based assessment of correspondent banks, clients and connected parties; for carrying out employee compliance trainings; and for transaction monitoring and reporting suspicious, unusual and above threshold transactions to the Financial Monitoring Service of Georgia, a public entity that acts as Georgia's Financial Intelligence Unit. These compliance procedures aim to, amongst others, minimise the risk of TBC Bank of being used as a vehicle for money laundering and terrorist financing, protect TBC from reputational risks of being associated with money laundering or terrorist financing activities and ensure that banking services are provided only to clients that are honest and have a good reputation.

Basel II/III Implementation Project

Overview

TBC reached a significant milestone in its risk management development with the Basel II/III Implementation Project, undertaken in consultation with Ernst & Young LLC to enable TBC to implement industry best practices. The Basel II/III Implementation Project began in early 2012 and included significant improvements in TBC's overall risk management, particularly with respect to the following:

- *Corporate governance enhancement:* (i) Supervisory Board-level committees have been established, including a Risk, Ethics and Compliance Committee, a Corporate Governance and Nomination Committee, and a Remuneration Committee. See "*Management—Principal Committees*" and "*—Risk Management Structure—Principal risk management bodies*"; (ii) Supervisory Board and Management Board regulations have been upgraded to reflect Basel regulation requirements; (iii) a centralised internal control function has been established to follow up internal control process at the level of all business processes. This internal control system ensures that activities are carried out in an efficient and orderly manner to achieve predefined business objectives, that management policies are adhered to and that assets, capital and profitability are safeguarded and records are accurate and reliable; and (iv) the centralised compliance function has been set up to coordinate the compliance risk, ensure effective monitoring of compliance with laws and regulations, supervisory requirements and internal regulations. See "*—Risk Management Structure—Implementation—Compliance Department*";
- *Risk management strategy:* (i) A risk strategy aligned with TBC's business strategy has been developed and has been approved by the Supervisory Board. This strategy is reviewed at least once a year and outlines all essential risks TBC faces and defines associated management policy. As a part of the risk strategy, a detailed risk management development plan is outlined in order to ensure that business growth plans are properly supported by effective risk infrastructure and risks are adequately addressed. (ii) Risk maps have been developed in order to better identify and evaluate risks TBC faces, thus ensuring that the business remains stable and risks are taken according to the predefined risk appetite limits;
- *Credit risk management:* The expert rating model for the assessment of corporate and SME borrowers has been updated. A statistical behavioural rating model has been developed for retail loans in compliance with Basel regulation. See "*Lending Policies and Procedures—Loan Classification and Provisioning Policy—Grading policies*";
- *Liquidity Risk management:* In addition to its existing Liquidity Coverage Ratio model (mismatch model) in order to be in line with the best practices, TBC has introduced a net stable funding ratio model and an upgraded liquidity contingency plan. See "*—Funding and Liquidity Risk Management*";
- *Interest rate risk management:* An interest rate risk management model has been developed according to industry best practices. See "*—Interest Rate Risk Management*";
- *Operational risk management:* An internal advance measurement (AMA) model has been developed to calculate capital for operational risk. See "*—Operational Risk Management*";
- *Reputational risk management:* A reputational risk management system is in place to ensure clients' loyalty, the investment attractiveness of TBC and TBC's general relationship with all types of stakeholder perspectives. See "*—Reputational Risk Management*";
- *Strategic risk management:* A strategic risk management function has been set up to maintain strategic risk at predefined levels in accordance with TBC's strategic objectives. See "*—Strategic Risk Management*";
- *Stress testing:* A model has been developed to measure unexpected losses in the event of potentially unfavourable low-probability, high-impact shocks. Enterprise wide stress tests are run on a quarterly basis to enable TBC to maintain a level of capital necessary to endure deteriorating economic conditions. See "*—Internal Capital Adequacy Assessment Process (ICAAP)*".Currency-induced credit risks are measured on a yearly basis using a specially-developed model. Other stress tests include stress tests for capital planning purposes (stress scenarios that TBC may withstand without breaching minimum capital ratios) and for interest rate risk and operational risk management purposes;

- *Internal audit:* A Basel-compliant risk-based audit approach has been introduced, and a risk-oriented long term audit plan has been developed addressing all TBC's activities. The plan is reviewed on a yearly basis; and
- *Data management:* A data management framework has been introduced to improve data quality.

Internal Capital Adequacy Assessment Process (ICAAP)

Following the adoption of Basel II/III requirements by the NBG, TBC calculates its capital requirements and risk-weighted assets separately under both Pillar 1 and Pillar 2 starting from 31 December 2012. The NBG sets forth detailed instructions of Pillar 1 calculations. For Pillar 2 purposes, TBC has adopted an Internal Capital Adequacy Assessment Process ("**ICAAP**"), whereby TBC Bank assesses all material risks that it faces and reserves capital for each. According to NBG guidelines, Pillar I requirements are in force from 30 June 2014, while the results of ICAAP under Pillar II requirements are due by 30 September 2014. TBC Bank submitted its ICAAP results to the NBG in March of 2013 and is currently awaiting NBG approval.

The key components of TBC's ICAAP process include risk identification; comprehensive assessment of risks and sound capital cover assessments, including risk appetite establishment and limiting system construction; aggregation; stress testing; validation; risk monitoring; reporting and ex post control; quality assurance and internal control review process; and capital planning.

The table below summarises the material risks faced by TBC and the approaches used to calculate capital charges for each risk identified:

Key areas	Pillar I	Pillar II
Credit Risk	Standardised approach	Standardised approach
Currency Induced Credit Risk (CICR)	NBG assessment	Bank assessment
Market Risk	Standardised approach	Standardised approach
Operational Risk	Basic Indicator Approach	Advanced Measurement Approach
Liquidity Risk	Not required	Not required
Interest Rate Risk in the banking book	—	Advanced Approach
Reputation Risk	—	Benchmarking
Strategic Risk	—	Benchmarking
Concentration Risk	—	Bank assessment

Under ICAAP, TBC Bank's economic capital is calculated in order to cover all material risks other than liquidity risk (for which a liquidity contingency plan, rather than capital, is required).

TBC defines the relevant stress scenarios for all material risk types measured using advanced models to determine the separate effects of potentially extreme conditions on the value of corresponding risk sensitive exposures. Currently TBC performs risk level stress tests for interest rate risk and operational risks.

In addition to risk level stress tests, TBC also performs enterprise wide stress tests ("**EWST**") to confirm that existing capital is sufficient to withstand severe stress events. The stress parameters used in EWST are based on the most severe GDP decline that have occurred in Georgia and its peer countries and other variables, including exchange rates, unemployment, interest rates, CPI levels and real estate price levels over the previous eight years. The results of EWST are expressed as the amount of capital needed (per risk type) in order to withstand the full potential losses resulting from the specified stress events.

TBC also uses stress testing for capital planning purposes. The purpose of such stress tests is to determine the minimum capital buffer required for TBC to withstand a moderate stress event without breaching minimum capital adequacy requirements.

TBC uses stress testing to provide Management with information relating to risk mitigation and economic capital management. This information is not used in isolation, but in combination with other risk management measures. The results are periodically reported to the Management Board and Risk, Ethics and Compliance Committee.

The results of ICAAP, as at 31 March 2014, are set forth in the tables below.

Capital Adequacy Ratios	As at 31 March 2014 Basel II Pillar I	Pillar II (ICAAP)
Tier 1 Capital Adequacy Ratio	10.62%	11.43%
Total Regulatory Capital Adequacy Ratio	14.27%	15.35%
Minimum Requirements		
Tier 1	8.50%	8.50%
Total	10.50%	10.50%

Risk Weighted Assets	As at 31 March 2014 Pillar 1 RWA	Pillar 2 RWA
	(GEL thousands)	
Credit Risk	3,225,370	3,225,370
FX induced credit risk	1,222,791	421,809
Market Risk	41,975	41,975
Operational Risk	390,378	120,745
Strategic risk	—	66,311
Reputational risk	—	66,311
Concentration risk		413,386
Interest rate risk		179,172
Total Risk Weighted Exposures	**4,880,514**	**4,535,080**

Capital	As at 31 March 2014 Basel II Pillar I	Pillar II
	(GEL thousands)	
Required Capital		
Tier 1 Capital	414,844	385,482
Total Capital	512,454	476,183
Regulatory Capital (Current)		
Tier 1 Capital	518,293	518,293
Total Capital	696,270	696,270
Excess capital		
Tier 1	103,449	132,811
Total	183,816	220,086

The results of ICAAP, as at 31 December 2013, are set forth in the tables below.

Capital Adequacy Ratios	As at 31 December 2013 Basel II Pillar I	Pillar II (ICAAP)
Tier 1 Capital Adequacy Ratio	10.74%	11.48%
Total Regulatory Capital Adequacy Ratio	14.37%	15.36%
Minimum Requirements		
Tier 1	8.5%	8.5%
Total	10.5%	10.5%

Risk Weighted Assets	As at 31 December 2013	
	Pillar 1 RWA	Pillar 2 RWA
	(GEL thousands)	
Credit Risk	3,322,236	3,322,236
FX induced credit risk	1,230,918	436,644
Market Risk	3,946	3,946
Operational Risk	343,892	89,693
Strategic risk	—	67,064
Reputational risk	—	67,064
Concentration risk	—	454,729
Interest rate risk	—	142,977
Total Risk Weighted Exposures	**4,900,993**	**4,584,355**

Capital	As at 31 December 2013	
	Basel II	
	Pillar I	Pillar II
	(GEL thousands)	
Required Capital		
Tier 1 Capital	416,584	389,670
Total Capital	514,604	481,357
Regulatory Capital (Current)		
Tier 1 Capital	526,224	526,224
Total Capital	704,173	704,173
Excess capital		
Tier 1	109,639	136,554
Total	189,569	222,816

The results of the most recent EWST are summarised in the table below

Risk Type	As at 31 December 2013
	Macro-indicator approach
	(GEL thousands)
Credit risk	333,017
Market risk	5,925
Operational risk	35,051
Interest rate risk for the banking book	20,702
Strategic risk	14,083
Reputational risk	14,083
Concentration risk	47,747
Less forecasted net income	(111,540)
Total	359,069

Credit Risk Management

TBC is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. TBC's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets and includes counterparty credit risk (the risk default or non-fulfilment of contracts due to a deterioration in the counterparty's credit quality); concentration risk (the risk of portfolio quality deterioration due to large exposures to small number of borrowers or individual industries); currency-induced credit risks (risks arising from foreign currency-denominated loans in the portfolio); and residual risks (resulting from the use of credit risk-mitigation techniques).

The goal of TBC's risk management system is to maximise TBC's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. TBC's credit risk management includes:

(i) establishing an appropriate credit risk environment; (ii) operating under a sound credit-granting process; and (iii) maintaining efficient processes for credit risk measurement, control and monitoring.

Establishing an appropriate credit risk environment

The Supervisory Board and Management Board have critical roles in overseeing TBC's credit risk management functions. TBC's credit risk strategy (as part of its overall risk strategy) and credit policy are approved by the Supervisory Board and are reviewed on an annual basis or more frequently as required. TBC's credit risk strategy outlines key principles for credit risk management; sets risk tolerance levels for the definition and management of an acceptable level of credit risk, based on certain defined criteria (the "**Risk Appetite Statement**"); and outlines a detailed plan for credit risk management development in order to guarantee TBC's sustainable development. TBC's credit policy defines the types of credit exposures TBC is willing to grant, economic sectors and corresponding restrictions, portfolio segmentation, lending limits and credit underwriting guidelines, loan grading and provisioning principles and other significant areas that are necessary for ensuring efficient credit risk management.

In accordance with the principles set out in TBC's risk strategy and credit policy, corresponding policies and procedures are developed and implemented for identifying, measuring, monitoring and controlling credit risk. Policies include (but are not limited to): credit risk identification and assessment policy; a detailed and formalised credit evaluation/appraisal process, administration and documentation; credit approval authorities at various levels, including authority for approving exceptions, roles and responsibilities of units/staff involved in the origination and management of credit; guidelines on the management of problem loans; clear guidance for internal rating systems and provisioning; lending to TBC Bank's related and connected parties; and environmental risk management policy.

Operating under a sound credit-granting process

TBC strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. See "*Lending Policies and Procedures—Lending Policies*". TBC ensures that sufficient information is received about the borrower, its credit history, purpose of the credit and, where applicable, collateral. Different assessment processes are in place based on the type of credit exposure and borrower profile.

Credit decisions are based primarily on the borrower's repayment capacity, in addition, TBC uses collateral such as real estate, movable assets, cash and guarantees to help limit credit risk. TBC has appropriate processes in place to control and monitor residual risks, including those designed to ensure that collateral agreements are legally enforceable. The collateral is subject to regular re-evaluation. See "*Lending Policies and Procedures—Collateral Policies*".

Different Loan Approval Committees are in place for the approval of credit exposures to retail, corporate, SME and micro customers. The composition of a Loan Approval Committee depends on the type of the exposure, aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of corresponding Loan Approval Committees) ensure that borrower and proposed credit exposure risks are thoroughly analysed. Loans to TBC's related and connected parties are approved by the Supervisory Board (although the Supervisory Board delegates approval authority to the Management Board for loans up to U.S.$100,000).

Maintaining efficient processes for credit risk measurement, control and monitoring

In order to minimise credit risk, TBC continuously monitors its credit portfolio, both at the level of individual credit granted and at TBC's overall credit portfolio. TBC has a system in place to monitor credit portfolio quality on a daily basis, analyse trends and take remedial measures as and when any deterioration occurs. The system enables TBC to ascertain whether loans are being properly serviced, the adequacy of provisions, whether the overall risk profile is within limits established by Management and general compliance with all credit regulatory limits under its Risk Appetite Statement.

At the individual borrower level, TBC regularly monitors the borrower's timely debt repayments, as well as, for corporate and SME loans, the borrower's financial condition, use of funds and fulfilment of covenants. Collateral is re-evaluated either individually or on a portfolio level depending on the value of the collateral and size of the borrower's exposure. The corresponding policy provides procedural guidelines relating to credit risk monitoring, monitoring frequency, roles and responsibilities of individuals, periodic examination of collateral and loan covenants and the identification of any loan deterioration. TBC

considers its internal rating models developed under Basel II/III Implementation Project to be an important tool for credit risk management and monitoring purposes, both for individual credits and for overall portfolio. An effective management information system is in place in order to ensure timely flow of information to the corresponding credit risk management bodies. For further information on management of credit risk, see Note 35 to the Audited Consolidated Financial Statements, Note 25 to the Unaudited Consolidated Interim Financial Statements and "*Lending Policies and Procedures—Loan Classification and Provisioning Policy*".

Concentration management is a significant function of credit risk management. TBC limits the level of credit risk it undertakes by placing limits on concentrations of: (i) single borrowers and groups of related borrowers; (ii) large borrowers (classified as connected groups of borrowers with exposure to more than 5% of TBC Bank's regulatory capital); (iii) related and connected parties of TBC Bank; (iv) single borrowers with unsecured liability and total unsecured loans; and (v) single industry and groups of "higher-risk" industries (such as development, construction and real estates). These limits reflect those set by the NBG and IFI Investors, as well as internally-set limits. As at the date of this Prospectus, Management believes that TBC is in compliance with all credit limits under its Risk Appetite Statement.

TBC Bank undertakes various stress tests in order to assess credit exposures under stressful conditions. For assumptions underlying enterprise wide stress tests see "*—Basel II/III Implementation Project—Internal Capital Adequacy Assessment Process (ICAAP)*". TBC also performs annual currency-induced credit risk assessments. TBC Bank's foreign currency-denominated credit portfolio is stress tested for currency devaluations, estimating potential losses suffered by a foreign currency-denominated credit portfolio compared to a Lari-denominated credit portfolio. Management considers the results of these stress tests when calculating economic capital and assessing capital adequacy.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. TBC uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Funding and Liquidity Risk Management

Liquidity risk is the risk that TBC either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk, TBC uses a liquidity coverage ratio and a net stable funding ratio (as set forth under Basel III), NBG minimum liquidity ratios, as well as stress tests and "what-if" scenario analyses.

A liquidity coverage ratio (calculated by reference to the sum of qualified liquid assets and 30-day cash inflows divided by 30-day cash outflows) is used to help manage short-term liquidity risks. TBC's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time bands and ensure that liquidity coverage ratio limits are put in place. TBC also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis. TBC Bank's liquidity coverage ratios were 256%, 344%, 305% and 313% as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively.

A net stable funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis. TBC also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

TBC's net stable funding ratios are set forth in the table below:

	As at 31 March	As at 31 December	
	2014	2013	2012
Net Stable Funding Ratio	**116.3%**	**118.6%**	**121.6%**

		As at 31 March	As at 31 December	
		2014	2013	2012
	Factor	Amount		
	(%)	(GEL thousands)		
Available stable funding		**3,347,953**	**3,410,696**	**2,952,368**
Capital: Tier 1 & Tier 2 Capital Instruments				
Tier 1	100%	681,783	675,723	559,359
Tier 2	100%	214,613	222,555	177,820
Long Term Funding (year >= 1)				
Long Term Borrowings (>=1 year)	100%	306,213	319,244	284,372
Subordinated debt not included in Tier 2	100%	35,108	34,314	13,120
Other funding (>=1 year)	100%	40,404	34,256	60,514
Other Funding				
Total Corporate deposits	50%	336,110	409,769	401,239
Total SME deposits	80%	345,732	365,335	229,866
Total Retail deposits	80%	1,319,599	1,288,541	1,117,706
Short term Borrowings with remaining maturity (<1 year)	50%	65,638	59,635	107,259
Subordinated Debt (<1 year)	50%	2,753	1,324	1,113
Required stable funding		**2,879,013**	**2,874,587**	**2,427,415**
Long term Assets with remaining maturity >=1 year				
Reserves in NBG (Stable part)	100%	280,380	273,267	256,157
Loans (>=1 year)	100%	1,765,231	1,775,280	1,401,093
Fixed and Intangible Assets (>=1 year)	100%	225,843	223,159	211,373
Other Assets (>=1 year)	100%	22,982	22,263	16,065
Short term Assets with remaining maturity <1 year				
Loans (< 1 year)	50%	558,209	551,225	515,816
Undrawn amount of committed credit and liquidity facilities				
Unused credit lines and undisbursed amounts from loans	5%	8,593	9,890	8,979
Guarantees	5%	17,775	19,503	17,932

Management believes that strong and diversified funding structure is one of TBC's differentiators. TBC relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance liability structure TBC sets the targets for retail deposits in the strategy and sets the gross loan to deposit ratio limits. TBC's gross loan to deposit ratio (defined as total value of gross loans divided by total value of deposits) was 106.1%, 102.5%, 102% and 108.4% as at 31 March 2014 and 31 December 2013, 2012 and 2011, respectively.

Market liquidity risk is the risk that TBC cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, TBC follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that TBC's high-quality liquid assets can be sold without causing a significant movement in the price and with minimum loss of value.

In addition, TBC has a liquidity contingency plan, updated annually, which forms part of TBC's overall prudential liquidity policy and is designed to ensure that TBC is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business.

Maturity analysis

TBC's principal sources of liquidity include deposits and customer accounts; borrowings from local and international banks and financial institutions; subordinated loans from the IFI Investors; inter-bank term deposits and short-term loans; proceeds from sales of investment securities; principal repayments on loans; interest income; and fee and commission income. See "*Selected Statistical and Other Information—Funding Sources*".

Each table below summarises the maturity analysis of TBC's financial assets and liabilities, by remaining expected discounted maturities, as at the dates indicated.

	As at 31 March 2014			
	Less than 3 months	From 3 to 12 months	Over 1 year	Total
	(GEL thousands)			
Assets				
Cash and cash equivalents	329,568	—	—	329,568
Due from other banks	16	—	2,603	2,619
Mandatory cash balances with the NBG	294,990	—	—	294,990
Loans and advances to customers	446,543	626,411	1,699,675	2,772,629
Investment securities available for sale	568,865	—	—	568,865
Finance lease receivables	7,313	12,507	18,728	38,548
Other financial assets	21,417	5,022	17,653	44,092
Total financial assets	**1,668,712**	**643,940**	**1,738,659**	**4,051,311**
Liabilities				
Due to credit institutions	294,898	80,765	312,068	687,731
Customer accounts	236,015	—	2,517,869	2,753,884
Debt securities in issue	4,517	—	—	4,517
Other financial liabilities	30,597	22	—	30,619
Subordinated debt	5,133	372	167,282	172,787
Total financial liabilities	**571,160**	**81,159**	**2,997,219**	**3,649,538**
Total credit related commitments	**36,865**	**—**	**—**	**36,865**
Net liquidity gap at 31 March 2013	**1,060,687**	**562,781**	**(1,258,560)**	**364,908**

	As at 31 December 2013			
	Less than 3 months	From 3 to 12 months	Over 1 year	Total
	(GEL thousands)			
Assets				
Cash and cash equivalents	390,465	—	—	**390,465**
Due from other banks	295,425	—	1,615	**297,040**
Loans and advances to customers	445,069	623,376	1,733,267	**2,801,712**
Investment securities available for sale	500,651	—	—	**500,651**
Investment securities held to maturity	—	—	—	**—**
Finance lease receivables	7,148	11,593	16,872	**35,613**
Other financial assets	22,103	5,024	17,922	**45,049**
Total financial assets	**1,660,861**	**639,993**	**1,769,676**	**4,070,530**
Liabilities				
Due to credit institutions	156,545	90,018	319,243	**565,806**
Customer accounts	261,546	—	2,625,337	**2,886,883**
Debt securities in issue	—	4,474	—	**4,474**
Other financial liabilities	23,717	1,133	—	**24,850**
Subordinated debt	833	1,814	165,627	**168,274**
Total financial liabilities	**442,641**	**97,439**	**3,110,207**	**3,650,287**
Total credit related commitments	**44,042**	**—**	**—**	**44,042**
Net liquidity gap at 31 December 2013	**1,174,178**	**542,554**	**(1,340,531)**	**376,201**

	As at 31 December 2012			
	Less than 3 months	From 3 to 12 months	Over 1 year	Total
	(GEL thousands)			
Assets				
Cash and cash equivalents	398,587	—	—	**398,587**
Due from other banks	317,439	28,164	—	**345,603**
Loans and advances to customers	442,312	560,935	1,366,953	**2,370,200**
Investment securities available for sale	407,733	—	—	**407,733**
Investment securities held to maturity	—	—	—	**—**
Finance lease receivables	4,799	9,127	12,451	**26,377**
Other financial assets	8,973	2,989	13,339	**25,301**
Total financial assets	**1,579,843**	**601,215**	**1,392,743**	**3,573,801**
Liabilities				
Due to credit institutions	219,787	83,007	324,329	**627,123**
Customer accounts	310,867	87,043	2,089,034	**2,486,944**
Other financial liabilities	19,353	109	—	**19,462**
Subordinated debt	793	1,434	112,853	**115,080**
Total financial liabilities	**550,800**	**171,593**	**2,526,215**	**3,248,609**
Total credit related commitments	**36,775**	**—**	**—**	**36,775**
Net liquidity gap at 31 December 2012	**992,268**	**429,622**	**(1,133,473)**	**288,417**

	As at 31 December 2011			
	Less than 3 months	From 3 to 12 months	Over 1 year	Total
	(GEL thousands)			
Assets				
Cash and cash equivalents	374,153	—	—	**374,153**
Due from other banks	250,836	40,173	—	**291,009**
Loans and advances to customers	351,624	468,693	1,188,428	**2,008,745**
Investment securities available for sale	266,436	—	—	**266,436**
Investment securities held to maturity	8,833	20,123	—	**28,956**
Finance lease receivables	3,315	6,534	12,130	**21,979**
Other financial assets	5,559	2,575	3,205	**11,339**
Total financial assets	**1,260,756**	**538,098**	**1,203,763**	**3,002,617**
Liabilities				
Due to credit institutions	186,300	207,105	234,745	**628,150**
Customer accounts	253,706	69,822	1,675,728	**1,999,256**
Other financial liabilities	6,153	1,380	3,772	**11,305**
Subordinated debt	18,122	9,664	114,694	**142,480**
Total financial liabilities	**464,281**	**287,971**	**2,028,939**	**2,781,191**
Total credit related commitments	**34,485**	**—**	**—**	**34,485**
Net liquidity gap at 31 December 2011	**761,990**	**250,127**	**(825,176)**	**186,941**

The above analyses are based on expected maturities. TBC's entire portfolio of trading securities is classified within the "less than three months" category due to the fact that these securities can be sold on the secondary market at any time or be pledged as collateral for the purposes of obtaining loans from the NBG (where the loan equals 95% of the nominal amount of the pledged securities) and based on Management's assessment of the portfolio.

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

For further information on management of liquidity risk, see Note 35 to the Audited Consolidated Financial Statements and Note 25 to the Unaudited Consolidated Interim Financial Statements.

Market Risk

TBC follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. These risks are principally (a) risks pertaining to interest rate related instruments and equities in the "trading book" (financial instruments or commodities held for trading purposes); and (b) foreign exchange risk and commodities risk throughout TBC. TBC's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, TBC's only exposure to market risk is foreign exchange risk in its "structural book", comprising its regular commercial banking activities having no trading, arbitrage or speculative intent.

Foreign exchange risk

TBC is exposed to currency risk that arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires TBC Bank to monitor both balance-sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain such positions within 20% of TBC Bank's regulatory capital. As at 31 March 2014, TBC Bank maintained a (negative) balance open currency position of 8% of regulatory capital and an aggregate (negative) balance open currency position of 8.4%.

In addition, the Supervisory Board sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and in total for both overnight and intra-day positions which are more conservative than those set by the NBG and the Supervisory Board. TBC Bank's compliance with these limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments and reported periodically to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

Open currency positions are used to assess TBC Bank's minimum capital requirements under the ICAAP framework on a monthly basis. In addition, the Financial Risk Management Department performs stress testing on a monthly basis. See "*—Basel II/III Implementation Project*".

The following table sets out certain information in respect of TBC Bank's open currency positions, as at the dates indicated, where the total aggregate open position is calculated as the maximum absolute values of the outstanding aggregate long and short positions maintained in all foreign currencies on a standalone basis, according to NBG reporting standards:

	As at 31 March	As at 31 December		
	2014	2013	2012	2011
Total aggregate open position (*GEL thousands*)	(55,092)	(5,180)	24,459	(8,100)
As a percentage of total capital (%)	(8.50)%	(0.79)%	4.32%	(1.65)%
Total aggregate open position (*U.S.$ thousands*)	(51,936)	(4,468)	24,248	(7,559)
As a percentage of total capital (%)	(8.01)%	(0.68)%	4.28%	(1.54)%
Total aggregate open position (*EUR thousands*)	(2,293)	(449)	1	(170)
As a percentage of total capital (%)	(0.35)%	(0.07)%	0.00%	(0.03)%

Each table below sets out the Lari-equivalent of TBC's financial assets and liabilities denominated in different currencies, as at the dates indicated, calculated in accordance with IFRS.

	At 31 March 2014			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(GEL thousands)			
Georgian Lari	1,566,711	1,058,061	(41,388)	**467,262**
U.S. Dollars	2,251,504	2,263,921	(76,391)	**(88,808)**
Euros	195,689	297,335	98,405	**(3,241)**
Other	37,143	30,221	19,078	**26,000**
Total	**4,051,047**	**3,649,538**	**(296)**	**401,213**

	At 31 December 2013			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(GEL thousands)			
Georgian Lari	1,438,492	994,150	(31,569)	**412,773**
U.S. Dollars	2,374,574	2,333,144	(60,192)	**(18,762)**
Euros	217,267	294,734	76,450	**(1,017)**
Other	38,917	28,259	16,532	**27,190**
Total	**4,069,250**	**3,650,287**	**1,221**	**420,184**

	At 31 December 2012			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(GEL thousands)			
Georgian Lari	1,088,821	809,165	20,139	**299,795**
U.S. Dollars	2,153,303	2,133,821	(14,891)	**4,591**
Euros	277,692	272,759	(4,802)	**131**
Other	54,119	32,864	—	**21,255**
Total	**3,573,935**	**3,248,609**	**446**	**325,772**

	At 31 December 2011			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(GEL thousands)			
Georgian Lari	829,932	616,346	8,407	**221,993**
U.S. Dollars	1,861,326	1,826,247	(53,967)	**(18,888)**
Euros	244,902	258,868	13,617	**(349)**
Other	66,457	79,730	32,109	**18,836**
Total	**3,002,617**	**2,781,191**	**166**	**221,592**

As at 31 December 2013, if the U.S.$/GEL exchange rate changed by +/– 10%, TBC's profit for the year would have been GEL 1.9 million lower or higher, respectively (compared to GEL 0.5 million lower or higher as at 31 December 2012, and GEL 1.9 million lower or higher as at 31 December 2011). As at 31 December 2013, if the EUR/GEL exchange rate changed by +/– 10%, TBC's profit for the year would have been GEL 0.1 million lower or higher, respectively (compared to GEL 0.01 million lower or higher as at 31 December 2012, and GEL 0.03 million lower or higher as at 31 December 2011).

Interest Rate Risk Management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of TBC's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the repricing characteristics of such assets and liabilities. Most of the loans and deposits offered by TBC are at fixed interest rates, while a portion of TBC's borrowings is based on a floating rate of interest. TBC's floating rate borrowings are, to a certain extent, hedged as a result of the NBG paying a floating rate of interest on the minimum reserves that TBC holds with the NBG. TBC Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of TBC's loans to and deposits from customers contain a clause allowing TBC to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting TBC's exposure to interest rate risk. Management also believes that TBC's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

Each table below summarises TBC's exposure to interest rate risks and presents the aggregated amounts of TBC's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates, as at the dates indicated.

	As at 31 March 2014				
In thousands of GEL	Less than 1 month	1-6 months	6-12 months	Over 1 year	Total
Total financial assets	832,971	760,578	443,632	2,056,865	4,094,046
Total financial liabilities	1,306,872	655,617	525,191	1,204,593	3,692,273
Net interest sensitivity gap at 31 March 2014	**(473,902)**	**104,961**	**(81,559)**	**852,271**	**401,773**

	As at 31 December 2013				
In thousands of GEL	Less than 1 month	1-6 months	6-12 months	Over 1 year	Total
Total financial assets	1,065,711	543,861	391,552	2,102,561	4,103,685
Total financial liabilities	1,108,374	795,569	460,247	1,317,960	3,682,150
Net interest sensitivity gap at 31 December 2013	**(42,663)**	**(251,708)**	**(68,695)**	**784,601**	**421,535**

	As at 31 December 2012				
In thousands of GEL	Less than 1 month	1-6 months	6-12 months	Over 1 year	Total
Total financial assets	1,136,640	495,927	285,050	1,715,962	3,633,578
Total financial liabilities	1,012,863	741,093	502,592	1,051,705	3,308,253
Net interest sensitivity gap at 31 December 2012	**123,776**	**(245,167)**	**(217,541)**	**664,257**	**325,325**

	As at 31 December 2011				
In thousands of GEL	Less than 1 month	1-6 months	6-12 months	Over 1 year	Total
Total financial assets	842,393	431,564	306,332	1,422,328	3,002,617
Total financial liabilities	837,367	693,855	365,639	884,328	2,781,191
Net interest sensitivity gap at 31 December 2011	**5,026**	**(262,292)**	**(59,308)**	**538,000**	**221,426**

As at 31 December 2013, if interest rates at that date had been 100 basis points higher or lower, with all other variables held constant, TBC's profit for the year would have been GEL 1.8 million lower or higher, respectively (compared to GEL 1.7 million lower or higher as at 31 December 2012, and GEL 1.6 million lower or higher at 31 December 2011).

TBC Bank employs an advanced framework for the management of interest rate risk. In order to manage interest rate risk TBC Bank establishes appropriate limits, monitors compliance with the limits and prepares forecasts. Interest rate risk is managed by the Financial Risk Management Department and is monitored by the ALCO. The ALCO decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The ALCO reports periodically to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

TBC Bank measures four types of interest rate risk based on the source of the risk: (i) repricing risk; (ii) yield curve risk; (iii) basis risk; and (iv) optionality (embedded option risk).

TBC Bank considers a number of stress scenarios, including different yield curve shift scenarios and behavioural adjustments to cash flows (such as deposit withdrawals or loan prepayments), to calculate the impact on one-year profitability and enterprise value. Appropriate limits are set by the Supervisory Board and by the ALCO.

Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes. As at 31 December 2013 the impact of the downward parallel shift of a yield curve of (3.59)% in GEL and an upward parallel shift of 2.31% in USD on net interest income over a one-year period was GEL 15 million equivalent. In addition, TBC has developed stress tests in accordance with

Basel II requirements to ensure that TBC Bank can withstand severe but probable stress scenarios. See "*—Basel II/III Implementation Project*".

Operational Risk Management

TBC is exposed to operational risk, which is the risk of loss resulting from an inadequacy or failure of internal processes, people or systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

In order to oversee and mitigate operational risk, TBC has established an operational risk management framework. The main components of this framework are the identification, assessment, measurement and reporting of operational risk, including information technology risk. TBC uses various tools and techniques to mitigate operational risk, including internal loss data, structured self-assessment systems, scenario and root cause analyses, risk mapping and risk indicators. The Management Board ensures the existence of a strong internal control culture in which control activities are an integral part of TBC's regular activities.

In connection with the Basel II/III Implementation Project, TBC reviewed and enhanced its operational risk management system according to Basel II requirements. This included the development of an Internal Advance Measurement (AMA) model to calculate capital for operational risk for purposes of economic capital assessment.

TBC has implemented various policies, processes and procedures (including as part of the Basel II/III Implementation Project) to control and mitigate material operational risks. These include:

- implementation of new technologies, increased levels of automation and the use of insurance policies to minimise and externalise risks relating to "low frequency, high severity" events;
- entry into external service-level agreements to minimise risks from inadequate outsourcing arrangements;
- establishment of business continuity plans to ensure TBC's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption;
- implementation of procedures to analyse system flaws and take corrective measures to prevent the re-occurrence of significant losses;
- involvement of the Operational Risk Department in the approval process of new products and services to minimise risks relating thereto; and
- development of a special Operational Risk Awareness programme for TBC Bank employees and provision of regular training to further strengthen TBC's internal risk culture.

The Management Board and the Supervisory Board together set TBC's operational risk appetite policy and the Operational Risks Committee oversees compliance with the limits set therein. The Operational Risks Committee discusses TBC's operational risk profile and risk minimisation recommendations on a regular basis.

The Operational Risk Department is responsible for the implementation of the operational risk management framework and reports to the Chief Risk Officer. The Operational Risk Department is also responsible for receiving IT incident reports, monitoring IT incident occurrences and overseeing activities targeted at solving identified problems. External consultants perform regular assessments of information security risks, which are managed according to international standards.

To minimize information security risk TBC has invested in data loss prevention and Security Information and Event Management (SIEM) systems. The data loss prevention system is designed to detect potential data breaches and prevent sensitive data from loss and misuse. SIEM technology provides real-time analysis of security alerts generated by network hardware and applications.

In 2013, an internal control function was established within the Operational Risk Management Department. The main goal of the internal control process is to detect systematic errors in banking operations, ensure far-reaching improvement and development through proposals and added value in process advancements. The main functions of this process include: development of a control system to address risks that could prevent achieving established goals; use of qualitative and quantitative methods to identify risk and determine relative risk rankings; coordination of establishment and maintenance control activities such as reconciliations, approvals, and review of operating activities; and monitoring and

reporting results to the Management Board to enable it to understand the internal control system and focus on the material and strategic implications for TBC's business.

Compliance Risk Management and Anti-Money Laundering

TBC Bank has established a compliance function, which reports to the CEO and is represented by a three-level structure consisting of a compliance manager, the chief compliance officer and the Risk, Ethics and Compliance Committee. The Compliance Department is responsible for, *inter alia*, assisting with identifying and assessing compliance risk in all business activities; advising on compliance policy, processes, rules and standards; assessing the impact of new laws, regulations and guidelines; assessing the adequacy of internal compliance processes; help coordinate responses to requests from external regulators; and ensuring that TBC follows appropriate procedures relating to anti-money laundering, conflicts of interest, protection of non-public customer information and insider trading. The Compliance Department reports to the Risk, Ethics and Compliance Committee on a regular basis.

TBC's anti-money laundering programme, established in accordance with Georgian law, is a part of TBC's compliance framework. The monitoring group within the Compliance Department (the "**Monitoring Group**") is responsible for anti-money laundering issues. Anti-money laundering policies include measures based on recommendations from international bodies, such as the Financial Action Task Force, Basel, United Nations and the Office of Foreign Assets Control, and contain policies established for "Know Your Customer" procedures, methods for the assessment of correspondent banks' and potential partners' anti-money laundering policies, processing and retaining documentation, maintaining and updating its client database, operational standards, risk-based assessment of customers, due diligence and enhanced due diligence, responsibilities of parties participating in the banking process, identification of transactions that are subject to monitoring and policies for reporting to the Financial Monitoring Service of Georgia (the "**FMS**"). These policies, and any amendments to them, are approved by the Supervisory Board. TBC Bank's anti-money laundering policies are available to all employees on its intranet.

In addition to the Monitoring Group, the structural units of TBC Bank (branches, service centres and several departments of the head office) take part in monitoring processes and are obliged to notify the Monitoring Group about suspicious and unusual transactions in accordance with the procedures set out in the policies. The Monitoring Group analyses the information received from structural units, monitors client transactions on a regular basis (both automatically and manually), detects transactions that need to be reported and reports them to the FMS.

The Compliance Department has implemented a training programme for employees of all levels. Training in anti-money laundering and other compliance issues is conducted annually in structural units and is followed by staff testing, which is organised by the Human Resources Department on an annual basis.

TBC's anti-money laundering compliance activities are reviewed by TBC's Internal Audit Department annually and are subject to review by the NBG every one to three years. In 2013 and 2014, TBC Bank and Bank Constanta paid fines in an aggregate amount of GEL 464,900 relating primarily to a very small number of transactions (approximately 300 transactions, less than 0.01% of all TBC's transactions in 2010, 2011, 2012 and 2013) that, in the view of the NBG, had not been reported to the FMS by TBC within the timeframes specified under relevant anti-money laundering guidelines applicable to designated transactions (such as transactions exceeding certain thresholds). Both TBC Bank and Bank Constanta have since implemented improvements in software, internal processes, regulations and staff training relating to anti-money laundering compliance intended to prevent the recurrence of such reporting violations in the future. As of the date of this Prospectus, no TBC group company has been accused, named or cited in connection with any occurrences of money laundering, financing of terrorist activity, fraud, or other corrupt or illegal purpose transactions or breaches of Georgian laws prohibiting such activities. See "*Risk Factors—Risks Relating to TBC's Business—TBC's measures to prevent money laundering may not be effective in all material respects*".

Reputational Risk Management

Reputational risk is defined as risk arising from negative perceptions of TBC on the part of customers, counterparties, shareholders, investors, debtholders, market analysts, other relevant parties or regulators that can adversely affect TBC's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of TBC's internal risk management processes.

Management believes that one of TBC's key strengths is its well-known and trusted brand, and is consequently very protective of the strong reputation that TBC has developed in the Georgian banking market. TBC's reputational risk management efforts are focused on monitoring TBC's reputation, addressing issues damaging to that reputation and using the feedback of external stakeholders to gain insights or get early warning signals of potential reputation problems. TBC's reputational risk control system consists of three levels: (i) heads of departments and branch managers, (ii) the reputational risk function within the Operational Risk Department, and (iii) the Management Board. Branch managers are responsible for reporting any reputational risk issues identified by employees to the reputational risk function, which analyses and escalates the problem to Operational Risks Committee.

Strategic Risk Management

Strategic risk is the current or prospective risk to earnings and capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to changes in the business environment, both internal and external. This risk is a function of the compatibility of TBC's strategic goals, the business strategies developed and resources employed to achieve strategic goals, and the quality of implementation of those goals.

The aim of strategic risk management efforts is to maintain TBC's strategic risk at defined levels in accordance with its strategic objectives. To achieve this, TBC has created a strategic risk management system and a system of early reaction intended to prevent critical losses due to strategic risks. The strategic risk management system consists of the following main stages: (i) identification, (ii) measurement, (iii) monitoring and (iv) control and mitigation.

The Management Board has overall responsibility for TBC's strategic objectives and key principles of the strategic risk management framework. The primarily responsibility for strategic risk assessment, management, monitoring and control lies with the strategic risk function subgroup managed by the Deputy Chief Risk Officer, in collaboration with the Strategic Planning and Budgeting Department and TBC's business segments.

An analysis of TBC Bank's actual performance compared to its stated goals is reported to the Management Board on a regular basis. This report includes the level of strategic risk for the period and its dynamic, mitigating actions undertaken to address these risks, potential strategic risks for future periods and recommendations.

SUBSIDIARIES

As at 31 March 2014, the TBC group comprised 10 companies, of which five, TBC Bank, Bank Constanta, TBC Kredit, TBC Leasing, and TBC Broker, operated in the financial services industry, with the remaining five companies operating in related industries in order to support TBC's main activities. TBC Bank is the parent company and the largest of the TBC group, accounting for 88.3% of total assets as at 31 March 2014.

The following table sets out TBC Bank's subsidiaries as at 31 March 2014:

Subsidiary	Country	Ownership (%)	Industry
JSC TBC Leasing	Georgia	89.53%	Leasing
TBC Kredit LLC	Azerbaijan	75.00%	Non-banking credit institution
TBC Broker LLC	Georgia	100.00%	Brokerage
JSC United Financial Corporation[(1)]	Georgia	98.66%	Card processing
JSC Real Estate Management Fund[(2)]	Georgia	100.00%	Real estate management
TBC Pay LLC[(3)]	Georgia	100.00%	Processing
TBC Invest LLC	Israel	100.00%	PR and marketing
Banking Systems Service Company LLC[(4)]	Georgia	100.00%	Service
JSC Bank Constanta[(5)]	Georgia	88.69%	Financial institution

Notes:

(1) JSC United Financial Corporation ("**UFC**") is a processing centre for VISA International and MasterCard Worldwide in Georgia. It has been certified according to Payment Card Industry Data Security Standards since February 2011. In the year ended 31 December 2013, 82.4% of UFC's sales were to TBC, with the remainder to other Georgian banks and other financial services firms.

(2) JSC Real Estate Management Fund was established by TBC in 2010 for the special purpose of transferring to it property repossessed by TBC for future sale.

(3) TBC Pay LLC has been operating in the instant payments industry since 2009, supplying payment collection services to providers of self-service machines and POS, WAP and Windows terminals.

(4) Banking Systems Service Company LLC ("**BSSC**") provides technical services and software support to the electronic banking systems (such as ATMs, POS terminals and cash machines). In the year ended 31 December 2013, 72.6% of BSSC's sales were to TBC, with the remainder to other Georgian banks and other financial services firms.

(5) On 2 April 2014, TBC Bank acquired an additional 10.97% of the shares of Bank Constanta. Consequently, TBC Bank held 99.6% of Bank Constanta's share capital as at the date of this Prospectus. Following the resolution of a pending court action involving Bank Constanta's share capital, TBC plans to merge Bank Constanta into TBC Bank. See "*Business Description—Legal Proceedings*".

General

TBC's corporate governing bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and TBC Bank's Charter. The General Meeting of Shareholders elects the members of the Supervisory Board (subject as specified below in "*—General Meeting of Shareholders and Certain Shareholder Rights*"), which, in turn, is responsible for the supervision of, and appointment of members to, the Management Board. The Management Board, which is an executive body, is responsible for TBC's day-to-day operations.

General Meeting of Shareholders and Certain Shareholder Rights

The General Meeting of Shareholders is TBC's supreme governing body and is authorised under Georgian law and the Charter to pass resolutions on, among other things, the following issues:

- the election and dismissal of members of the Supervisory Board;
- any amendment to the Charter;
- any increase or reduction of TBC Bank's share capital;
- approval of merger, consolidation, recapitalisation or other reorganisation of TBC Bank;
- approval of the reports prepared by the Management Board and Supervisory Board;
- approval of TBC's annual financial statements;
- the setting of remuneration of the Supervisory Board members;
- participation in litigation against the Management Board and Supervisory Board members, including appointment of the representative of the Bank for such litigation;
- approval or rejection of the profit (dividend) distribution proposal prepared by the Supervisory Board and the Management Board;
- approval of any reduction in the share capital of TBC Bank or of its shares or securities convertible into, exchangeable for or otherwise granting the right to acquire share capital of TBC Bank (including options, warrants and other rights);
- determination of a date for payment of contribution by the shareholders and/or requesting its payment; and
- other issues provided by law and the Charter.

According to the Charter, regular General Meetings of Shareholders must be convened annually not later than three months from the day of preparation of the annual balance sheet. Extraordinary General Meetings of Shareholders must be convened within 20 days from submission of the written request of the Management Board, Supervisory Board or shareholders holding at least 5% of the Shares of TBC Bank. Shareholders may request the convening of a General Meeting of Shareholders only if at least one month has elapsed since the date of the prior General Meeting of Shareholders. If shareholder(s) holding at least 5% of the Shares request that an Extraordinary General Meeting of Shareholders is convened and the only item on the agenda is the dismissal of Management Board member(s), the Supervisory Board must call the meeting within 20 days, otherwise the shareholders themselves may convene the meeting.

The time, place and the agenda of the General Meeting of Shareholders shall be published in printed media at least 20 days prior to the date of such General Meeting of Shareholders. Shareholders holding at least 1% of the Shares should also be notified about the General Meeting of Shareholders via registered mail. The Supervisory Board shall set a reporting date which cannot be earlier than 45 days before the scheduled General Meeting of Shareholders. Only those shareholders who were shareholders of record as of the reporting date set by the Supervisory Board may participate in the General Meeting of Shareholders.

Any shareholder holding a ordinary share may attend and vote at the meeting personally or through proxy and the quorum of the General Meeting of Shareholders is satisfied if the holders of more than 50% of all votes are present or represented at the General Meeting of Shareholders. If the General Meeting of Shareholders is not quorate, the Supervisory Board must convene a new General Meeting of Shareholders

with the same agenda, which will be quorate if the holders of more than 25% of all votes are present or represented. If the General Meeting of Shareholders convened for the second time is not quorate, the Supervisory Board must convene a further General Meeting of Shareholders with the same agenda, which will be quorate irrespective of the number of shareholders present or represented at the General Meeting of Shareholders.

General Meetings of Shareholders are presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman of the Supervisory Board. In the event that the latter is also absent, the meeting is presided over by one of the other directors.

Supervisory Board

The Supervisory Board consists of seven members. The members of the Supervisory Board are elected by the General Meeting of Shareholders for a term of four years each. The Supervisory Board elects the Chairman and the Deputy Chairman of the Supervisory Board from its members by a simple majority of votes. The Chairman of the Supervisory Board may not simultaneously hold the position of General Director (CEO) of TBC Bank. The Chairman of the Supervisory Board (or the Deputy Chairman in his absence) is authorised to convene and preside over the meetings of the Supervisory Board and also chairs the General Meeting of Shareholders.

The Supervisory Board is responsible for:

- appointing and dismissing the CEO and other members of the Management Board;
- approving purchases or disposals by TBC that exceed 3% of TBC Bank's equity (determined in accordance with the IFRS based on the latest audited year-end results);
- creating the Audit Committee and other committees of the Supervisory Board;
- approving the issuance of procura (general power of attorney) by the management of TBC;
- approving the establishment and liquidation of TBC's branches;
- authorising any borrowing by TBC if such borrowing exceeds 20.0% of TBC Bank's equity determined in accordance with the IFRS based on the latest audited year-end results);
- electing, changing or removing the external auditor;
- approving the listing of TBC Bank's shares on a stock exchange;
- approving investments by TBC, which exceed an aggregate total amount of U.S.$1 million;
- approving any sale, lease, exchange, transfer, pledge, mortgage, contribution or other disposition of the assets of TBC Bank and certain of its subsidiaries exceeding 5% of TBC Bank's equity (subject to certain exceptions);
- approving TBC's financial indicators for the next year, including TBC's business plan or annual budget; and
- approving the entering into certain related party transactions.

As at the date of this Prospectus, the Supervisory Board comprises the following members. The business address for all members of the Supervisory Board is 7 Marjanishvili Street, Tbilisi, 0102, Georgia.

Name	Position	Year of Birth	Initial Year of Appointment	Date of Appointment of Current Term	Date of Expiration of Current Term
Mamuka Khazaradze	Chairman of the Supervisory Board	1966	1992	2013	2017
Badri Japaridze	Vice-Chairman of the Supervisory Board	1960	1992	2013	2017
Eric J. Rajendra	Member of the Supervisory Board (Nominated by IFC)	1958	2010	2014	2018
Irina Schmidt	Member of the Supervisory Board (Nominated by DEG)	1971	2012	2012	2016
Nicholas Dominic Haag	Member of the Supervisory Board (Nominated by the EBRD)	1958	2013	2013	2017
Stefano Marsaglia	Member of the Supervisory Board	1955	2014	2014	2018
Nikoloz Enukidze	Member of the Supervisory Board	1970	2013	2013	2017

Mamuka Khazaradze, Chairman of the Supervisory Board. Mr. Khazaradze graduated from the Technical University of Georgia in 1988 and also holds a diploma from Harvard Business School. Between 1988 and 1989, he worked as an engineer at the Projecting-Technological Scientific Research Institute in Tbilisi. In 1991 and 1992, respectively, he founded and became the President of TBC Bank. In 1995 he founded IDS Borjomi Georgia, Borjomi Beverages Co. N.V., where he held the position of President until 2004, and between 1999 and 2002, he acted as Vice Chairman of the Supervisory Board of Microfinance Bank of Georgia. In 2004, Mr. Khazaradze also founded the Georgian Reconstruction and Development Company, of which he is still the President. Between 1997 and 2007, he was also Vice President of the Olympic Committee of Georgia. Since 2000 he has been a partner and the President of NGO New Movement, and since 2010 has served as the Chairman of the Board of the American Academy in Tbilisi and the Chairman of the Supervisory Board of Lisi Lake Development. Mr. Khazaradze has been the Chairman of the Supervisory Board since TBC Bank's incorporation in 1992.

Badri Japaridze, Vice Chairman of the Supervisory Board. Mr. Japaridze graduated from the faculty of psychology of the Tbilisi State University in 1982 and also holds a postgraduate qualification from the Faculty of Psychology of Moscow State University. In 2001 he also completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr. Japaridze was a member of the Parliament of Georgia. In 1992, he was appointed as Head of Foreign Relations Department at TBC Bank and was appointed as Vice President of TBC Bank in 1993. In 1996, he was elected as Chairman of the Board of TBC TV LLC, a position he also still retains. Since 1995, he has held the position of Vice President of IDS Borjomi Georgia, Borjomi Beverages Co. N.V., of which he is a co-founder, and has acted as a member of the Board of that company between 2004 and 2010. In 1995, Mr. Japaridze was elected to TBC Bank's Supervisory Board and has held the position of Vice Chairman of the Supervisory Board since 1996. Since 2004, he has also acted as a member of the Supervisory Board of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is co-founder. Mr. Japaridze was elected to the Supervisory Board of the EU-Georgian Business Council in 2006 and later became the Vice Chairman. In 2008, he was elected to the Supervisory Board of Geoplant, a position he retains today. Mr. Japaridze is also the Chairman of the Supervisory Board of TBC Kredit, and a member of the Supervisory Board of TBC Leasing and Bank Constanta.

Eric Jeyarajan Rajendra, member of the Supervisory Board (nominated by IFC). Mr. Rajendra graduated from Brandeis University (B.A.), earned his M.A. at the Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions. Mr. Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an Adjunct Professor of Strategy at INSEAD. Since 2005, he has held the position of Senior Advisor to the IFC and has served as a Board Director or Consulting Advisor on selected emerging markets financial institutions where the World Bank Group has an equity interest, as well as leading strategic initiatives for the firm. Prior to joining the IFC, he was a Vice President at Capgemini and a Vice President at Electronic Data Systems; in both institutions he was a key

leader of the financial services practice. From 2010 to 2012 he was a member of the Board of Directors at Orient Express Bank. Since 2006 he has been a member of the Board of Directors of Locko Bank where he is also the Chairman of the Audit and Risk Committee. He started his career as a banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company. Mr. Rajendra was appointed to the Supervisory Board in 2010. Since 17 December 2012 he has served as the Chairman of the Supervisory Board Corporate Governance and Nomination Committee and a member of the Supervisory Board Audit Committee.

Irina Schmidt (Burkowa), member of the Supervisory Board (nominated by DEG). Ms. Schmidt graduated from St. Petersburg State University with a degree in foreign languages and literature in 1994 and obtained DES from Geneva University in 1999 and an MBA from Europa-Institut (Saarland University) in 2001. Since 2001, Ms. Schmidt has held a number of positions in DEG, including Investment Manager and Senior Investment Manager with Power of Attorney (Prokura). Since 2007, Ms. Schmidt has served as a Vice President of DEG in Europe/Middle East/Central Asia with responsibility for new business development, project evaluation and the management of DEG's portfolio in the Caucasus region. Since 2012 she has been a Board member of Bank Republika in Azerbaijan. Ms. Schmidt was appointed to the Supervisory Board (as the nominee for DEG) in 2012. She is also the Chairperson of the Supervisory Board Remuneration Committee, a member of the Supervisory Board Corporate Governance and Nomination Committee and a member of the Supervisory Board Risk, Ethics and Compliance Committee.

Nicholas Dominic Haag, member of the Supervisory Board (nominated by EBRD). Mr. Haag graduated from the University of Oxford with a degree in modern studies in Geography in 1980. Mr. Haag has 32 years of experience working in the financial services industry, with a significant emphasis on equity capital markets. His experience includes seven years at Barclays Bank between 1980 and 1987 in various capital markets and project finance roles, including as the Head of Equity Syndicate, Barclays de Zoete Wedd (BZW); ten years at Banque Paribas, Paribas Capital Markets between 1989 and 1999, initially as Deputy Head Global Equity Capital Markets and later Senior Banker and Head of European Client Coverage (ex-France); two years at ING Barings between 1999 and 2001 as Managing Director and Global Head of Technology Banking Group; six years at ABN AMRO between 2001 and 2007 based in London as the Global Head of Technology Banking, Member of Global TMT Management Committee, Senior Managing Director and Member of the Senior Credit Committee; four years with the Royal Bank of Scotland between 2008 and 2012 and RBS Hoare Govett as the Managing Director, Head of London Equity Capital Markets and Member of the Global Equities Origination Management Committee. Since 2012, he has served as a senior independent adviser to the Chairman of the Management Board and since 2013 as a member of the Supervisory Board of Credit Bank of Moscow and a financial consultant specialising in capital raisings and stock exchange flotations. Since 2012 he has acted as sole director of his own consulting company, Nicdom Limited. Mr. Haag was appointed to the Supervisory Board in 2013. He is the chairman of the Audit Committee and a member of the Remuneration Committee and the Risk, Ethics and Compliance Committee of the Supervisory Board.

Stefano Marsaglia, independent member of the Supervisory Board. Mr. Marsaglia graduated from Turin University with a degree in Economics and Commerce in 1978. Mr. Marsaglia has 35 years of experience in the financial services industry with particular expertise in corporate and investment banking in Europe and Latin America. In 1987, he was appointed Deputy Managing Director and Head of Investment Banking for Southern Europe at UBS and served as Assistant Director at Morgan Grenfell during 1983-1987. Mr Masaglia acted as Managing Director, Global Head of Financial Institutions and Co-Head of Investment Banking for Europe at Rothschild between 1992 and 2010, and as the Chairman of Global Financial Institutions of the Investment Banking Division at Barclays Bank, London between 2010 and 2014. Mr Masaglia currently serves as the Executive Chairman of Corporate and Investment Banking at Mediobanca, London. Mr. Marsaglia was appointed to the Supervisory Board in 2014.

Nikoloz Enukidze, independent member of the Supervisory Board. Mr Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996. Mr Enukidze has also served as Managing Director of Corporate Finance for Concorde Capital, a leading Ukrainian investment banking firm; Assistant Director at ABN AMRO Corporate Finance in London for four years; Senior Manager of Business Development of Global One Communications LLC based in Reston, Virginia; and three years at ABN AMRO Corporate Finance in Moscow. After years of experience in the financial services industry, Mr. Enukidze served as Vice Chairman of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank to a successful initial public offering on the London Stock Exchange, the first ever initial public offering in London for a company from the Caucasus region. In 2008, Mr. Enukidze was appointed as Chairman of the Bank of Georgia Board and

he led the bank through the international and local financial crisis. Prior to joining TBC, Mr Enukidze also served as a chairman of the Supervisory Board of Galt & Taggart Securities. At present, as founder of Nine Oaks Advisors, Mr. Enukidze acts as financial advisor and investor on projects in Central and Eastern Europe and since 2011 has also served as an independent director of the Supervisory Board and member of the Audit Committee of TMM Real Estate Development Plc, a Ukrainian real estate development company listed on the Deutsche Börse since 2007, and since 2014 as the Chairman of the Supervisory Board of JSC Caucasus Minerals. Mr Enukidze was born and raised in Tbilisi and is a British national. Mr. Enukidze was appointed to the Supervisory Board as an independent member in 2013. He is a member of the Audit Committee of the Supervisory Board.

The business address of each of the members of the Supervisory Board in respect of business conducted for TBC is TBC's head office.

The members of the Supervisory Board nominated by the IFI Investors are expected to continue their service on the Supervisory Board regardless of the percentage of TBC Bank's share capital held by the individual IFI Investors following the Global Offer.

Management Board

The Management Board is responsible for TBC's day-to-day management (with the exception of functions reserved to the General Meeting of Shareholders and the Supervisory Board). The members of the Management Board are appointed by the Supervisory Board for renewable terms of four years and are also dismissed by the Supervisory Board. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each director must fulfil. See "*Banking Sector and Banking Regulation in Georgia—Banking Supervision—Regulation of Commercial Bank Employees and Supervisory Board Members*". The number of members of the Management Board is determined by the Supervisory Board from time to time and shall not be less than three. The scope of authority of each member of the Management Board is defined by a contract entered into with the director upon their appointment.

As at the date of this Prospectus, the Management Board comprises the following members. The business address for all members of the Management Board is 7 Marjanishvili Street, Tbilisi, 0102, Georgia.

Name	Position	Year of Birth	Initial Year of Appointment	Date of Appointment of Current Term	Date of Expiration of Current Term
Vakhtang Butskhrikidze	Chief Executive Officer	1970	1995	2010	2015(1)
Paata Gadzadze	First Deputy Chief Executive Officer	1970	1996	2010	2015(1)
Giorgi Shagidze	Deputy CEO, Chief Financial Officer	1975	2010	2010	2015(1)
Vano Baliashvili	Deputy CEO, Chief Operating Officer	1969	2002	2010	2015(1)
Archil Mamatelashvili	Deputy CEO, Chief Risk Officer	1973	2014	2014	2017
Mariam Megvinetukhutsesi . .	Deputy CEO, Corporate Banking	1969	2009	2010	2015(1)
Nino Masurashvili	Deputy CEO, Retail & SME Banking	1975	2006	2010	2015(1)

Note:

(1) In December 2013, the Supervisory Board extended the then-current terms of Management Board members from 2014 to 2015 in order to align these terms with the provisions of the current management compensation system.

Vakhtang Butskhrikidze, CEO. Mr. Butskhrikidze graduated from the Tbilisi State University in 1992 with a degree in Economics and holds post graduate qualifications from the Institute of Economics, Academy of Sciences of Georgia and the European School of Management in Tbilisi. He obtained an MBA from European School of Management in Tbilisi in 2001. Between 1993 and 1994, he acted as Junior Specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as Assistant to the Minister of Finance of Georgia. Mr. Butskhrikidze joined TBC as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees. Mr. Butskhrikidze is also a member of the Supervisory Boards of the

Association of Banks of Georgia and the Georgian Stock Exchange and is the Chairman of the Financial Committee of the Business Association of Georgia. Since 2011 he has also held position of a member of the Supervisory Board of Partnership Fund, Georgia. In 2001, Mr. Butskhrikidze was honoured with the "Best Businessman of the Year" award by *Georgian Times Magazine* and in 2011 he was recognised as the "Best Banker 2011" by *GUAM—Organization for Democracy and Economic Development* award.

Paata Gadzadze, First Deputy CEO. Mr. Gadzadze graduated from the Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia. Between 1992 and 1994, he was the Assistant to the Minister of State Property Management. Mr. Gadzadze has held the position of lecturer at the European School of Management in Tbilisi between 1994 and 2004. Mr. Gadzadze joined TBC in 1994 as Deputy General Director of TBC Bank and was appointed to the Management Board in 1996. In 2005 he was also the head of the Credit Department. Mr. Gadzadze has held the position of First Deputy CEO since 1998. Between 2000 and 2004, he also served as the CEO of Georgian Pension and Insurance Holding. Since 2007 he has held the position of the Chairman of the Supervisory Board of UFC.

Giorgi Shagidze, Deputy CEO, Chief Financial Officer. Mr. Shagidze graduated from the Tbilisi State University in 1997 with a degree in Economics. He obtained an MBA from the University of Cambridge Judge Business School in 2008. Between 1996 and 2001, Mr. Shagidze worked at Agro Industrial Bank of Georgia as the Head of Credit Investment Department, Head of International Payments, Customer Relationship Manager, Dealer and Applications Developer. Between 2001 and 2005, he worked at Tbiluniversalbank, where he held the positions of CEO, Deputy CEO, Head of IT and Branch Manager. In 2005, he became Director of Distribution Channels Division at the Bank of Georgia before becoming Deputy CEO of the Peoples Bank of Georgia in 2005. Between 2008 and 2010, Mr. Shagidze acted as a Global Operations Executive for Barclays Bank Plc. He became Deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Management Board in 2010. Since 2011 he has been a member of the supervisory board of Bank Constanta.

Vano Baliashvili, Deputy CEO, Chief Operating Officer. Mr. Baliashvili graduated from the Tbilisi State University in 1992 with a degree in Economics and obtained and MBA from the European School of Management in Tbilisi. In 2011 he obtained Master's Certificate in Project Management from the George Washington University, school of business. Between 1993 and 1995, he held the positions of Intern Accountant and Accountant at Commercial Bank Sandro and Chief Accountant at Commercial Bank Shalen. Between 1995 and 1999, he held the positions of Economist, Foreign Exchange Division, Head of the Foreign Exchange Department, and Head of the Internal Audit Department at JSC TbilCredit Bank. Mr. Baliashvili joined TBC in 1999 as Head of Service, Internal Audit and Control. He became Finance Division Chief in 2000 and has held the position of Deputy CEO, Chief Operating Officer since 2002. Since 2008, Mr. Baliashvili has also held the position of Chairman of the Supervisory Board of UFC. He was appointed to the Management Board in 2002.

Archil Mamatelashvili, Deputy CEO, Chief Risk Officer. Mr. Mamatelashvili graduated from the Tbilisi State University in 1995 with a degree in Economics. Between 1996 and 1998, Mr. Mamatelashvili worked at GRC Consulting (Georgian branch of Delaware based consulting company) as Financial Consultant and between 1998 and 2000 at KPMG LLP/Barents Group LLC, Capital Makets Development Project in Georgia sponsored by USAID as a consultant before joining Shore Bank Advisory Services as Senior Loan Officer implementing IFC Real Estate Lending Program. He obtained and MBA from Weatherhead School of Management, Case Western Reserve University, Clevenand in 2002 and had an MBA internship at Delta Lloyds, as Investment Analyst in Budapest, Hungary. Between 2003 and 2004, Mr. Mamatelashvili acted as Chief Risk Officer at Tbiluniversalbank before becoming Financial Consultant to the Supervisory Board at JSC National Oil Company "Georgian Oil" in 2004. Between 2005 and 2007, he acted as Deputy Minister of Energy and Infratructure of Georgia before becoming Chief Executive Officer at JSC Caucasus Energy and Infrastructure, later becoming Chief Investment Officer at Future Products Company ltd. In 2013 Mr. Mamatelashvili served as a board member for the National Bank of Georgia and Director of the Risk and Research Unit of Georgian Co-Investment Fund. He was appointed to the Management Board in 2014.

Mariam Megvinetukhutsesi, Deputy CEO, Corporate Banking. Ms. Megvinetukhutsesi graduated from Tbilisi State University with a degree in Foreign Languages and Literature in 1991 and in Banking and Finance in 1996, and received an MBA from the University of Edinburgh in 2007. Between 1991 and 1992, she held the position of lecturer at the Tbilisi State University, before being appointed as State Advisor to the International Relations Department of the Council of Georgia. Between 1994 and 1996,

Ms. Megvinetukhutsesi acted as a Freelance Translator/Interpreter working for various international financial institutions. Between 1996 and 2007, she held the positions of Advisor, Senior Financial Analyst, Banker and Senior Banker at the EBRD. Ms. Megvinetukhutsesi joined TBC in 2007 as Director of Investment Banking and was appointed as Deputy CEO, Corporate Recovery and to the Management Board in 2009. Since 2011 she has held position of Deputy CEO, Corpoare Banking. Between 2009 and 2011 she also served as a member of the Supervisory Boards of TBC Leasing and TBC Kredit.

Nino Masurashvili, Deputy CEO, Retail & SME Banking. Ms. Masurashvili graduated from the Tbilisi State University in 1996 with a degree in Economics and obtained an MBA from the European School of Management in Tbilisi. Between 1995 and 2000, she held the positions of Credit Account Manager, Credit Officer, Financial Analyst (Financial Department) and Head of Financial Analysis and Forecasting Department at JSC TbilComBank. Between 1998 and 2000, she also held the position of Accountant at the Barents Group. Ms. Masurashvili joined TBC in 2000 as Manager in the Planning and Control Department and became head of that department in 2002. Between 2004 and 2005, she acted as Head of the Sales Department and Retail Bank Coordinator. Ms. Masurashvili was appointed as Deputy CEO, Retail and SME Banking and to the Management Board in 2006. Between 2006 and 2008 Ms. Masurashvili was the Chairman of the Supervisory Board of UFC. Since 2011 she has also held a position as a member of the Supervisory Board of TBC Kredit and Bank Constanta.

The business address of each of the members of the Management Board is TBC's head office.

Principal Committees

Audit Committee

According to the Banking Law, Georgian banks are required to have an audit committee which mainly facilitates the activities of the internal audit and external auditors of the relevant bank. The members of the Audit Committee are appointed by the Supervisory Board to assist the Supervisory Board in overseeing the quality and integrity of TBC's accounting policies, financial statements and disclosure practices as well as the effectiveness of internal controls over financial reporting, its compliance with relevant laws and regulations, taxation obligations and relevant Codes of Conduct, the independence and performance of the internal and external auditors and TBC's system of internal control and management of financial and non-financial risks. The Audit Committee reports directly to the Supervisory Board and meets on a quarterly basis.

The Audit Committee is composed of five members, three of which are also members of the Supervisory Board. The Banking Law requires that the audit committee of a commercial bank be composed of independent members who are not related parties, which term, as defined under the Banking Law, includes supervisory board members. Accordingly, having the Supervisory Board members on TBC's Audit Committee contradicts the formal requirements of the Banking Law. However, the NBG has confirmed to TBC Bank in writing that the NBG is not currently opposed to the appointment of Supervisory Board members in the Audit Committee. While Management and the Supervisory Board believe that the composition of the Audit Committee reflects the Basel Guidelines and the best practice of good corporate governance, no assurance can be made that composition of the Audit Committee will not be disapproved by the regulator in the future as contradicting the formal requirements of the Banking Law, which could theoretically result in the dismissal of the respective Audit Committee members and the imposition of sanctions on TBC Bank. However, Management believes that consequences of such magnitude are unlikely.

As at the date of this Prospectus, the Audit Committee comprises the following members:

Name	Position	Year of Appointment
Nicholas Dominic Haag*	Chairman of the Committee	2013
Givi Lemonjava	Independent Member of the Committee	2002
Eric J. Rajendra*	Member of the Committee	2012
Levan Zuroshvili	Independent Member of the Committee	2002
Nikoloz Enukidze*	Member of the Committee	2014

* Member of Supervisory Board.

Risk, Ethics and Compliance Committee

The Risk, Ethics and Compliance Committee is responsible for reviewing, assessing and recommending any actions to be taken by the Supervisory Board regarding TBC's risk management strategy, risk appetite and tolerance, risk management system and risk policies. The Risk, Ethics and Compliance Committee meets on a quarterly basis. For a more detailed description of the responsibilities of the Risk, Ethics and Compliance Committee, see "*Asset, Liability and Risk Management—Risk Management Structure—Principal risk management bodies—Risk, Ethics and Compliance Committee*".

As at the date of this Prospectus, the Risk, Ethics and Compliance Committee comprises the following members.

Name	Position	Year of Appointment
Nikoloz Enukidze	Chairman of the Committee	2013
Badri Japaridze	Member of the Committee	2012
Nicholas Dominic Haag	Member of the Committee	2013
Irina Schmidt	Member of the Committee	2012

Remuneration Committee

The Remuneration Committee advises the Supervisory Board on the compensation system for the Supervisory and the Management Boards, including reviewing the achievements of and determining compensation for the Supervisory and Management Boards, the highest paid employees and the heads of TBC's business segments. The Remuneration Committee is also responsible for, approving members of the long-term management incentive programme and supporting its development, setting the compensation policy relating to the dismissal of key members of management, and approving an annual report of remuneration policy and practice.

As at the date of this Prospectus, the Remuneration Committee comprises the following members:

Name	Position	Year of Appointment
Irina Schmidt	Chairman of the Committee	2012
Nicholas Dominic Haag	Member of the Committee	2013
Nikoloz Enukidze	Member of the Committee	2013

Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee is responsible for developing corporate governance principles and guidelines applicable to TBC, monitoring TBC's governance practice against international best practices, selecting and screening individuals qualified to become the candidates for the Supervisory Board and the Management Board membership, considering and making recommendations to the Supervisory Board on the composition of the Supervisory Board and the Management Board as well as on the composition and structure of the Supervisory Board Committees.

As at the date of this Prospectus, the Corporate Governance and Nomination Committee comprises the following members:

Name	Position	Year of Appointment
Eric J. Rajendra	Chairman of the Committee	2012
Badri Japaridze	Member of the Committee	2012
Irina Schmidt	Member of the Committee	2012
Nikoloz Enukidze	Member of the Committee	2013

Credit Committee

The Credit Committee is responsible for maintaining loan portfolio quality within acceptable risk levels and ensuring that TBC's lending guidelines are consistent with relevant legislation and regulatory policies. See "*Asset Liability and Risk Management—Risk Management Structure—Principal risk management bodies—Credit Committee*". The Credit Committee reports directly to the Management Board and meets once a month or more frequently, as required. The Credit Committee has delegated its loan approval authority to the relevant Loan Approval Committees. See "*Lending Policies and Procedures*".

As at the date of this Prospectus, the Credit Committee comprises the following members, supported by other middle managers:

Name	Position	Year of Appointment
Vakhtang Butskhrikidze	CEO	2011
Archil Mamatelashvili	Risk Management Director/CRO	2014
Archil Chikovani	Deputy Risk Management Director	2011
Mariam Megvinetukhutsesi	Corporate Business Director	2011
Nino Masurashvili	SME and Retail Business Director	2011

Assets and Liabilities Management Committee (ALCO)

The ALCO is responsible for overseeing the effective implementation of TBC Bank's asset and liability management policies. in order to (i) maximise shareholder value and enhance profitability, (ii) ensure that liquidity, interest rate, foreign exchange, capital adequacy and interbank counterparty risks are managed efficiently within the Risk Appetite Statement, and (iii) ensure compliance with existing covenants and limits from the NBG, IFIs and other third parties. The functions of the ALCO include setting and monitoring risk exposure limits based on reports, analysis, forecasts, stress tests and hypothetical scenarios prepared by TBC's financial risk management and other functions; approving risk management methodologies; making decisions and amendments to TBC's asset liability structure; approving risk hedging instruments; and deciding on corrective actions in case specified limits are breached. The ALCO is given authority to make a number of decisions regarding TBC's assets and liabilities under its governing documents, although authorisation for certain decisions is reserved to the Management Board.

The ALCO meets once a month, or more frequently, as required. For a more detailed description of the responsibilities of the ALCO, see "*Asset, Liability and Risk Management—Risk Management Structure—Principal risk management bodies—Assets and Liabilities Management Committee (ALCO)*".

As at the date of this Prospectus, the ALCO comprises the following members.

Name	Position	Year of Appointment
Vakhtang Butskhrikidze	CEO	1995
Mariam Megvinetukhutsesi	Corporate Business Director	2010
Giorgi Shagidze	CFO	2010
Archil Mamatelashvili	Risk Management Director/(CRO)	2014
Zura Pichkhaia	Deputy CFO	2011
Tamuna Kavtaradze	Head of Financial Risk Department	2011
Michael Korkadze	Head of Treasury and Financial Services Department	2012

Remuneration

In accordance with the Charter, the compensation system in place for members of the Supervisory Board and Management Board is subject to approval by the GMS. The Supervisory Board is also required to approve the compensation system for members of the Management Board. Under the remuneration scheme currently in effect, the chairman and vice-chairman of the Supervisory Board receive a salary and an additional performance based cash incentive in connection with their executive responsibilities in such roles; Supervisory Board members other than the chairman and vice-chairman are compensated with a salary only. Management Board members receive compensation consisting of three potential elements: (i) a base salary; (ii) an additional cash incentive, paid annually from a total pool of 50% of the aggregate sum of top management base salaries, and paid after the audited financial statements are published; and (iii) a grant of shares under the Long Term Incentive Plan (discussed below under "*—Management Shareholdings*"). Performance-based cash and share bonuses comprise up to 70% of the total compensation of TBC's senior management. For the financial year ended 31 December 2013, TBC's Supervisory Board and Management Board remuneration expenses were GEL 8.8 million.

The table below sets forth the total remuneration and benefits in kind received by members of the Supervisory Board and Management Board from TBC in the year ended 31 December 2013.

Name	Position	Average monthly base salary[1]	Percentage of annual base salary received as additional cash incentive	Shares granted under Long Term Incentive Plan[2]
		(GEL)	(%)	
Mamuka Khazaradze	Chairman of the Supervisory Board	66,800[3]	100.0%	—
Badri Japaridze	Vice-Chairman of the Supervisory Board	64,433[3]	100.0%	—
Eric J. Rajendra[4]	Member of the Supervisory Board	3,197[3]	—	—
Irina Schmidt[4]	Member of the Supervisory Board	3,623[3]	—	—
Nicholas Dominic Haag	Member of the Supervisory Board	3,197[3]	—	—
Emile Groot[4][5]	Member of the Supervisory Board	3,197[3]	—	—
Nikoloz Enukidze	Member of the Supervisory Board	3,197[3]	—	—
Vakhtang Butskhrikidze[6]	CEO	58,451	37.9%	280
Paata Gadzadze[6]	First Deputy CEO	41,751	25.5%	72
Giorgi Shagidze[6]	Deputy CEO, Chief Financial Officer	16,960	55.0%	160
Vano Baliashvili[6]	Deputy CEO, Chief Operating Officer	16,960	55.0%	130
Tea Lortkipanidze[6][7]	Deputy CEO, Chief Risk Officer	16,960	55.0%	46
Mariam Megvinetukhutsesi[6]	Deputy CEO, Corporate Banking	16,960	55.0%	46
Nino Masurashvili[6]	Deputy CEO, Retail & SME Banking	16,960	55.0%	160

Notes:

(1) Net of Georgian taxes.

(2) Figures represent the number of Shares prior to the Share split on 4 March 2014, in which each Share was split into 250 Shares.

(3) Supervisory Board salary payments are made at varying times throughout the year depending on the arrangements with the individual Supervisory Board member. Figures in the table represent the monthly average of total salary paid.

(4) Supervisory Board salaries for representatives nominated by IFC, DEG and FMO are paid directly to those organisations, not to the individual representatives themselves.

(5) Mr. Groot's term on the Supervisory Board expired on 31 December 2013, and he was succeeded by Stefano Marsaglia on 4 March 2014.

(6) TBC also pays life insurance premiums for members of the Management Board at a cost for each of approximately GEL 150 per month.

(7) Ms. Lortkipanidze's term on the Management Board expired on 31 December 2013, and she was succeeded by Archil Mamatelashvili.

Under the current Long Term Incentive Plan (as defined below), in the event of a dismissal of members of the Management Board (whether or not preceded by the expiration of their service contract), such members are entitled to six months salary and accrued and unpaid bonuses from the previous quarter.

If a member of the Management Board leaves TBC within 12 months following a change of control, he or she will be paid 12 months salary. In this case, the salary will be the higher of: (i) the salary to which such member was entitled before the change of control; and (ii) the salary such member has at the time he or she leaves TBC. A member of the Management Board will not be entitled to this severance payment if he or she is dismissed for fraud, wilful misconduct or dishonesty which resulted in a material loss to TBC.

Furthermore, if a service contract is terminated, TBC may prohibit a member of the Management Board or member of middle management to work directly or indirectly for any other bank operating in Georgia for up to six months, if the contract is terminated by such manager or by TBC in case of fraud, wilful misconduct or dishonesty that resulted in a material loss of TBC. If the contract is terminated for any other reason, the non-compete clause may be binding up to three months. In such case a manager will receive monthly salary equal to his/her monthly salary before termination of his/her service contract and such manager will be entitled to the pro-rata cash bonus.

Management Loans

As at 31 March 2014, the total amount of outstanding loans and advances to members of the Management Board and the Supervisory Board was GEL 5.6 million, comprising 0.8% of TBC's total equity. There are

no other outstanding loans, guarantees or other contingent liabilities extended by TBC to, or in favour of the obligations of, any member of the Management Board or the Supervisory Board.

Management Shareholdings

TBC may award bonuses in the form of shares as a manner of involving senior management members in development of the TBC's business. In the past the TBC has offered share bonuses to its senior management members. From 2006 to 2012, TBC's senior management received 6,134 Shares under these incentive plans. As at the date of this Prospectus there is a senior management compensation scheme in place for 2013 to 2015 (the "**Long Term Incentive Plan**").

The Long Term Incentive Plan provides for, among others things, the regulations regarding bonuses awarded in the form of Shares approved by the shareholders and the Supervisory Board. It provides for bonuses awarded in Shares for two groups of senior management members: (i) members of the top management (CEO, First Deputy CEO, Deputy CEOs) and (ii) key members of the middle management (TBC's highest graded employees under TBC's internal grading scheme).

The Shares are allocated to eligible members on the basis of their performance and performance of their teams. The number of Shares allocated is dependent on the performance thresholds met. Shares are allocated each year, following the publication of the audit report. The pool of Shares available for each group referred to above, is determined by deducting income tax from the stipulated bonus pool and dividing the remaining (net) bonus pool by book value of each Share (determined as the shareholder's equity for the latest year end as calculated under IFRS divided by the number of Shares outstanding per the registrar statement immediately prior to the award). The gross annual basic bonus pool is set at the level of GEL 4.6 million for the members of the top management and GEL 992,000 for the members of the middle management. The actual bonus pool is an amount between 64% and 144% of the basic bonus pool and is determined based on achievement level of team-based key performance indicators of the TBC group as a whole.

The rights attached to Shares are subject to the condition of continuous employment. Initially, Shares are subject to restrictions on sale and transfer to any party and do not provide for voting rights, but they are eligible for dividends. After one year of continuous employment from the date of registration of the Shares in the name of the beneficiary, restrictions are removed with respect to 10% of the Shares awarded, after two years, the restrictions are removed with respect to another 10% of the Shares, and after three years all Shares become free from restrictions.

The Long Term Incentive Plan provides also additional provisions governing entitlement to Shares and obligations to return the Shares in case of termination or expiry of service contract or employment contract.

Each participant in the Long Term Incentive Plan also has put options on the Shares, which may be exercised three years from the date of registration of the Shares in the name of the beneficiary and expire one year thereafter. In addition, all beneficiaries of previous incentive plans holding Shares in TBC Bank have put options on their Shares, with the exercise period beginning on 1 January 2016 and lasting for three consecutive years thereafter, with each beneficiary entitled to exercise their put option with respect to one third of all Shares held by him or her in each year. The exercise price for beneficiaries under all incentive plans is a book value per Share calculated in accordance with the IFRS consolidated financial statements for the previous year end. However, this right becomes void in the event that TBC goes public through an initial public offering and lists the aggregate of at least 25% of authorised Shares.

For additional information regarding share bonuses in the periods under review, see Note 26 to the Audited Consolidated Financial Statements and Note 16 to the Unaudited Consolidated Interim Financial Statements.

The table below sets forth the number of Shares held directly or indirectly by the members of the Supervisory Board and Management Board as at 31 March 2014.

Name	Position	Number of TBC Shares held
Mamuka Khazaradze	Chairman of the Supervisory Board	7,343,936
Badri Japaridze	Vice-Chairman of the Supervisory Board	3,669,878
Vakhtang Butskhrikidze	Chairman of the Management Board, CEO	642,201
Paata Gadzadze	First Deputy Chief Executive Officer	347,299
Giorgi Shagidze	Deputy CEO, Chief Financial Officer	127,750
Vano Baliashvili	Deputy CEO, Chief Operating Officer	127,026
Archil Mamatelashvili	Deputy CEO, Chief Risk Officer	—
Mariam Megvinetukhutsesi	Deputy CEO, Corporate Banking	81,250
Nino Masurashvili	Deputy CEO, Retail & SME Banking	159,776

See "*Shareholders and Related Party Transactions*".

Conflicts of Interest

There are no conflicts of interest or potential conflicts of interest between any duties owed by members of TBC Bank's Supervisory Board or Management Board to TBC Bank and their private interests and/or other duties.

Mamuka Khazaradze, Chairman of the Supervisory Board, is the brother-in-law of Badri Japaridze, Vice-Chairman of the Supervisory Board. None of the other members of the TBC Bank's Supervisory Board or Management Board are related to one another for the purposes of the Prospectus Rules.

Receiverships, Liquidations and Administrations

At the date hereof, none of the members of the Supervisory Board or the Management Board, for the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Corporate Governance

Georgia has not adopted a code of corporate governance and therefore TBC is not subject to the requirements of any national corporate governance rules. TBC is, however, a party to the Corporate Governance Code for Commercial Banks (the "**Corporate Governance Code**") adopted by the Banking Association of Georgia in September 2009, which has been drafted with the guidance of IFC and is based on internationally recognised principles of good corporate governance.

Pursuant to the laws of Georgia and the Charter, as well as the Corporate Governance Code, the Supervisory Board is responsible for the supervision of, and appointment of members to, the Management Board. Compliance with the Corporate Governance Code is not mandatory. The Management Board, which is an executive body, is responsible for the day-to-day operations of TBC.

The assessment of adequacy and effectiveness of TBC's system of internal controls is conducted by TBC's Internal Audit Department, which reports directly to the Supervisory Board.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets out certain information with respect to the ownership of TBC's outstanding Shares, as at the date of this Prospectus and after the Global Offer, assuming that the Overallotment Option is exercised in full:

	Number of Shares owned before the Global Offer		Number of Shares being Offered in the Global Offer	Number of Shares owned after the Global Offer	
	Number	(%)	Number	Number	(%)
International Finance Corporation[1]	8,165,750	19.7%	5,312,943	2,852,807	5.8%
European Bank for Reconstruction and Development[1]	8,165,500	19.7%	2,108,631	6,056,869	12.3%
TBC Holdings Ltd.[2]	7,922,750	19.1%	0	7,922,750	16.1%
DEG—Deutsche Investitions- und Entwicklungsgesellschaft mbH[1]	4,667,000	11.2%	3,036,525	1,630,475	3.3%
Liquid Crystal International N.V. LLC[3]	2,706,250	6.5%	0	2,706,250	5.5%
Nederlandse Financierings—Maatschappij voor Ontwikkelingslanden N.V.[4]	2,171,000	5.2%	0	2,171,000	4.4%
J.P. Morgan Securities plc[4]	2,045,750	4.9%	1,331,042	714,708	1.5%
Ashmore Cayman SPC No. 2 Ltd. re TBC Bank Segregated Portfolio[4]	1,732,750	4.2%	433,189	1,299,561	2.6%
Individuals	3,977,250	9.6%	285,362[5]	3,691,888	7.5%
Depositary	—	—	—	20,200,000	41.0%
Total	**41,554,000**	**100.0%**	**12,507,692**	**49,246,308**	**100.0%**

Notes:

(1) IFI Investor.

(2) TBC Holdings Ltd. is a Cayman Islands exempted company, which is 42.4% owned by Mr. Mamuka Khazaradze, the founder of TBC Bank and Chairman of the Supervisory Board, and 39.1% owned by Mr. Badri Japaridze, Vice Chairman of the Management Board. The remaining 18.5% is owned by Rike B.V., a private company with limited liability incorporated and existing under the laws of the Netherlands, which is majority-owned by Mr. Mamuka Khazaradze, with the remaining shareholdings held by, among others, certain members of the Supervisory Board and the Management Board. Following the Global Offer, it is intended that the individuals holding shares in TBC Holdings Ltd. (other than Mr. Khazaradze and Mr. Japaridze) will cease to hold shares, directly or indirectly, in TBC Holdings Ltd. and will instead hold Shares and/or GDRs of TBC Bank directly.

(3) Liquid Crystal International N.V. LLC, which is wholly owned by Mr. Mamuka Khazaradze, is a corporation organised and existing under the laws of the Netherlands Antilles.

(4) ICI Investor.

(5) The two individual shareholders who sell Shares in the Global Offer, one of whom is the CEO of TBC Leasing, will do so through TBC Broker, whose address is 7 Marjanishvili Street, Tbilisi, 0102, Georgia.

In addition to the table above, as at 31 March 2014, TBC Bank and its subsidiaries held 2,000 Shares in treasury, with an aggregate book value of GEL 34,400 and an aggregate par value of GEL 8,000.

Each of TBC's shareholders prior to the Global Offer is a party to the Fourth Amended and Restated Shareholders Agreement dated 7 April 2009 among TBC Bank and its shareholders (the "**Shareholders Agreement**"). The Shareholders Agreement provides for, among other matters, the following:

- the right of the IFI Investors each to nominate one member of the Supervisory Board;
- joint veto rights of the IFI Investors and the ICI Investors, including in respect of certain amendments to TBC Bank's charter, increases or reductions of TBC's share capital and the entry into merger transactions;
- additional joint veto rights of the IFI Investors in respect of certain additional activities of TBC and its Supervisory Board, including the declaration of a dividend, approving or amending the business plan or TBC's annual budget, the acquisition or disposal of, or investment in, certain entities, for an aggregate exceeding U.S.$1 million and the entry into certain related party transactions;

- the individual veto right of each IFI Investor in respect of changes to Bank's operating policy statement as approved by TBC's General Meeting of Shareholders on 29 May 2000, which governs its lending policies;
- transfer restrictions applying to shareholders who are not IFI Investors or ICI Investors;
- "tag-along" rights given to IFI Investors and ICI Investors;
- "drag-along" rights given IFI Investors; and
- pre-emptive rights given to all shareholders to participate in any increase in TBC's share capital or the issuances of any securities convertible into TBC shares on a pro rata basis.

Each of TBC's shareholders has agreed to terminate the Shareholders Agreement conditional upon, and with effect from, Admission.

On 14 April 2009, certain IFI Investors entered into a sale proceeds application agreement with Mamuka Khazaradze, Badri Japaridze, Rike B.V. and certain other individual shareholders of TBC Bank in connection with the sale of a number of Shares by these shareholders to those IFI Investors. In this agreement, as amended in May 2014, those IFI Investors have each agreed that following a sale of all of their respective Shares in TBC Bank and the fulfilment of certain conditions, each such exiting IFI Investor will distribute to these shareholders part of the proceeds they receive above a certain threshold.

None of TBC's shareholders have voting rights different from any other holders of Shares, with the exception of certain bonus shares awarded to management under the Long Term Incentive Plan, for which voting rights are restricted until certain conditions have been met. See "*Management—Management Shareholdings*". As at the date of this Prospectus, 307,250 bonus shares were subject to such restrictions.

Immediately following Admission, it is expected that 74.2% of the GDRs will be held in public hands.

Related Party Transactions

In the ordinary course of its business, TBC may, from time to time, enter into transactions with related parties. Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties include entities in which shareholders have significant influence.

The following tables set out information in relation to TBC's outstanding balances with related parties under IFRS, as at the dates, and for the periods, indicated:

	As at 31 March 2014	
	Significant Shareholders[1]	Key Management Personnel
	(GEL thousands)	
Gross amount of loans and advances to customers (contractual interest rate: 13–26%)	4,645	961
Impairment provisions for loans and advances to customers	85	10
Derivative financial liability	4,656	—
Due to credit institutions (contractual interest rate: 0–13%)[2]	65,157	—
Customer accounts (contractual interest rate: 0–13%)	7,811	4,711
Subordinated debt (contractual interest rate: 5–11.3%)	97,654	—

Notes:

(1) Includes parties holding more than an 8% ownership stake in TBC Bank's share capital, and includes International Finance Corporation, European Bank for Reconstruction and Development, TBC Holdings Ltd. and DEG—Deutsche Investitions- und Entwicklungsgesellschaft mbH (together, the "**Significant Shareholders**").

(2) Outstanding balances of other borrowed funds with significant shareholders represent loan agreements entered into with the EBRD and IFC. Increases in the amounts of such outstanding balances reflect increased borrowing from such shareholders. For details of the principal loan agreements entered into with such shareholders, see "*Selected Statistical and Other Information—Funding Sources—Other borrowed funds.*"

	As at 31 December								
	2013			2012			2011		
	Significant Shareholders	Key Management Personnel	Other Related Parties[1]	Significant Shareholders	Key Management Personnel	Other Related Parties	Significant Shareholders	Key Management Personnel	Other Related Parties
	(GEL thousands)								
Gross amount of loans and advances to customers (contractual interest rate: 13–26%)	9,928	1,312	—	13,137	1,571	15,358	14,711	2,283	6,933
Impairment provisions for loans and advances to customers	152	15	—	250	19	318	(213)	(35)	(262)
Derivative financial liability	4,405	—	—	7,139	—	—	5,152	—	
Due to credit institutions (contractual interest rate: 0–13%)	67,894	—	—	161,767	—	—	106,941	—	
Customer accounts (contractual interest rate: 0–13%)	5,421	4,598	—	3,839	4,530	22,192	3,899	3,491	13,204
Subordinated debt (contractual interest rate: 5–11.3%)	95,458	—	—	61,122	—	—	62,325	—	—

Note:

(1) For the year ended 31 December 2013, TBC included only those related parties that satisfy the requirements of IAS 24 for inclusion as a related party entity. The entities included as "Other related parties" as at 31 December 2012 and 2011 include entities which do not require disclosure under IAS 24 but have been voluntarily disclosed by Management.

As at 31 March 2014 the single largest related party loan as a percentage of gross loans was 0.1%, compared to 0.2%, 0.3% and 0.4% as at 31 December 2013, 2012 and 2011, respectively.

The following tables set out information in relation to TBC's income and expense items with related parties (other than compensation for key management personnel), as at the dates, and for the periods, indicated:

	As at 31 March 2014	
	Significant Shareholders	Key Management Personnel
	(GEL thousands)	
Interest income	204	33
Interest expense	3,543	56
Gains less losses from trading in foreign currencies	42	13
Foreign exchange translation gains less losses / (losses less gains)	35	7
Fee and commission income	2	3
Fee and commission expenses	223	—
Administrative and other operating expenses	15	7
Net gain/(loss) on derivative financial instruments	177	—

	As at 31 December								
	2013			2012			2011		
	Significant Shareholders	Key Management Personnel	Other Related Parties	Significant Shareholders	Key Management Personnel	Other Related Parties	Significant Shareholders	Key Management Personnel	Other Related Parties
	(GEL thousands)								
Interest income	1,527	159	—	1,757	261	1,644	3,328	259	276
Interest expense	14,596	352	—	16,805	386	565	19,856	342	428
Provision for loan impairment	—	—	—	—	—	26	—	—	—
Gains less losses from trading in foreign currencies	67	9	—	8	4	392	13	5	611
Foreign exchange translation gains less losses/(losses less gains)	(227)	50	—	(106)	2	926	—	—	—
Fee and commission income	10	7	—	11	5	376	8	10	126
Fee and commission expenses	993	—	—	—	—	—	—	—	—
Administrative and other operating expenses	67	205	—	17	133	—	55	317	—
Net gain/(loss) on derivative financial instruments	613	—	—	(3,804)	—	—	(4,987)	—	—

The following table sets out information in relation to the other rights and obligations with related parties, as at the dates, and for the periods, indicated:

	As at 31 December								
	2013			2012			2011		
	Significant Shareholders	Key Management Personnel	Other Related Parties	Significant Shareholders	Key Management Personnel	Other Related Parties	Significant Shareholders	Key Management Personnel	Other Related Parties
	(GEL thousands)								
Guarantees issued by TBC at the year end	—	—	—	—	—	5,401	—	—	7,049

The following tables set out information in relation to aggregate amounts of loans advanced to and repaid by related parties, as at the dates, and for the periods, indicated:

	As at 31 March 2014	
	Significant Shareholders	Key Management Personnel
	(GEL thousands)	
Amounts advanced to related parties during the year (including accrual of interest)	180	776
Amounts repaid by related parties during the year	(5,702)	(1,167)

	As at 31 December								
	2013			2012			2011		
	Significant Shareholders	Key Management Personnel	Other Related Parties	Significant Shareholders	Key Management Personnel	Other Related Parties	Significant Shareholders	Key Management Personnel	Other Related Parties
	(GEL thousands)								
Amounts advanced to related parties during the year (including accrual of interest)	4,246	1,751	—	1,816	1,018	15,253	1,435	1,448	12,467
Amounts repaid by related parties during the year	(8,756)	(2,218)	—	(5,041)	(1,994)	(9,398)	(1,422)	(645)	(9,580)

Related Party Transactions and Corporate Governance

TBC conducts all transactions with the related parties on an arms–length basis and on market terms.

Transactions between TBC and related parties (as defined by applicable banking regulations), including the Significant Shareholders, are subject to the rules and regulations promulgated by the NBG, which set certain limits for both single transaction related party exposure and aggregate transaction related party exposure. The NBG also sets certain ratios to be maintained by TBC when entering into related party transactions. See "*Banking Sector and Banking Regulation in Georgia—Banking Supervision—Mandatory prudential ratios*".

According to the Charter, related party transactions, other than transactions with a subsidiary (defined as any entity in which TBC Bank owns 50% or more of the voting shares/ownership interest), are subject to the approval of the Supervisiory Board. The Supervisory Board may delegate the authority to approve related party transactions of amounts less than U.S.$100,000 to the Management Board or to other body or officer of TBC. The Supervisory Board is composed of seven members, three of which are nominated by IFIs and two of which are independent directors. See "*Management—Corporate Governance*" and "*Lending Policies and Procedures—Lending Policies—Loans to related parties*".

Furthermore, certain of our financing arrangements contain provisions limiting our related party transactions exposure. See "*Selected Statistical and Other Information—Funding Sources—Other sources of funding—Other borrowed funds*".

MATERIAL CONTRACTS

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of the TBC group: (i) within the two years immediately preceding the date of this document and which is, or may be, material; or (ii) which contains any provision under which any member of the TBC group has any obligation or entitlement which is material to TBC as at the date hereof.

Material Financing Facilities

For details of the material financing facilities that TBC Bank has entered into and that are outstanding as of the date hereof, see "*Selected Statistical and Other Information—Funding Sources—Other sources of funding—Other borrowed funds*".

Shareholders Agreement

TBC Bank and each of its shareholders are parties to the Shareholders Agreement, which provides for certain veto, tag-along, drag-along and pre-emptive rights amongst the TBC Bank's shareholders and establishes certain transfer restrictions over the Shares. Each of TBC's shareholders has agreed to terminate the Shareholders Agreement conditional upon, and with effect from, Admission. See "*Shareholders and Related Party Transactions—Shareholders*".

Agreements relating to the Global Offer

Underwriting Agreement

On 6 June 2014, TBC Bank, the Joint Global Coordinators, the Joint Bookrunners and the Co-Manager entered into the Underwriting Agreement providing for, inter alia, the underwriting of the Global Offer. See "*Plan of Distribution—Underwriting Agreement, Selling Shareholders Agreement and Overallotment Option*".

Deposit Agreement

On 11 June 2014, TBC Bank and the Depositary entered into the Deposit Agreement for the establishment and maintenance of (i) the Regulation S Facility and the Regulation S GDRs issued pursuant thereto and (ii) the Rule 144A Facility and the Rule 144A GDRs issued pursuant thereto, pursuant to which it also executed a Deed Poll in favour of the holders of the GDRs in the form attached to the Deposit Agreement. See "*Terms and Conditions of the Global Depositary Receipts*".

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF GEORGIAN LEGISLATION

*Set forth below is a description of TBC Bank's Shares, the material provisions of the Charter in effect on the date of this Prospectus and certain requirements of Georgian legislation, including a description of certain rights of the holders of the Shares and related provisions of the Charter and of the Georgian Law on Entrepreneurs (the "**Law on Entrepreneurs**"), the Georgian Law on Securities Market (the "**Securities Market Law**") and the Georgian Law on Commercial Banks (the "**Banking Law**"). This description does not purport to be complete and is qualified in its entirety by reference to the Charter and the relevant laws.*

General

TBC Bank is a joint stock company incorporated under the laws of Georgia. It was founded on 17 December 1992 and on 20 January 1993 was registered as a commercial bank with the NBG and obtained a banking license (No. 85). TBC Bank's identification number is 204854595 and registered address is 7 Marjanishvili Street, Tbilisi 0102, Georgia.

Pursuant to Article 1.6 of the Charter, TBC Bank may carry out all activities permitted for an entity that holds a banking licence.

Share Capital

TBC Bank's shares have been issued under the laws of Georgia. As of the date of this Prospectus, TBC Bank's authorised share capital is GEL 21,236,254.80 consisting of 53,090,637 ordinary shares with par value of GEL 0.4 each. TBC Bank's issued share capital as of the date of this Prospectus consists of 41,556,000 ordinary shares (including 2,000 shares held in treasury), all of which are fully paid. Prior to the Closing Date, TBC Bank expects to issue 7,692,308 additional ordinary shares in connection with the Global Offer.

Changes in Share Capital

At the time of incorporation, TBC Bank's authorised and issued share capital amounted to 100 million Russian rubles (Georgia's currency until April 1993), consisting of 1,000 shares with a par value of 100,000 rubles (approximately U.S.$239) each.

The General Meeting of Shareholders held on 28 January 1994 increased TBC Bank's share capital to 500 million Georgian coupons (Georgia's currency from 1993 through 1995). The GMS held on 15 March 1994 increased the share capital to 1 billion Georgian coupons and U.S.$1,000. TBC Bank's share capital was further increased to 10 billion Georgian coupons and U.S.$50,000 on 3 August 1994.

The GMS held on 6 March 1995 fixed the currency of TBC Bank's existing share capital as U.S. dollars in an amount of U.S.$136,900 and further increased the share capital to U.S.$1,150,000. Following the resolution passed at the GMS held on 23 December 1995, the Charter was amended to reflect the increase of TBC Bank's authorised share capital to U.S.$2,000,000, consisting of 20,000 shares with a par value of U.S.$100 each.

The GMS held on 20 February 1997 fixed the currency of TBC Bank's authorised share capital as Lari in an amount of GEL 2,850,000 with a par value of GEL 100 per share. Since 1997 the authorised share capital has been increased several times. In the periods covered in the Audited Consolidated Financial Statements, TBC Bank's authorised share capital has been increased three times: to GEL 15,443,100 on 3 May 2011, to GEL 16,643,100 on 25 June 2012, and to GEL 17,058,100 on 4 July 2013. On 4 March 2014 the GMS approved an increase of the authorised share capital of TBC Bank by GEL 4,178,154.80, divided into 10,445,387 new ordinary shares. The GMS approved the split of each ordinary share into 250 ordinary shares with GEL 0.4 par value each. As a result, the total authorised share capital of TBC Bank as at the date of this Prospectus is GEL 21,236,254.80, consisting of 53,090,637 ordinary shares with par value of GEL 0.4 each.

On 4 November 2005 the GMS converted 6,409 ordinary shares into preferred shares, but converted these preferred shares back to ordinary shares on 18 May 2006. TBC Bank has not issued preferred shares since then.

Except as disclosed in this section, there has been no change in the amount of TBC Bank's authorised share capital in period covered by the Audited Consolidated Financial Statements or the Unaudited Consolidated Interim Financial Statements.

Form and Transfer of Shares

The shares of TBC Bank are in registered form. They are available in the form of an entry in the share register of TBC Bank without the issuance of a share certificate.

Subject and in accordance with Georgian law and the Charter, shares can only be transferred by the registration of the transfer in the share registry kept by the independent registrar of TBC Bank's shares, or in the registry kept by the brokerage company or other authorised nominee holders to whom the shareholders have transferred their shares into nominal ownership. A holder of shares may freely transfer the shares without the consent of other shareholders and TBC Bank.

Capital Increase and Reduction; Issue of Shares and Pre-emptive Rights

The GMS is entitled to make decisions on any increase of TBC Bank's share capital, including the issuance of any shares or securities convertible into, exchangeable for, or otherwise granting the right to acquire shares of TBC Bank (including options, warrants and other rights). The GMS may authorise one of the bodies of TBC Bank to make a decision on the issuance of new shares within the limits of the authorised share capital.

Under the Charter, TBC Bank's shareholders have pre-emptive rights to subscribe for shares, pro rata to their respective shareholdings, with respect to any increase of TBC Bank's share capital or the issuance of any new shares or securities convertible into, exchangeable for, or otherwise granting the right to acquire shares (including options, warrants and other rights). TBC Bank must notify the shareholders in writing about any increase of the share capital and/or the issuance of any shares or other securities. The shareholders have the right to purchase the offered shares or other securities within one month from the receipt of such notice (unless a longer period is specified).

According to the Charter, the GMS is authorised to reduce the share capital of TBC Bank. In order to reduce its share capital through the redemption of shares, TBC Bank is required under the Banking Law to obtain the prior written consent of the NBG and to amend its Charter.

TBC Bank's authorised share capital is currently made up entirely of ordinary shares. The Law on Entrepreneurs provides for common and preferred shares, but allows other types of shares and convertible securities as well. The Law on Entrepreneurs requires that the number of shares of any class, rights and obligations attached to these shares as well as terms of amending such rights and obligations must be reflected in the Charter and share issue prospectus published in relation to such shares. After the placement of shares, it is prohibited to change such rights and obligations and the terms of their amendment. The Law on Entrepreneurs further requires that the shares of the same class must grant same rights to their holders.

Liability of Shareholders

A shareholder is required to pay par value for any share issued to it, or if the share is subscribed for at a higher value, the shareholder must also pay the difference between the par value and such higher value.

Voting Rights

Each share (except those held by TBC Bank as treasury shares and, for a certain period of time, bonus shares) confers the right to cast one vote at the GMS. There are no restrictions, either under Georgian law or in the Charter, on the right of non-residents of Georgia or foreign owners to hold shares in a Georgian joint stock company or to exercise the voting rights attaching to those shares. In order to be validly passed, resolutions must be adopted by at least a simple majority of the holders of voting shares present (or represented) at the GMS, unless Georgian law or the Charter requires a greater majority. Under Georgian law, a single shareholder holding more than 75% of voting shares would be entitled to pass a resolution without convening a GMS.

Financial Statements and Auditor

The Management Board must prepare TBC's financial statements and make the accounts available for inspection by the shareholders. The GMS approves the annual accounts.

The Supervisory Board elects the external auditor annually. The auditor is required to be economically and legally independent from TBC Bank, its directors and shareholders. The audit of the financial statements is performed by the external auditor in accordance with International Standards on Auditing. Immediately

upon the completion of the annual audit, the full report is presented to the NBG. TBC's consolidated financial statements and auditor's report are published in accordance with the rules set by the NBG.

Profit and Loss; Distributions; Dividends

Distribution of profits and payments of dividends by TBC Bank may only be made in compliance with the Law on Entrepreneurs, the Charter. Any promise to unconditionally pay dividends is invalid under the Law on Entrepreneurs. Dividends may only be paid out after adoption of the annual financial statements by the GMS, showing that the distribution of dividends is permissible, and out of net profits of TBC Bank. The Management Board prepares a proposal on the distribution of net profit to the Supervisory Board to approve and submit to the GMS. If the Management Board and the Supervisory Board fail to agree on the proposal, each submits a proposal to the GMS for final approval. The GMS makes the final decision on distributions of net profits.

Merger, Division, Amendment of the Charter

When a proposal to amend the Charter is made at the GMS, the proposal must be mentioned in the notification for convening the GMS.

According to the Charter, a GMS resolution is required in order to amend the Charter, as well as to approve a merger, consolidation, recapitalisation, division or other reorganisation of TBC Bank with or into any other entity. The merger or division of a Georgian bank requires the prior written approval of the NBG.

Under current Georgian law, banks must be joint stock companies. Unless the law is changed, TBC Bank cannot be transformed into another legal entity.

Liquidation

A liquidation of TBC Bank must be conducted in accordance with the rules set by the NBG and applicable laws. If TBC Bank is liquidated, the shareholders will receive their pro rata share of the assets remaining after the payment of the claims of any creditors.

Corporate Governance

Georgia has not adopted a code of corporate governance and therefore TBC is not subject to the requirements of any national corporate governance rules. TBC Bank is a party to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009, which has been drafted with the guidance of the International Finance Corporation and is based on internationally recognised principles of good corporate governance. Compliance with the Corporate Governance Code is not mandatory. The Corporate Governance Code regulates, among other things, the following operations and activities of TBC:

- the operations and structure of the Supervisory Board and Management Board;
- TBC's risk management and control environment policies and operations;
- the protection of shareholder rights; and
- TBC's relationship with its stakeholders.

Interested/Related Party and Major Transactions

Certain banking regulations regulate interested and related party transactions by commercial banks. According to NBG Order No. 116, dated 4 May 2001 ("**Order 116**"), TBC Bank is not authorised to conduct any operation with any of its administrators, affiliated company or related persons (as such terms are defined in Order 116), unless such operation is approved by the Supervisory Board. For these purposes, the definition of "administrator" includes members of the Supervisory Board, the Management Board and Audit Committee, as well as any person that independently or together with any other person(s) is authorised to incur obligations on TBC Bank's behalf.

No administrator or any person related to TBC Bank or to the administrator is permitted to participate in any discussions concerning operations with related parties if he/she anticipates to make any direct or indirect gain from such transaction. In addition, such administrator or related person must not influence, in any manner, the decisions of the Supervisory Board related to such operations. A Supervisory Board

member who has any interest in a given operation, must present detailed information about his or her interest when submitting such issue to the Supervisory Board for review. Such member of the Supervisory Board is not permitted to participate in the review and decision-making on that issue and will not be counted for purposes of determining whether a quorum is present for the meeting.

Furthermore, the Securities Market Law regulates interested party transactions and sets various approval and transparency requirements for a "**Reporting Company**" (defined therein as a company that has placed securities through public offerings or whose securities are admitted to trading on a stock exchange). Except as noted below, these requirements do not apply to transactions concluded between: (i) a company and its wholly-owned subsidiary; and (ii) a company and its 100% shareholder. TBC Bank and the Selling Shareholders believe that the Global Offer and Admission are outside of the scope of the Securities Market Law, and that therefore TBC Bank is not and will not, solely by virtue of the Global Offer and Admission, be considered a Reporting Company within the meaning of the Securities Market Law. However, following the Domestic Offer (as described under "*Plan of Distribution—Lock-up Provisions*"), TBC Bank will become a Reporting Company and be subject to various requirements of Georgian law. If TBC Bank, as a Reporting Company (or a subsidiary in which TBC Bank owns more than 50% of its shares), enters into a transaction, a member of its Supervisory Board or Management Board or a holder of 20% or more of its voting shares (or a related person of any such person) (a) has some relation to the transaction counterparty (such as by directly or indirectly holding 20% of its shares or by being a member of its supervisory or management board) or (b) receives a benefit from it, that person will be regarded as an "interested party" for the purposes of the Securities Market Law.

The interested party must notify the Supervisory Board and, depending on the value of the transaction, the GMS, of that party's interest in the transaction to be concluded. The Supervisory Board or the GMS (as applicable) must approve the transaction. An interested party may not vote in relation to a transaction in which he or she has an interest. Reporting Companies are required to provide information about interested party transactions to the NBG and publish information about such transactions (including those concluded with wholly-owned subsidiaries and with 100% shareholders).

If a transaction is concluded in violation of the rules described above, a member of Management Board or the Supervisory Board of TBC Bank or its shareholder (or group of shareholders) holding 5% or more of the shares in TBC Bank are entitled to sue the interested party for damages and the return of any benefit received from the transaction. The plaintiff must establish that TBC Bank suffered damages as a result of the interested party transaction and had there been no such interested party, the transaction would have been concluded on better terms. Invalidation of the transaction may be requested within 18 months from the date of its conclusion.

Certain major transactions require the approval of the GMS or Supervisory Board. For instance, among other issues, the approval of the Supervisory Board is required for the following:

- the purchase, alienation, or disposal of property, the value of which exceeds 3% of TBC Bank's equity (determined in accordance with the IFRS based on the latest audited year-end results);
- borrowings exceeding 20% of TBC Bank's equity determined in accordance with the IFRS based on the latest audited year-end results);
- the listing of the shares of TBC Bank on a stock exchange;
- the acquisition of shares in, investment in, or disposal of shares in legal persons for total consideration of more than U.S.$1 million (or its equivalent in another currency);
- the sale, lease, exchange, transfer, pledge, contribution or other disposal of the assets of TBC Bank or any key subsidiary which exceeds 5% of TBC Bank's equity (subject to certain exceptions);
- the entry into related party transactions by TBC Bank other than a transaction with a subsidiary in which TBC Bank owns 50% or more of the voting shares or ownership interests.

For a more detailed description, see "*Management—General Meeting of Shareholders and Certain Shareholder Rights*" and "*Management—Supervisory Board*".

Georgian Squeeze-Out Proceedings

The Law on Entrepreneurs allows a shareholder who holds more than 95% of a company's voting shares to buy out the other shareholders at a "fair price". According to the Law on Entrepreneurs, the "fair price" and the date of the buy-out is determined by the court. Before applying to the court for the buy-out, the

buyer must publish a notice with respect to the buy-out in a nationwide publication determined by the NBG.

Georgian Mandatory Tender Offer Rules

According to article 53^2 of the Law on Entrepreneurs, if a shareholder acquires more than 50% of the voting shares of a company, it must make a tender offer to buy out all the remaining shares within 45 days from the moment of such acquisition or reduce its shareholding below the 50% threshold by selling a portion of its shares. According to the Law on Entrepreneurs, the purchase price is determined by an auditor, or a brokerage company and may not be less than the highest price paid by the offeror shareholder for the company's shares over the past six months. The auditor or brokerage company compiles a buy-out report, which describes the conditions of the buy-out, the method used for determining the price and the price determined by using such method.

This mandatory tender offer requirement does not apply to a person who acquires more than 50% of the voting shares of a company for the benefit of other person(s), including for the purpose of issuing global depositary receipts ("**Intermediary**"). In such a case, the person (or group of persons acting in concert) who directly or indirectly controls more than 50% of the voting rights of the company, rather than the Intermediary, is required to make the mandatory tender offer.

The mandatory tender offer itself is made in accordance with the Securities Market Law, and involves, *inter alia*: (i) an application to the NBG including the draft tender proposal; (ii) the sending of the tender offer to all the other shareholders; and (iii) the publication of the tender offer in newspapers. During the tender offer, the offeror is prohibited from purchasing the shares of the company. The offeror is also prohibited from voting any shares it holds which exceed 50% of the voting shares at the GMS until completion of the mandatory tender offer.

Regulation of Shareholders of Commercial Banks

Pursuant to the Banking Law, a person who has been convicted of a grave or especially grave offence, terrorism financing, money laundering or other economic crimes, may not hold a significant shareholding (defined for these purposes as more than 10% of either the authorised share capital or of the fully paid-up issued share capital directly or indirectly held) in a commercial bank. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding.

Under the Banking Law, a person intending to acquire shares in a Georgian bank, and who (or whose beneficial owner(s)) as a result of such acquisition would directly or indirectly own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration of conformity to, and obtain prior approval from, the NBG. Acquisitions of more than 10% of a Georgian bank's share capital without NBG approval are deemed to be null and void. If there are grounds for suspicion, the NBG may request a bank to submit a declaration as to the direct, indirect or beneficial holders of more than 10% of its share capital, and may temporarily or indefinitely suspend the voting rights of such shareholder or require such shareholder to reduce its shareholding to 10%.

Pursuant to the Banking Law, a commercial bank is required to submit to the NBG, together with its annual report, information on the direct and beneficial holders of more than 10% of the its share capital. Such information must be prepared in reliance on the information available to the bank, which must also note whether or not it confirms the accuracy thereof.

Holders of Shares could also be subject to reporting obligations under the Banking Law and the Securities Market Law. Under the Banking Law, any person that directly or indirectly beneficially owns more than 10% of the shares of a Georgian bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholding as of 31 December of the preceding calendar year.

Therefore, holders of GDRs and beneficial owners of the Shares shall be responsible for compliance with restrictions on, and notification obligations related to, the ownership of the underlying Shares imposed from time to time by Georgian law or by any Georgian regulatory authority or otherwise, and in particular holders of GDRs and beneficial owners of the Shares shall be responsible for ensuring that they do not own, or have the ability to exercise voting rights in respect of, Shares or GDRs or a combination of the foregoing, comprising: (i) more than 10%, (ii) more than 25% and/or (iii) more than 50% of the share capital of TBC Bank at any time without the prior written approval of the NBG.

TBC Bank and the Selling Shareholders believe that the Global Offer and Admission are outside of the scope of the Securities Market Law, and that therefore TBC Bank is not and will not, solely by virtue of the Global Offer and Admission, be considered a Reporting Company. However, following the Domestic Offer (as described under "*Plan of Distribution—Lock-up Provisions*"), TBC Bank will become a Reporting Company and be subject to various requirements of Georgian law. In such case, any person or group of persons acting in concert in connection with the acquisition, holding or disposal of Shares or the exercise of any shareholders' rights, including voting rights, would be required to give written notice to the NBG, TBC Bank and the stock exchange where the securities of TBC Bank are traded in respect of any acquisition of or obtaining control of or change by more than 10% of the voting rights in TBC Bank. Such notice would be required to be provided within 10 business days of the acquisition of such voting rights or obtaining control of TBC Bank or such other shorter deadline as may be determined by the applicable NBG regulations.

In addition, according to the Securities Market Law, a member of the supervisory or management board of a Reporting Company must give written notice to the NBG regarding the percentage of shares it owns. Such information must be also provided to the stock exchange if the shares of the Reporting Company are traded on the stock exchange. The notice must be served within ten days of the acquisition of shares, appointment to the supervisory or management board of the Reporting Company or the company becoming a Reporting Company. In addition, pursuant to NBG regulation No. 21/01 (dated 22 February 2010), such notification by members of the management board or supervisory board should be made in relation to each change in the number of securities they hold in the Reporting Company.

NON-COMPLIANCE WITH THE REPORTING OBLIGATIONS UNDER THE SECURITIES MARKET LAW AND THE BANKING LAW COULD LEAD TO ADMINISTRATIVE FINES AND CIVIL SANCTIONS, INCLUDING A SUSPENSION OF VOTING RIGHTS IN RESPECT OF THE SHARES AT THE NEXT GMS OR INDEFINITELY. THE NBG MAY ALSO REQUIRE THE RELEVANT PERSON TO REDUCE ITS SHAREHOLDING DOWN TO 10%.

GEORGIA

The following information relating to Georgia is for background purposes only. The information has been extracted from publicly available sources. TBC has not independently verified the following information.

Overview

Georgia is located in the Caucasus region of Eurasia and is bordered by Russia, Azerbaijan, Armenia and Turkey, as well as the Black Sea. Based on figures from Geostat, the population in 2013 was 4.48 million.

Georgia is a member of a number of international organisations, including the United Nations, the IMF, the World Bank and the International Development Association. Georgia maintains positive relations with the United States, the EU and most regional partners. Relations with Russia have been strained since Georgia gained independence in 1991, with tensions escalating briefly into armed engagements during the 2008 Conflict. See "*Risk Factors—Risk Relating to Georgia—Regional tensions could have a material adverse effect on the Georgian economy*" and "*Risk Factors—Risk Relating to Georgia—Economic instability in Georgia could have a material adverse effect on TBC's business.*"

Economy

General

Georgia traditionally specialised in the cultivation and export of agricultural products, however since independence it has transformed into a diversified economy with its largest sector, wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, accounting for only 15.0% of GDP in 2013. Georgia imports a significant amount of its energy needs, including natural gas and oil products, from various sources, including Russia.

Georgia has an international reputation as a country with a favourable investment environment, being ranked in recent World Bank & IFC Doing Business Reports as one of the top ten easiest countries in the world in which to do business and one of the top reformers in the world.

Following a recession in 2008 and 2009 resulting from the effects of the 2008 Conflict and the global financial crisis, there has been slight growth in the Georgian economy during 2011, 2012 and 2013, although significant uncertainties still remain. According to data published by Geostat, real GDP in Georgia grew by an estimated 3.2% in 2013, compared to increases of 6.2% in 2012 and 7.2% in 2011, mainly as a result of increases in exports of goods and services, growth of the tourism sector and government investment in domestic infrastructure. See "*Management's Discussion And Analysis Of Financial Condition And Results Of Operations—Key Factors Affecting TBC's Financial Condition and Results of Operations—General economic conditions in Georgia*".

Inflation

Since 1999 inflation has been in the single-digit range. The period end annual inflation rate (as measured by the CPI) was an estimated 2.4% in 2013 as compared to (1.4)% in 2012 and 2.0% in 2011. The decrease in 2012 was due to high inflation in 2011 and food price increases and the economic slowdown in the second half of 2012 as a result of political uncertainty after the change of government in October 2012.

To counteract deflation and grow the economy, the NBG has eased its monetary policy, cutting the refinancing rate to 5.25% in 2012 from 6.75% in 2011, while its foreign currency reserves continued to grow, reaching U.S.$2.8 billion in December 2013 a slight decrease from U.S.$2.9 billion in December 2012.

Foreign investment and trade

FDI has been an important source of financing for the Georgian economy since the Rose Revolution in 2003. Georgia relies heavily on net FDI to cover its current account deficit. As a result of the decrease in net FDI inflows beginning in the second half of 2008, in recent years, the current account deficit has been financed, in part, by increased borrowing. FDI in 2013 was U.S.$914 million, compared to U.S.$912 million in 2012 and U.S.$1,117 million in 2011, while Georgia's current account deficit decreased to 6.5% of nominal GDP in 2013, compared to 11.7% in 2012 and 12.7% in 2011. See "*Risk Factors—Risks Relating to Georgia—Economic instability in Georgia could have a material adverse effect on TBC's business.*"

Wages, income and employment

The average monthly wage in Georgia has grown rapidly over the last few years and reached GEL 712.5 in 2012 (compared to GEL 156.6 in 2004). Higher wages are a result of the government's decision to raise public sector pay in order to attract and retain skilled personnel and reduce incentives for corruption. As a result Georgia's GDP per capita was an estimated U.S.$3,597 in 2013 (compared to U.S.$3,523 in 2012 and U.S.$3,231 in 2011). The Georgian unemployment rate was 15.0% as at 31 December 2012 and 15.1% as at 31 December 2011.

Economic data

The following table sets out key economic indicators for Georgia for the years indicated:

	For the year ending 31 December		
	2013	2012	2011
Economic Activity			
Nominal GDP (U.S.$ million)[3]	16,126	15,847	14,439
Nominal GDP (GEL million)[1]	26,825	26,167	24,344
Real GDP Growth (y-o-y; %)[1][4]	3.2%	6.2%	7.2%
GDP per Capita (U.S.$)[5]	3,597	3,523	3,231
Population (e-o-p; million)	4,484	4,498	4,469
Unemployment (%)	*	15.0%	15.1%
Inflation			
CPI (year-end; %)[1][7]	2.4%	(1.4)%	2.0%
External Balance			
Total Exports (FOB; U.S.$ million)[2]	2,909	2,377	2,189
Total Imports (CIF; U.S.$ million)[2]	7,874	7,842	7,058
Trade Balance (U.S.$ million)[2]	(4,965)	(5,465)	(4,869)
Current Account Balance (U.S.$ million)	(951)	(1,854)	(1,841)
As % of GDP[8]	5.9%	11.5%	12.7%
Capital Account Balance (U.S.$ million)	134	134	153
Net FDI (U.S.$ million)[2]	914.4	911.6	1,117.2
As % of GDP[9]	5.7%	5.8%	7.7%
Gross FX Reserves (including Gold and SDRs; U.S.$ million)[1]	2,823	2,873	2,818
Fiscal Balance and Debt Indicators			
State Budget Reserves (GEL million)[1]	6,809	7,058	6,389
State Budget Expenditures (GEL million)[1]	7,203	7,179	6,683
Budget Balance (GEL million)[1]	(394)	(121)	(294)
As % of GDP[10]	(1.5)%	(0.5)%	(1.2)%
Foreign Debt (U.S.$ million)[12]	4,184	4,246	3,691
Foreign Debt (% of GDP)[11]	25.9%	26.8%	25.6%
Exchange Rate			
GEL: USD (average)[1]	1.6634	1.6513	1.6860

* Figure unavailable as at the date of this Prospectus

Source: Geostat (unless otherwise noted)

Notes:

(1) Source: Ministry of Finance of Georgia.

(2) Source: Ministry of Economic Development of Georgia.

(3) Calculated as nominal GDP in GEL divided by average exchange rate GEL:U.S. dollars.

(4) The real GDP percentage change for a particular year indicates the percentage change from the previous year, where 0 = 0% growth.

(5) Calculated as nominal GDP in U.S. dollars divided by population in millions.

(6) Average CPI for a particular year indicates the percentage change in CPI (average) in local currency over the previous year.

(7) Period end CPI for a particular year indicates the percentage change in CPI (period end) in local currency over the previous year.

(8) Calculated as current account balance in U.S. dollars divided by nominal GDP in U.S. dollars.

(9) Calculated as foreign direct investment in U.S. dollars divided by nominal GDP in U.S. dollars.

(10) Calculated as budget balance in GEL divided by nominal GDP in GEL.

(11) Calculated as foreign debt in U.S. dollars divided by nominal GDP in U.S. dollars.

(12) Source: NBG

BANKING SECTOR AND BANKING REGULATION IN GEORGIA

Introduction

The Georgian banking sector consists of Georgian banks, non-bank deposit-taking institutions, qualified credit institutions and micro-finance organisations. Non-bank deposit-taking institutions and micro-finance organisations provide only limited banking services, such as accepting deposits from and issuing loans to their members only, or issuing micro-finance loans, whereas banks provide a wide range of banking services. Generally, all credit institutions in Georgia are required to be licensed or registered and are regulated by the NBG.

The principal laws regulating the Georgian banking sector are the Organic Law on the National Bank of Georgia (the "**NBG Law**"), which was adopted in September 2009 (which replaced the previous Organic Law on the National Bank of Georgia adopted in June 1995) and the Banking Law, which was adopted in 1996. The NBG Law sets out the principal responsibilities of the NBG. The Banking Law (i) sets out the list of permitted and prohibited activities for banks, and (ii) establishes the framework for the registration and licensing of banks in Georgia and the regulation of banking activity supervision.

Commercial Banks in Georgia

According to data published by the NBG, as at 31 December 2013, there were 21 commercial banks and foreign bank branches operating in Georgia, 20 of which (including two branches of foreign banking institutions) had foreign capital participation. As at 31 December 2013, the total assets of the Georgian banking sector (including both domestic commercial banks and branches of foreign banks located in Georgia) was GEL 17.3 billion, as compared to GEL 14.4 billion as at 31 December 2012. The five largest banks accounted for approximately 77.3% of the total assets of the Georgian banking sector as at 31 December 2013.

The following table sets forth the aggregate balance sheet of the Georgian banking sector as at the dates indicated:

	As at 31 December		
	2013	2012	2011
	(GEL millions)		
Cash	911.4	740.7	515.3
Balances on Correspondent Accounts	3,019.0	2,542.9	2,325.8
Securities for Dealing Operations	23.8	11.1	16.3
Investment Securities[(1)]	1,494.1	1,078.0	956.9
Net Loans	9,863.5	8,124.8	7,203.4
Accrued Interest and Dividends Receivable	134.4	115.7	99.7
Equity Investments	354.0	369.4	287.2
Fixed Assets	1,021.0	990.3	938.5
Other Assets	450.9	381.8	336.0
Total Assets	**17,272.2**	**14,354.7**	**12,679.1**
Deposits of Banks	589.9	537.0	607.2
Demand Deposits	5,538.8	3,924.9	3,922.9
Term deposits of Enterprises	1,062.7	1,126.5	740.4
Term deposits of Individuals	3,079.2	2.598.4	2.081.6
Total Non-Bank Deposits	9,680.6	7,649.8	6,745.0
Accrued Interest and Dividends Payable	208.2	172.3	135.2
Borrowed Funds	3,587.7	3,323.0	2,640.6
Other Liabilities	312.3	282.5	446.8
Total Liabilities	**14,378.8**	**11,964.6**	**10,574.7**
Paid-in Capital	1,001.4	849.3	837.4
Capital Reserves	1,202.2	1,132.0	942.5
Retained Profits	689.8	408.7	324.5
Equity Capital	**2,893.4**	**2,390.1**	**2,104.4**
Total Liabilities and Equity Capital	**17,272.2**	**14,354.7**	**12,679.1**

Note:

(1) "Investment securities" comprise local currency-denominated Treasury bills, Treasury bonds and the NBG's Certificates of Deposits, all of which are eligible as collateral for the NBG's refinancing facility as well as overnight and intraday loans.

Source: NBG

Lending to customers is the primary activity of banks operating in Georgia. According to data published by the NBG, the overall quality of loans granted by Georgian banks improved in 2013. Non-performing loans (which the NBG classifies as loans subject to provisioning levels of at 30% or more under NBG provisioning guidelines), amounted to GEL 791 million as at 31 December 2013, compared to GEL 810 million as at 31 December 2012. The ratio of non-performing loans to total loans was 7.5% as at 31 December 2013, 9.3% as at 31 December 2012, and 8.6% as at 31 December 2011.

The NBG has never imposed any restrictions on deposit withdrawals and the NBG does not, and is not authorised to, guarantee deposits. As at 31 December 2013, non-bank deposits accounted for 67.3% of total liabilities. As at 31 December 2012, non-bank deposits accounted for 63.9% of total liabilities, while as at 31 December 2011 non-bank deposits accounted for 63.8% of total liabilities.

Foreign investment

There are no legal or regulatory barriers on foreign investment in the Georgian banking sector. Direct competition from foreign banks is not, however, significant at present.

Based on information published by the NBG, commercial banks with foreign capital participation accounted for 77%% of total commercial bank capital in Georgia as at 31 December 2013. Georgia's two largest banks have significant foreign ownership: the holding company of Bank of Georgia is listed on the London Stock Exchange and TBC is partly-owned by various international financial institutions, including the EBRD, IFC, DEG and FMO. See "*Shareholders and Related Party Transactions—Shareholders*".

Other major foreign investors in the Georgian banking sector include the Procredit Group, Société Générale, Liberty Investments Holding, VTB Bank, BTA, PrivatBank, International Bank of Azerbaijan, Halyk Bank and Ziraat Bank.

The NBG

The NBG is the central bank of Georgia and is responsible for the supervision of the banking sector. Between 2008 and 2009, the supervisory functions of the NBG related to commercial banks and non-bank deposit institutions (except for the supervision of minimum reserve requirements), were transferred to the Financial Services Agency. The NBG Law abolished the Financial Services Agency and transferred powers to supervise financial institutions and the capital markets to the NBG.

The NBG's main objective is to maintain price stability. NBG ensures the stability and transparency of the financial system and fosters sustainable economic growth. The NBG is responsible for implementing monetary and foreign exchange policies, supervising the banking sector (including through the setting of minimum reserve requirements), regulating other financial services (including securities), dealing with foreign reserves and acting as the fiscal agent and banker for the Government.

The NBG is an autonomous public entity. The supreme governing body of the NBG is a board, which consists of seven members. The president of Georgia proposes board candidates to the Georgian parliament, and the Georgian parliament endorses candidates for a seven-year term. The board then selects the president of the NBG, whose appointment is subject to confirmation by the president of Georgia. The president of the NBG nominates two vice presidents of the NBG. These appointments are also subject to confirmation by the president of Georgia.

Banking Supervision

Following the adoption of the NBG Law in 2009, the NBG is the regulator and supervisor of the financial services sector in Georgia (except insurance), including in respect of, *inter alia*, banks, non-bank depositary institutions, credit unions, qualified credit institutions, securities market participants, micro-finance organisations, currency exchange bureaus and money remittance services. The NBG is responsible for the licensing of banks, non-bank deposit-taking institutions and securities market participants in Georgia. In addition, the NBG oversees the registration of micro-finance organisations, qualified credit institutions, currency exchange bureaus and providers of money remittance services and investment funds (the latter being subject to NBG supervision until 1 January 2015). The NBG is authorised to issue and revoke licences, carry out on- and off-site inspections and impose restrictions and sanctions. The NBG is also authorised to place banks and non-bank deposit-taking institutions into temporary administration, liquidation or insolvency regimes, as the case may be.

The NBG performs regulation of financial institutions in line with risk-based supervision principles and organises banking supervision through specialised function units. The NBG is gradually introducing reforms to create a more advanced risk-based approach to supervision and further harmonise its regulations with relevant EU directives and Basel II/III principles.

Licensing

Commercial banks must obtain a licence from the NBG for, and banks are permitted to engage only in, "banking activities" as defined in the Banking Law, which include: (i) receiving interest-earning and interest-free deposits and other returnable means of payment; (ii) extending consumer loans, mortgage loans and other credits (whether secured or unsecured), and engaging in factoring operations with and without the right of recourse and trade finance (including the granting of guarantees, letters of credit, acceptance finance and forfeiting); (iii) buying, selling, paying and receiving monetary instruments (such as notes, cheques and certificates of deposit), securities, futures and options with debt instruments or interest rates, currency and interest instruments, debt instruments, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing payment instruments and managing their circulation (including payment cards, cheques and bills of exchange); (vi) interest-free banking services; (vii) intermediary services on the financial markets; (viii) trust operations on behalf of clients and funds management; (ix) safekeeping and accounting for valuables including securities; (x) credit-information services; (xi) activities of the central depositary as determined by the Securities Market Law; (xii) leasing property; (xiii) provision of payment services, operation of a payment system and acting as settlement agent; and (xiv) activities incidental to each of the above types of services.

The Banking Law provides that any banking activities related to securities shall be regulated by the Securities Market Law and that, prior to tendering interest-free banking services or issuing certificates of deposit, a commercial bank must present a description of the relevant service for the approval of the NBG.

Mandatory prudential ratios

The NBG sets limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions. The prudential ratios currently imposed by the NBG are set out in the Regulation on Supervision and Regulation of the Activities of Commercial Banks (NBG President Order No. 69/04 of 28 June 2013). The key mandatory ratios in relation to the commercial banking sector include the following:

Capital adequacy ratios: The tier 1 capital ratio (i.e., in respect of a bank, the ratio of its tier 1 capital to risk-weighted assets) must be at least 8% and its regulatory capital ratio (i.e. the ratio of its regulatory capital (See "*—Regulatory Capital*") to risk-weighted assets) must be at least 12%.

These requirements apply until the end of 2014 and will then gradually decrease to 80% of the current requirements by 2017. In October 2013, the NBG introduced a local version of Basel II/III regulations in Georgia. Implementation of the new regulations is gradual: commercial banks must comply with minimum capital adequacy requirements by June 2014 and full compliance is required by 2017. The new regulation sets the following requirements:

- primary tier 1 capital ratio must be at least 7%;
- tier 1 capital ratio must be at least 8.5%; and
- regulatory capital ratio must be at least 10.5%.

Related party lending ratios: Credit to an insider (or his or her other liabilities to a bank) must not exceed 5% of the bank's regulatory capital. The aggregate amount of all credits (and other liabilities) extended to all insiders must not exceed 25% of the bank's regulatory capital.

Lending ratios: Credit to an outsider (or his or her other liabilities to a bank) must not exceed 15% of the bank's regulatory capital. Aggregate of all credits (and other liabilities) extended to a group of related outsiders may not exceed 25% of the bank's regulatory capital. Total large loans and other liabilities (defined as loans to a single borrower or a group of related borrowers in excess of 5% of regulatory capital) extended to borrowers may not exceed 200% of the bank's regulatory capital.

Unsecured loans: Unsecured loans must not exceed 25% of a bank's total loan portfolio.

Liquidity ratios: Average liquid assets held by the bank must not be less than 30% of average liabilities over the course of any month.

Investment ratios: Total investments in the capital of legal entities must not exceed 50% of the difference between the total assets and liabilities of a bank. The carrying value of a bank's fixed assets together with the total investments in the capital of legal persons must not exceed 70% of the difference between total assets and liabilities of a bank.

Open exchange position: The cumulative open exchange position (which includes off-balance sheet items) must not exceed 20% of a bank's regulatory capital.

Provisioning

Banks are required to set aside adequate provisions to cover potential losses on loans and other risk assets. These provisions are reviewed and reported to the NBG on a monthly basis. Pursuant to the "Regulation on Asset Classification and Creation and Use of Reserves for Losses by Commercial Banks", approved by order of the NBG President No. 350 of 29 December 2000, loans are classified into five groups according to their risk exposure and subject to varying provisioning requirements.

The NBG has established the following provisioning requirements for loan loss reserves: 2% for standard loans, 10% for loans on watch, 30% for sub-standard loans, 50% for doubtful loans and 100% for bad loans (classified as "**loss**"). See "*Lending Policies and Procedures*".

Regulatory capital

The NBG has established minimum regulatory capital requirements for commercial banks. Pursuant to NBG Order No. 144 dated 23 May 2006, the minimum amount of regulatory capital for each commercial bank in Georgia and foreign branches operating in Georgia must be at least GEL 12.0 million. Under Georgian law, a commercial bank's "regulatory capital" comprises the sum of its tier 1 and tier 2 capital, less certain deductions.

Anti-monopoly policy

The NBG is responsible for implementing anti-monopoly policy with respect to mergers and takeovers in the banking sector. The NBG has not set any limit on the number of banks which may operate in the Georgian banking market. Any entity which can meet the minimum regulatory capital requirements and satisfy all other relevant requirements is eligible to receive a banking licence.

Reserve requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. These requirements are determined separately in Lari and foreign currencies depending on the average attracted funds, in order to promote the continued development of the domestic interbank market. Based on NBG Order No. 10/04 (dated 11 February 2011) (as subsequently amended), the currently effective minimum reserve requirements are set at 10% for Lari funds and 15% for all foreign currency funds (except borrowed funds with a remaining term of between 365 and 730 days, for which the minimum reserve requirement is 5%). The requirements do not further distinguish between funds borrowed from residents or non-residents. The amount of capital funds borrowed from the NBG and resident commercial banks (or equivalent funds) and various other liabilities are also not included in calculation of the relevant reserves.

Corporate governance

General

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. However, no deadline for the implementation has been established.

TBC is a party to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009, which was drafted with the guidance of the IFC and is based on internationally recognised principles of good corporate governance.

The Banking Law imposes certain governance rules in respect of shareholdings in, and management of, commercial banks. Executive officers may not form a majority on the supervisory board of banks. In addition, executive officers who serve on the supervisory board may not participate in the resolution of issues concerning board supervision, including the approval of board reports.

Based on the Banking Law, the owners of a significant stake (more than 10% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in Georgian banks must comply with certain criteria. The NBG has also established "fit and proper" criteria for the regulation of a bank's management and supervisory board (as described below).

Regulation of commercial bank employees and supervisory board members

Pursuant to the Regulation on Compatibility Criteria of Administrators of Commercial Banks (Order No. 234 dated 16 September 2002, (as subsequently amended)) (the "**Regulation on Compatibility Criteria**"), persons discharging managerial or supervisory functions of commercial banks must fulfil the "fit and proper" compatibility criteria in order to ensure they are fit for their position.

The "fit and proper" compatibility criteria apply to the following persons discharging managerial or supervisory functions: members of the directorate of commercial banks; heads and deputies of branches of commercial banks and similar subdivisions (as well as persons acting in such capacity), chief and deputy accountants of commercial banks and branches of commercial banks (as well as persons acting in such capacity), and other persons discharging managerial or supervisory functions of commercial banks who are

authorised to undertake responsibilities independently or jointly with one or more persons on behalf of such banks.

According to the Regulation on Compatibility Criteria, any person to be appointed as person discharging managerial or supervisory functions of a commercial bank must comply with the following compatibility criteria:

- each member of the bank's management board, director and deputy director of a branch or similar structural unit must have a university degree in economics, finance, banking, business administration, auditing, accounting or law;
- the chief accountant and deputy chief accountant of the bank and of each branch must have a university degree in economics, finance, banking, business administration, auditing or accounting;
- each member of the bank's management board must have relevant qualifications and professional experience and at least four years' experience in the banking and finance sectors, including two years as a senior manager (head or deputy head of a structural unit);
- the director and deputy director of a branch and the head and deputy head of a department (service centre) of a bank must have relevant qualifications and professional experience and at least three years' experience in the banking and finance sectors, including one year as a senior manager (as head or deputy head of a structural unit);
- the chief accountant and deputy chief accountant of the bank must have at least three years' experience working in the banking and finance sectors;
- the chief accountant and deputy chief accountant of a branch must have at least two years' experience working in the banking and finance sectors;
- a person to be appointed to the office of manager or senior personnel may not be a member of the supervisory board or the audit committee of the same bank and/or of any other commercial bank, non-bank depository institution—credit union or a member of the management board or other senior officer of any other enterprise;
- there should not be a request from the NBG to the supervisory board and/or the management board of a bank with respect to the dismissal of the person to be appointed to such office from his or her current position;
- no member of the management board may be the spouse, child or other close relative of another member of the same bank's management board; and
- the chief accountant and deputy chief accountant of the bank or any branch of the bank may not be the spouse, child or close relative of a member of management board of the same bank or the same branch.

According to the Banking Law, a person may not serve as a member of the management board of a bank if he or she (a) does not meet the compliance criteria applicable to a director of a bank (described above); (b) is not authorised to hold a seat in the management board pursuant to law; (c) has been declared bankrupt; or (d) is a spouse, child or a close relative of a member of the management board of the same bank.

As an additional requirement, no one who: (a) has been declared legally incapable by the court; (b) has been convicted of grave or especially grave offence, terrorism financing and/or legalisation of illicit income or other economic crime; (c) has no relevant education and/or experience; or (d) is a director/senior officer or a member of the supervisory board of another commercial bank (except when this other bank is controlling or controlled by the bank), may be a manager or senior officer of a bank.

The compliance criteria listed in (a) to (d) in the paragraph above also apply to the members of the supervisory board of a bank. Furthermore, no person may be elected to the supervisory board of a bank who: (a) is a member of the supervisory board or the management board of more than seven enterprises registered in Georgia; (b) is a director/senior officer or a member of the supervisory board of another commercial bank registered in Georgia (except when this other bank is controlling or controlled by the bank); (c) is not authorised to hold a seat in the supervisory board pursuant to law; or (d) has been declared bankrupt.

The NBG is authorised to establish additional compliance criteria for members of the management board and supervisory board of a bank with a normative act.

Acquisition of interests in Georgian banks and ongoing shareholder reporting obligations

Pursuant to the Banking Law, a person who has been convicted of a grave or especially grave offence, terrorism financing, money laundering or other economic crimes, may not hold a significant shareholding (defined for these purposes as more than 10% of either the authorised share capital or of the fully paid-up issued share capital directly or indirectly held) in a commercial bank.

Under the Banking Law, a person intending to acquire shares in a Georgian bank, and who (or whose beneficial owner(s)) as a result of such acquisition would directly or indirectly own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration to, and obtain prior approval from, the NBG. Acquisitions of more than 10% of a Georgian bank's share capital without NBG approval are deemed to be null and void. If there are grounds for suspicion, the NBG may request a bank to submit a declaration as to the direct, indirect or beneficial holders of more than 10% of its share capital, and may temporarily or indefinitely suspend the voting rights of such shareholder or require such shareholder to reduce its shareholding to 10%. The NBG is entitled to deny approval if the transaction may endanger stability of Georgia's financial sector, result in breach of requirements established by international organisations or by Georgia's international agreements or if the person wishing to acquire shares in a commercial bank fails to provide all necessary information about the origin of funds used to purchase such shares. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, a commercial bank is required to submit to the NBG, together with its annual report, information on the direct and beneficial holders of more than 10% of its share capital. Such information must be prepared in reliance on the information available to the commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10% of shares of a bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as at 31 December of the preceding calendar year.

Reporting requirements

All banks are subject to inspection by the NBG. Inspectors may examine a bank's accounts, books, documents and other records and those of its subsidiaries and may require its offices, employees and agents to provide any and all information and documents upon their request. On-site inspections are risk-based, concentrating on loan portfolio quality, asset qualification, collateral quality and loan application decisions.

Banks are required to submit the audited annual IFRS financial statements and related external audit reports to the NBG and to publish them. Banks are also required to submit different mandatory NBG rules-based financial reports to the NBG, in a specially designed template on a regular basis (daily, weekly, monthly, quarterly, annual).

Deposit insurance

There is currently no mandatory deposit insurance scheme in Georgia. Despite indications in the Georgian Banking System Development Strategy for 2006-2009 that the NBG intended to introduce a mandatory deposit insurance scheme, this has not been implemented to date and there is no timetable set for the introduction of such a mandatory scheme.

Insolvency Regime

The NBG is entitled to cancel and revoke the banking licence of any bank that becomes insolvent, as well as under certain other circumstances. Upon revocation of its licence, the bank is liquidated in accordance with the procedure set forth in the Banking Law.

If the liquidated commercial bank was a payment system operator or a settlement agent, then upon appointment, the liquidator must settle any transfer orders received by the system prior to its appointment, establish settlement positions of the system participants and/or execute settlement in accordance with the Law of Georgia on the Payment System and Payment Service, as applicable. In the commercial bank

liquidation process, creditors holding financial collateral are entitled to the preferential satisfaction of their claim secured by such financial collateral. During the liquidation period, any secured claims will be repaid to the bank's creditors in accordance with the terms of the relevant security agreement (up to the value of the security). The proceeds of the bankruptcy estate of an insolvent bank is required to be distributed among all its other creditors in the following order:

- *first:* all claims of the NBG and other lenders which arose after revocation of the bank's licence;
- *second:* amounts on the accounts of natural persons not exceeding GEL 1,500;
- *third:* amounts on the accounts of natural persons not paid under the second item above;
- *fourth:* amounts on the accounts of legal entities;
- *fifth:* indebtedness to the Georgian State Budget, including claims secured by tax liens; and
- *sixth:* all other claims against the bank.

If there are insufficient funds to fully cover all claims listed in the second, third, fourth and fifth categories above, all of the claims of each creditor within the relevant category shall be paid on a pro-rata basis and the claims of the subsequent category shall be paid only after the claims of the previous category have been fully paid.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income (the "**AML Law**") came into force on 1 January 2004. The AML Law strengthened control over the movement of funds within Georgia and introduced a new independent public law entity, Financial Monitoring Service (the "**FMS**"), to monitor and supervise anti-money laundering and counter terrorism financing measures and to issue decrees setting out further preventative measures and reporting requirements.

A number of decrees have been implemented and amendments made to the AML Law since its adoption, including, *inter alia*, a requirement for enhanced due diligence measures to be applied when business relationships are established with politically exposed persons. In addition, following amendments to the Georgian Criminal Code between 2006 and 2008, all material elements of money laundering and terrorist financing crimes are explicitly covered under Georgian criminal legislation, including in relation to legal persons. Amendments were made to Georgian criminal legislation in 2005 to align it with the Council of Europe Strasbourg Convention of 1990 on "Laundering Search, Seizure and Confiscation of the Proceeds of Crime".

The FMS operates as an independent body under the auspices of the NBG. The FMS conducts its activities in close cooperation with MONEYVAL (the AML body of the Council of Europe of which Georgia is a member) and in accordance with Financial Action Task Force recommendations and EU directives, notwithstanding the fact that Georgia is not a member of either of the latter two bodies.

Under the AML Law, all banks, are obliged to monitor and report to the FMS all suspicious transactions, irrespective of value, and certain types of transactions listed in the AML Law if the value of a transaction (or any group of related transactions) exceeds GEL 30,000 (or the foreign currency equivalent). If the FMS receives a report of a transaction that it believes may be related to the financing of terrorism, the report must be forwarded to the appropriate departments of the General Prosecutor's Office of Georgia and to the Ministry of Internal Affairs of Georgia.

The NBG effectively requires banks to conduct relationships with clients according to the "Core Principles for Effective Banking Supervision" ("**CPEBS**") published by the Basel Committee on Banking Supervision. Most banks and other financial institutions employ compliance officers who adhere to CPEBS in practice. In addition, banks are obliged to comply with the statutory "Know Your Client" regulations introduced by the FMS. These standards established a number of processes to identify customers and potentially suspicious transactions, in order to reduce instances of money laundering.

The NBG is authorised to carry out on-site and off-site inspections of anti-money laundering issues arising in the financial sector and has dedicated budget resources and personnel to carry out such inspections and report to the FMS on any breach of the AML Law or related regulations.

Banking Sector Initiatives

The NBG has not issued a document discussing banking system development strategy since 2006, at which time the NBG set out a number of objectives, including the development of a mandatory deposit insurance system, improvement of the principles of capital adequacy calculation, creation of a credit history agency and legislative amendments to develop financial and capital markets. The NBG has taken certain steps aimed at implementing several targets, including those related to capital adequacy calculation and the application of prudential regulations in a manner consistent with Basel I. Although a credit history agency (CIG) was created in 2004, much remains to be achieved in this regard.

In October 2013, the NBG introduced a local version of Basel II/III regulations in Georgia. Implementation of the new regulations is gradual: commercial banks must comply with minimum capital adequacy requirements by June 2014 and full compliance is required by 2017. According to the new NBG Basel II/III regulations, inclusion of newly-issued instruments into the regulatory capital of a commercial bank will be subject to NBG consent. During the phase out period (2014 to 2017), commercial banks will also be required to continue observing the minimum requirements set forth by the Order No. 9 (dated 30 September 2008) of the Financial Supervision Agency (the previous regulator) of a minimum 8% tier 1 capital ratio and a minimum 12% regulatory capital ratio, both of which will continue to apply in 2014 and then gradually decrease to 80% of the current requirements by 2017.

The NBG is also expected to introduce capital conservation and counter cyclicality buffers, although the amounts of these buffers have not yet been disclosed. According to the NBG, the current minimum Basel II/III capital ratio (10.5%) incorporates a 2.5% requirement for the conservation buffer. At a later stage, the NBG expects to segregate it explicitly by defining the minimum ratio at 8%. Furthermore, under current requirements the countercyclical buffer is to some extent accounted for under current ratios in the form of an additional 75% risk weighting for foreign currency denominated exposures (CICR). The NBG expects that with the introduction of an additional countercyclical buffer, the risk weight for CICR would decrease so that part of the current capital charge intended for countercyclical purposes would be netted and risk-weighted assets would accordingly be decreased. The countercyclical buffer normally ranges between zero and 2.5% based on the status of the credit cycle but, as the NBG does not believe that overheating is currently evidenced, the existing capital requirements incorporate only part of the 2.5% countercyclical buffer. The NBG assesses various risk categories of commercial banks (GRAPE) and analyses the adequacy of ICAAP, which could affect the capital requirements applicable to a bank. Various factors, including (but not limited to) shareholder strength and reputation and the presence of strategic investors will be analysed and taken into consideration in the assessment of each bank. See "*Selected Statistical and Other Information—Capital and Capital Adequacy*".

On 1 July 2012, a new Law of Georgia on Payment System and Payment Service came into force. The new law regulates payment systems, payment services and settlement operations and introduces a number of concepts to the statutory framework governing the operation of commercial banks, including the notion of the financial collateral (pledge) and the principle of finality of settlement. The law also regulates the issuance and acquisition of payment instruments (including electronic money instruments) and the issuance and use of electronic money to conduct payment operations via telephone, internet and other electronic means. The NBG has been granted the authority to supervise these matters through the registration of payment system operators and payment service providers and establishing minimum requirements, limitations and sanctions.

On 18 April 2014, the Government made an official statement regarding the proposed establishment of the Development Bank of Georgia (the "**Development Bank**") through a reorganisation of the Partnership Fund of Georgia by the end of 2014. The Development Bank will not perform commercial activities, but will invest the profit of certain state companies into projects in various fields identified as strategic by the Government (such as energy sector, infrastructure and manufacturing) through investments in share capital and by issuing credits. The Development Bank may also attract financial resources for the purpose of further investments by using the assets it holds. The Development Bank will not, however, be entitled to receive deposits or issue loans to commercial banks.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("**GDRs**") represented by this certificate are issued in respect of ordinary shares (the "**Shares**") in JSC TBC Bank (the "**Company**") pursuant to and subject to an agreement dated 11 June 2014, and made between the Company and The Bank of New York Mellon in its capacity as depositary (the "**Depositary**") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed The Bank of New York Mellon, London Branch (using BNY (Nominees) LTD as nominee) as Custodian (the "**Custodian**") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "**Deposited Shares**") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee (other than any cash comprised in the Deposited Property which is held as banker pursuant to Condition 26) in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to The Bank of New York Mellon, London Branch (using BNY (Nominees) LTD as nominee) or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in Georgia as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of the Provisions Relating to the Global Depositary Receipts Whilst in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "**Holder**" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "**Register**") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(a) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Georgia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(b) the payment of such fees, taxes, duties, charges, costs, expenses and governmental charges as may be required under these Conditions or the Deposit Agreement;

(c) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(d) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(a) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(b) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; **provided however that** the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(i) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(a) and (b) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(ii) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Georgia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement *(which is described in the following paragraph)* (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement *(which is described in the second following paragraph)* (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the

Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under "Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act [of 1933, as amended (the "Securities Act")] ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions".

1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a GDR certificate in definitive form or a separate temporary Regulation S Master GDR and/or temporary Rule 144A Master GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Regulation S Master GDR and/or a Rule 144A Master GDR (by increasing the total number of GDRs evidenced by the relevant Regulation S Master GDR or Rule 144A Master GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Regulation S Master GDR or a Rule 144A Master GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; **provided**, **however**, **that** the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limit for the purpose of general application. The Depositary will also set dollar limits with respect to Pre-Release transactions hereunder with any particular Pre-Releasee on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8).

1.8 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 and in Schedule 4 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

1.9 In order to comply with any applicable laws and regulations, the Depositary may from time to time request each Holder of GDRs to, and each Holder shall upon receipt of such request, provide to the Depositary information relating to: (a) the capacity in which such Holder and/or any owner holds GDRs; (b) the identity of any owners of GDRs or other person or persons then or previously interested in such GDRs; (c) the nature of any such interests in the GDRs; and (d) any other matter where disclosure of such matter is required to enable compliance by the Depositary with applicable laws or the constitutional documents of the Company.

1.10 In order to comply with any applicable laws and regulations, the Depositary may from time to time request Euroclear, Clearstream and DTC to provide the Depositary with details of the accountholders within such settlement systems that hold interests in GDRs and the number of GDRs recorded in the account of each such accountholder, and each Holder or owner of GDRs, or intermediary acting on behalf of such Holder or owner, hereby authorises each of Euroclear, Clearstream and DTC to disclose such information to the Depositary as issuer of the GDRs.

1.11 Notwithstanding any other provisions of the Deposit Agreement or the Conditions, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders, cancel a number of the GDRs then outstanding, sell or cause the Custodian to sell (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto, and thereby reduce the Depositary's holdings of any class of Deposited Property below an amount that the Depositary determines to be necessary or advisable, if (i) the Depositary or its agent receives any notice from any Georgian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Georgian law or regulation in a material respect, as determined by the Depositary at its sole discretion or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or license to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of a non-material or a routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Georgian counsel that the Depositary (or the Custodian or any of their respective nominees) could reasonably be expected to be subject to criminal, civil or administrative liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the Depositary cancels GDRs and sells (or causes the Custodian to sell) Deposited Property under the preceding sentence, the Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the number of Deposited Property previously represented thereby, among the Holders pro-rata to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the Depositary, in its sole discretion, so that no fraction of a cancelled GDR is allocated to any Holder. Any payment pursuant to this Condition in connection with GDRs represented by the

Master GDR shall be made according to the usual practice between the Depositary and the relevant settlement system. Any payment pursuant to this Condition in connection with a GDR in definitive form shall be made to the relevant Holder only after surrender to the Depositary of the GDR certificate by such Holder for cancellation of the relevant number of GDRs.

1.12 The Company may send to the Depositary a written request to, and upon receipt of such request the Depositary has agreed to, forward to Holders a request from the Company to Holders to provide to the Depositary information (a) as to the capacity in which such Holders or beneficial owners own or owned GDRs, (b) regarding the identity of any other persons then or previously interested in such GDRs and (c) regarding the nature of such interest and various other matters pursuant to applicable law or the constitutional document of the Company, all as if such GDRs were to the extent practicable the underlying Shares, and agrees to provide promptly any information as requested by the Depositary. The Depositary has agreed to forward to the Company any responses to such requests received by the Depositary from Holders.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act"). Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs represented by the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Regulation S Master GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such

dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; **PROVIDED THAT**:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(d).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs represented by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(a) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Georgian Lari or other relevant currency together with such fees, taxes,

duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs represented by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(b) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(c) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (i) will, **PROVIDED THAT** Holders have not taken up rights through the Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (ii) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(d) (i) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(a) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(a), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(d)(iii) and receipt of the relevant subscription price in Georgian Lari or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).

(ii) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(iii) In order to proceed in the manner contemplated in this Condition 7(d), the Depositary shall be entitled to receive such opinions from Georgian counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable convert or cause to be converted, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary may make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency without liability for interest for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may

be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Georgian and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Georgia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders (or if the relevant law requires applying or filing by the Holders, the Company will assist the Holders to apply or file, as the case may be) within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which (as notified to the Depositary by the Company) such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 "**Person**" means, for the purposes of this Condition 12, any natural person, company, corporation, firm, partnership, association, foundation, organisation, agency, municipality or other entity, whether or not having separate legal personality, but does not include the Depositary where exercising votes on behalf of any Holder or otherwise acting in its capacity as Depositary.

"**Related Person**" means, with respect to a Holder or owner of GDRs, any Person having agreed with such Holder or owner of GDRs, in writing or otherwise, to pursue a common policy regarding acquiring, holding or disposing of any shares issued by the Company and/or to exercise voting rights in relation to shares in accordance with such agreement.

12.2 Subject to Condition 1.11 and Condition 1.12, Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares subject to and in accordance with any applicable Georgian law. The Company agrees to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12. For the avoidance of doubt, this Condition 12 only applies to resolutions to be passed at a general meeting of the Company and not to resolutions to be passed in any other way.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor and request the Depositary in writing to prepare, in consultation with the Company, written proxy forms by which the Depositary will be informed by each Holder whether such Holder is permitted to give instructions to the Depositary to vote or cause to vote for or against each and any resolution specified in the agenda for the meeting (the "**Voting Instruction**"), and which the Depositary shall send to any Person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23.

The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary or its nominee to appoint or procure the appointment of a representative to attend the relevant meeting and vote on behalf of the Depositary.

By holding the GDRs, each Holder is deemed to acknowledge and agree to comply with restrictions on, and notification obligations relating to, the ownership (including beneficial ownership) of the underlying Shares imposed from time to time by Georgian law or by any Georgian regulatory authority or otherwise, and in particular, that no Person may: (a) own directly or indirectly and/or have the ability to exercise voting rights in respect of, Shares or GDRs or a combination of the foregoing, comprising (i) more than 10 per cent., (ii) more than 25 per cent., and/or (iii) more than 50 per cent. of the issued share capital or voting rights of the Company (each of such percentage thresholds hereinafter being referred to as a "**Significant Interest**"); and/or (b) acquire directly or indirectly, through a transaction or series of transactions Shares or GDRs or a combination of the foregoing, comprising (i) more than 10 per cent., (ii) more than 25 per cent., and/or (iii) more than 50 per cent. of the issued share capital or voting rights of the Company (acquisition of each of such percentage thresholds hereinafter being referred to as a "**Significant Acquisition**") at any time without the prior written approval of the National Bank of Georgia (or any successor authority from time to time).Accordingly, each Holder will be required to certify in a Voting Instruction that:

(a) it does not directly or indirectly own or have the ability to exercise voting rights in respect of Shares or Shares represented by GDRs or a combination of the foregoing, comprising a Significant Interest, and provided that the Depositary is satisfied that such certification has been made in the Voting Instruction received by the Depositary, the Depositary is authorised to exercise such Holder's voting rights on behalf of the Holder in accordance with the Holder's Voting Instruction received by the Depositary and subject to the other provisions of this Condition 12; or

(b) it directly or indirectly owns, or has the ability to exercise voting rights in respect of, Shares or Shares represented by GDRs or a combination of the foregoing, comprising a Significant Interest, and in which case, it will also be required to: (a) disclose in the Voting Instruction the identity of the ultimate beneficial owner(s) of the GDRs held by such Holder; and (b) certify in the Voting Instruction that it has obtained all required consents and approval under the applicable laws of Georgia for holding a Significant Interest and/or for a Significant Acquisition, and provided that the Depositary is satisfied that such disclosure and certification has been made in the Voting Instruction received by the Depositary, the Depositary is authorised to exercise such Holder's voting rights on behalf of the Holder in accordance with the Holder's Voting Instruction and subject to the other provisions of this Condition 12,

PROVIDED THAT if no such certification is included in the Voting Instruction received by the Depositary from a Holder (an "**Uncertified Holder**") with respect to any or all of the Deposited Shares represented by such Uncertified Holder's GDRs on or before the record date specified by the Depositary, such Uncertified Holder's Voting Instruction, if any, shall be deemed invalid and disregarded and such Uncertified Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a Person designated by the Company with respect to such Deposited Shares, **PROVIDED FURTHER THAT** no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

For the avoidance of doubt, the Depositary is entitled to rely on the certification in a Voting Instruction without further enquiry and has no obligation to investigate whether any Holder or beneficial owner of the GDRs has made relevant notifications to, or obtained approval from, the National Bank of Georgia (or any successor authority from time to time) or has otherwise complied with applicable law.

In addition to the above requirements of Georgian law and any other notification requirements applicable under Georgian law, any Holder or beneficial owner of GDRs which intends, directly or indirectly, to (i) increase its holding, through acquisition directly through its ownership of Shares, or indirectly through its ownership of GDRs, or otherwise, to a Significant Interest and/or (ii) make a Significant Acquisition, shall provide sufficient written notification (the form of which may from time to time be prescribed by the National Bank of Georgia) of such fact to the National Bank of Georgia, with a copy of such notice to the Company and the Depositary. Such Holder or beneficial owner of GDRs shall not make any such increase to a Significant Interest or Significant Acquisition unless and until the National Bank of Georgia approves the acquisition of such securities.

In addition to the foregoing, any Holder and beneficial owner of GDRs, acting independently or together with any Related Person(s), shall disclose in writing to the Company and, if the Shares are admitted for trading to the Georgian stock exchange, to the Georgian stock exchange the occurrence of the acquisition of more than 10 per cent of the voting rights of the Company within 15 days following the completion of any such acquisition or such other shorter period as may be prescribed by the National Bank of Georgia, such other shorter period prescribed by the National Bank of Georgia currently being 1 or 10 business days following completion of any such acquisition depending on the circumstances surrounding the acquisition.

12.3 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.4 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.5 If the Depositary is advised in the opinion referred to in Condition 12.8 below that it is not permitted by Georgian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.8 below confirms it to be permissible under Georgian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.6 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or

because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a Person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a Person designated by the Company to vote such Deposited Shares, **PROVIDED THAT** no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.7 If the Depositary is advised in the opinion referred to in Condition 12.8 below that it is not permissible under Georgian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.4, 12.5 or 12.6, the Depositary shall not vote or cause to be voted such Deposited Shares.

12.8 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.4, 12.5 or 12.6 above the Depositary shall notify the Chief Executive Officer of the Company and appoint a Person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition 12. The Depositary shall be entitled to request the Company to provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Georgian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.9 The Depositary is entitled to amend this Condition 12 from time to time by written notice to the Company and the GDR Holders and in consultation with the Company and its legal counsel (and subject to the approval of (i) the Company, such approval not be unreasonably withheld or delayed, and (ii) the relevant authority in Georgia if required) where the Depositary considers it necessary to do so in order to comply with applicable Georgian law. By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 as it may be amended from time to time in order to comply with applicable Georgian law.

12.10 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given, or deemed given, in accordance with this Condition.

12.11 Each Holder and beneficial owner of GDRs will disclose in writing to the National Bank of Georgia, with a copy of such notice to the Company and the Depositary, details of any Person (which shall, for the avoidance of doubt, include the Holder and any beneficial owner of GDRs) owning GDRs, directly or indirectly which, when aggregated with any other GDRs or Shares held by or on behalf of such a Person, would constitute a Significant Interest in the issued share capital of the Company. Such notification (the form of which may from time to time be prescribed by the National Bank of Georgia) shall be made as of 31 December of the preceding calendar year, and in writing addressed to the National Bank of Georgia, with a copy of such notice to the Company and the Depositary, on or before 30 April of each calendar year.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the **"Charges**'') shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to

Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Georgia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent, or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, **provided that** no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (**provided that** it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting

any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance, or the exercise or attempted exercise of (or the failure to exercise any of) its powers or discretions, under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Georgian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and to receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(a) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(b) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(c) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of U.S.$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(d) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(e) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(f) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.$0.05 or less per GDR;

(g) a fee of U.S.$0.05 or less per GDR (or portion thereof) per calendar year for depositary services which shall be payable as provided in paragraph (i) below;

(h) a fee of U.S.$0.01 or less per GDR per annum for local share registry inspection and related services by the Depositary or the Custodian or their respective agents, which shall be payable as provided in paragraph (i) below; and

(i) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

16.3 From time to time, the Depositary may make payments to the Company to reimburse and / or share revenue from the fees collected from GDR holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the GDR facilities established pursuant to the Deposit Agreement. In performing its duties under the Deposit Agreement, the Depositary may use brokers, dealers or other service providers that are affiliates of the Depositary and that may earn or share fees and commissions.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders and the Company.

18. Listing

The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the UKLA and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UKLA and the London Stock Exchange in connection with such listings. In the event that a listing on the Official List of the UKLA and admission to trading on the market for listed securities of the London Stock Exchange are not maintained, the Company has undertaken in the Deposit Agreement to use its reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of

the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian **PROVIDED THAT** the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary **PROVIDED THAT**, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (properly authorized to perform custody services in Georgia), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. The Depositary in its discretion may appoint a substitute or additional custodian or custodians (properly authorized to perform custody services in Georgia), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall notify Holders of such change in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; **PROVIDED THAT**, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; **PROVIDED THAT** no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

20.2 Upon the termination of the appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and shall hold the Deposited Property for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 60 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after

the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(a) and Clause 10.1(a)(i) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

22.1 Subject to Condition 22.3, all and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of 30 calendar days after such notice shall have been given. During such period of 30 calendar days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

22.2 For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares **PROVIDED THAT** temporary GDRs will represent such Shares until they are so consolidated.

22.3 The Company and the Depositary may at any time by agreement in any form amend the number of Shares represented by each GDR, provided that each outstanding GDR represents the same number of Shares as each other outstanding GDR, and at least 30 calendar days notice of such amendment is given to the Holders, but in no circumstances shall any amendment pursuant to this Condition 22.3 be regarded as an amendment requiring 30 calendar days notice in accordance with Condition 22.1.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such

Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of :

(a) in respect of the financial year ending on 31 December 2013 and in respect of each financial year thereafter, the consolidated financial statements for such financial year in respect of the Company, prepared in conformity with IFRS and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;

(b) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and

(c) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than three months after the end of the period to which they relate.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains

information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement, the GDRs, and all non-contractual obligations arising from or connected with the Deposit Agreement and the GDRs, are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Georgian law. The Company has agreed in the Deposit Agreement and the Deed Poll that Disputes thereunder shall be resolved by arbitration under the Rules of the London Court of International Arbitration.

28.2 Any disputes which may arise out of or in connection with the GDRs (including any dispute relating to the existence, validity or termination of the GDRs, or any non-contractual obligation arising out of or in connection with the GDRs, or the consequences of the nullity of the GDRs) (each a "**Dispute**") shall be referred to and finally resolved by arbitration and not litigation. In such case, the Dispute shall be referred to arbitration under the Rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") which Rules are deemed to be incorporated by reference into this Condition 28. Judgement upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof or having jurisdiction over the relevant party or assets.

28.3 The Depositary and each Holder of GDRs agrees that:

(a) The number of arbitrators shall be three, appointed by the London Court of International Arbitration in accordance with its Rules;

(b) The place of the arbitration shall be London;

(c) The language to be used in the arbitration proceedings shall be English; and

(d) The decision and award of the arbitration shall be final.

28.4 If any Dispute raises issues which are substantially the same as or connected with issues raised in a Dispute which has already been referred to arbitration (an "**Existing Dispute**"), or arises out of substantially the same facts as are the subject of an Existing Dispute, or a dispute, controversy or claim, arising out of or in connection with the Deposit Agreement or the Deed Poll, whether in tort, contract, statute or otherwise, including any question regarding its existence, validity, interpretation, breach or termination (in any such case a "**Related Dispute**"), the arbitrators appointed or to be appointed in respect of any such Existing Dispute shall also be appointed as the arbitrators in

respect of any Related Dispute, save where the arbitrators consider such appointment to be inappropriate.

28.5 The arbitrators, upon the request of one of the parties to a Dispute or Related Dispute or a party to this Agreement which itself wishes to be joined in any reference to arbitration proceedings in relation to a Dispute or Related Dispute, may join any party to any reference to arbitration proceedings in relation to that Dispute or Related Dispute and may make a single, final award determining all Disputes and Related Disputes between them. Each of the Depositary and each Holder of GDRs hereby consents to be joined to any reference to arbitration proceedings in relation to any dispute at the request of a party to that Dispute or Related Dispute, and to accept joinder of any party requesting to be joined under this Clause 28.5.

28.6 Where, pursuant to the above provisions, the same arbitrators have been appointed in relation to an Existing Dispute and one or more Related Disputes, the arbitrators may, with the agreement of all the parties concerned or upon the application of one of the parties, being a party to each of the Disputes, order that the whole or part of the matters at issue shall be heard together upon such terms or conditions as the arbitrators think fit. The arbitrators shall have power to make such directions and any provisional, interim or partial awards as they consider just and desirable.

28.7 Nothing in these dispute resolution provisions shall be construed as preventing either party from seeking conservatory or similar interim relief in any court of competent jurisdiction.

28.8 The parties have agreed to waive any right of appeal to any court of law or other judicial authority insofar as such waiver may be validly made.

28.9 Without prejudice to the powers of the arbitrators provided in the Rules, statute or otherwise, the arbitrators shall have power at any time, following the written request (with reasons) of any party at any time, and after due consideration of any written and/or oral response(s) to such request made within such time periods as the arbitrators shall determine, to make an award in favour of the claimant(s) (or the respondent(s) if a counterclaim) in respect of any claims (or counterclaims) if it appears to the arbitrators that there is no reasonably arguable defence to those claims (or counterclaims), either at all or except as to the amount of any damages or other sum to be awarded.

28.10 The parties have agreed that in no circumstances will they request the arbitrators to, and the arbitrators shall have no authority to, exercise any power to award damages which are not calculated by reference to the party's actual costs or to award any loss of profit whatsoever or any consequential, special or punitive damages.

28.11 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.12 To the extent that the Company may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Company or its assets or revenues, the Company has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

29. Language

Although the Deposit Agreement or these Conditions may be translated into the Georgian language, the Georgian version of the Deposit Agreement and these Conditions is for informational purposes only. In the event of any discrepancies between the English version and the Georgian version of the Deposit Agreement or these Conditions, or any dispute regarding the interpretation of any provision in the English version or Georgian version of the Deposit Agreement or these Conditions, the English version of the Deposit Agreement and these Conditions shall prevail and questions of interpretation shall be addressed solely in the English language.

Certificate and Agreement of persons acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement

[Date]

The Bank of New York Mellon, as Depositary
101 Barclay Street
New York, New York 10286

Dear Sirs

JSC TBC BANK

Reference is hereby made to the Deposit Agreement, dated 11 June 2014 (the "**Deposit Agreement**"), between JSC TBC Bank (the "**Company**") and The Bank of New York Mellon, as Depositary with respect to Regulation S Global Depositary Receipts ("**Regulation S GDRs**") issued thereunder. Capitalised terms used but not defined herein shall have the meanings given to them in the Deposit Agreement.

1. This certification and agreement is furnished in connection with the deposit of Regulation S Shares in the Regulation S Facility under the Deposit Agreement and issuance of Regulation S GDRs pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement.

2. We acknowledge (or if we are acting for the account of another person, such person has confirmed to us that it acknowledges) that the Regulation S GDRs and the Regulation S Shares represented thereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Act**").

3. We certify that either:

   (a) we are, or at the time the Shares are deposited and at the time the Regulation S GDRs are issued will be, the beneficial owner of the Shares represented by such Regulation S GDRs, and (i) we are located outside the United States (within the meaning of Regulation S under the Act) and we have acquired, or have agreed to acquire and will have acquired, the Shares to be deposited outside the United States (within the meaning of Regulation S under the Act), (ii) we are not an affiliate of the Company or a person acting on behalf of such an affiliate, and (iii) we are not in the business of buying and selling securities or, if we are in such business, we did not acquire the securities to be deposited from the Company or any affiliate thereof in the initial distribution of the GDRs and the Shares,

   OR

   (b) we are a broker-dealer acting on behalf of our customer, and such customer has confirmed to us that it is, or at the time the Shares are deposited and at the time the Regulation S GDRs are issued will be, the beneficial owner of the Regulation S Shares represented by such Regulation S GDRs and (i) it is located outside the United States (within the meaning of Regulation S under the Act) and it has acquired, or has agreed to acquire and will have acquired, the Shares to be deposited outside the United States (within the meaning of Regulation S under the Act), (ii) it is not an affiliate of the Company or a person acting on behalf of such an affiliate, and (iii) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the securities to be deposited from the Company or any affiliate thereof in the initial distribution of the GDRs and the Shares.

4. We certify that the Shares being deposited are not "restricted securities" as defined in Rule 144 under the Act.

Very truly yours,

[name of CERTIFYING ENTITY]

[By: _____]

[Title:]

Certificate and Agreement of Acquirors of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement

[Date]

The Bank of New York Mellon, as Depositary
101 Barclay Street
New York, New York 10286

Dear Sirs

JSC TBC BANK

Reference is hereby made to the Deposit Agreement dated 11 June 2014 (the "**Deposit Agreement**"), between JSC TBC Bank (the "**Company**") and The Bank of New York Mellon, as Depositary with respect to Rule 144A Global Depositary Receipts ("**Rule 144A GDRs**") issued thereunder. Capitalised terms used but not defined herein shall have the meanings given to them in the Deposit Agreement.

1. This certification and agreement is furnished in connection with the deposit of Rule 144A Shares in the Rule 144A Facility under the Deposit Agreement and issuance of Rule 144A GDRs pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement.

2. We acknowledge (or if we are acting for the account of another person, such person has confirmed to us that it acknowledges) that the Rule 144A GDRs and the Rule 144A Shares represented thereby have not been and will not be registered under the United States Securities Act 1933, as amended (the "**Act**").

3. We certify (or if we are acting for the account of another person, such person has confirmed that it certifies) that either:

   (a) we are (or it is) a qualified institutional buyer (within the meaning of Rule 144A under the Act) and at the time of issue of the Rule 144A GDRs referred to above, we (or it) (or one or more qualified institutional buyers for whose account we are acting) will be the beneficial owner of such Rule 144A GDRs.

   OR

   (b) we are (or it is) a broker-dealer acting for the account of a customer, such customer has confirmed to us (or it) that it is a qualified institutional buyer (within the meaning of Rule 144A under the Act) and either (i) at the time of issuance of the Rule 144A GDRs referred to above, it will be the beneficial owner of such Rule 144A GDRs, or (ii) it is acting for the account of a qualified institutional buyer that, at the time of issuance of the Rule 144A GDRs referred to above, will be the beneficial owner of such Rule 144A GDRs.

4. We agree (or if we are acting for the account of another person, such person has confirmed to us that it agrees) that we (or it) will not offer, sell, pledge or otherwise transfer the Rule 144A GDRs or the Rule 144A Shares represented thereby except (a) to a person whom we and anyone acting on our behalf reasonably believe (or it and anyone acting on its behalf reasonably believe) is a qualified institutional buyer ("**QIB**") within the meaning of Rule 144A under the Act in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 under Regulation S under the Act or (c) pursuant to an exemption from registration provided by Rule 144 under the Act (if available), in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.

Very truly yours,

[name of CERTIFYING ENTITY]

[By: _____

Title:]

SUMMARY OF THE PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule l44A Master GDR in registered form. The Regulation S Master GDR will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream and the Rule 144A Master GDR will be deposited with The Bank of New York Mellon in New York as custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. The Master GDRs contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs (the "**Conditions**") set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

Any increase or decrease in the number of GDRs evidenced thereby from that initially notified to the Holder, as defined in the Conditions, will be promptly notified to the Holder by the Depositary in accordance with the Conditions.

For risks related to potential future limitations on the exercise of voting and/or dividends rights by a GDRs holder, see "*Risk Factors—Risks Relating to the Securities and the Trading Market*".

Exchange

The Master GDRs will be exchanged for certificates in definitive registered form representing GDRs only in the circumstances described in (i), (ii), (iii), or (iv) below, in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates in definitive registered form in exchange for the relevant Master GDR, to Holders of GDRs within 60 calendar days in the event that:

(i) either DTC (in the case of the Rule 144A Master GDR), or Euroclear or Clearstream (in the case of the Regulation S Master GDR) or any successor advises TBC Bank in writing at any time that it is unwilling or unable to continue as a settlement system and a successor settlement system is not appointed within 90 calendar days; or

(ii) either DTC (in the case of the Rule 144A Master GDR), or Euroclear or Clearstream (in the case of the Regulation S Master GDR) is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or

(iii) in respect of the Rule 144A Master GDR, DTC or any successor ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form (provided that the Depositary shall have no obligation to so determine or to attempt to so determine).

Any such exchange shall be at the expense (including printing costs) of the Holders of GDRs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through: Euroclear; Clearstream; or DTC.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Rule 144A Master GDR and the Regulation S Master GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property or increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by a Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until the obligations of TBC Bank under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Regulation S Master GDR be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Rule 144A Master GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from TBC Bank. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear and Clearstream (in the case of GDRs represented by the Regulation S Master GDR), or DTC (in the case of GDRs represented by the Rule 144A Master GDR), on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Regulation S Master GDR is registered in the name of a nominee for a common depository holding on behalf of Euroclear and Clearstream, and the Rule 144A Master GDR is registered in the name of DTC or its nominee, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with the Conditions.

Information

For so long as any of the Rule 144A GDRs or Shares represented thereby remain outstanding and are "restricted securities" within the meaning of Rule 144(a) (3) under the Securities Act, if at any time TBC Bank is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, TBC Bank has agreed to supply to the Depositary such information in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of Rule 144A GDRs or to any holder of Shares or prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by TBC Bank in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, as amended, to permit compliance with Rule 144A in connection with resales of Rule 144A GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise will comply with the requirements of Rule 144A(d)(4) under the Securities Act.

Governing Law

The Master GDRs, and all non-contractual obligations arising from or connected with the Master GDRs, shall be governed by and construed in accordance with English law.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS

Information relating to the Depositary

The Depositary is an entity established in the State of New York and is a state chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department.

Rights of Holders of GDRs

Relationship of Holders of GDRs with the Depositary

The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreement, which are governed by English law (except that the certifications to be given upon deposit or withdrawal of Shares (in Schedules 3 and 4 of the Deposit Agreement) are governed by the laws of the State of New York). The Depositary and TBC Bank are parties to the Deposit Agreement. Holders of GDRs have contractual rights against the Depositary under the Conditions in relation to cash held by the Depositary, and rights against the Depositary under the Conditions under a bare trust in respect of Deposited Property other than cash (including Deposited Shares, which are Shares of TBC Bank represented by GDRs) deposited with the Depositary under the Deposit Agreement, and certain limited rights against TBC Bank by virtue of the Deed Poll.

The Custodian's nominee (BNY (Nominees) Limited) will be registered as the owner of the Shares underlying the GDRs. Although the Deposit Agreement and the Conditions are governed by English law and TBC Bank and the Depositary have agreed to resolve any disputes thereunder by arbitration under the rules of the London Court of International Arbitration, if a proceeding were to be brought before a Georgian court relating to the Deposit Agreement, the GDRs, the Shares or the GDR Holders' respective rights thereunder, the GDR Holders may be required by such Georgian court to show that they are the beneficial owners of the relevant underlying Shares that have been deposited with the Depositary. In order to confirm their beneficial ownership of the underlying Shares, GDR Holders may need to submit to such Georgian court documents confirming that the deposited shares are held by the Depositary or its nominee in connection with the issue of the GDRs. These documents may include certificates, extracts and records from the relevant registries and book-entry accounts and systems evidencing the rights of the GDR Holders, as well as a copy of the Deposit Agreement and/or any deed poll confirming that deposit arrangements for the Shares are in place (see "*Settlement and Delivery—The Clearing Systems—Registration and form*").

Voting: With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreement provide that, if instructed by TBC Bank, the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose voting materials and instructions for voting. The Deposit Agreement and the Conditions provide that the Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with the voting instructions it has received from Holders, subject to applicable Georgian laws.

Delivery of Shares

The Deposit Agreement and the Conditions provide that the Deposited Shares can only be delivered out of the Regulation S and Rule 144A GDR facilities to, or to the order of, a Holder of related GDRs upon receipt and cancellation of such GDRs.

Rights of the Company

TBC Bank has broad rights to remove the Depositary under the terms of the Deposit Agreement, but no specific rights under the Deposit Agreement which are triggered in the event of the insolvency of the Depositary.

Insolvency of the Depositary

Applicable insolvency law

If the Depositary becomes insolvent, the insolvency proceedings will be governed by U.S. law applicable to the insolvency of banks.

Effect of applicable insolvency law in relation to cash

The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current U.S. law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for such cash, and such cash would be also be available to general creditors of the Depositary or the U.S. Federal Deposit Insurance Corporation ("**FDIC**").

Effect of applicable insolvency law in relation to non-cash assets

The Deposit Agreement states that the Deposited Shares and other non-cash assets which are held by the Depositary for Holders are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current U.S. law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's liquidator to deliver to them such Depositary Shares and other non-cash assets, and such Depositary Shares and other non-cash assets would be unavailable to general creditors of the Depositary or the FDIC.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Conditions or otherwise engages in a default for which it would be liable under the Conditions, the Depositary will be in breach of its contractual obligations under the Conditions. In such case, Holders will have a claim under English law against the Depositary to the extent that the Depositary is in breach of its contractual obligations under the Conditions.

The Custodian

The Custodian is The Bank of New York Mellon, London Branch. The Custodian is therefore the same legal entity as the Depositary. The Custodian holds securities, registered in the name of its nominee, BNY (Nominees) Limited, but does not hold cash for the Depositary. The nominee holds securities on trust under English law for the Custodian, and the Custodian records in its books that such securities are held by The Bank of New York Mellon in connection with the issue of GDRs. Because the Custodian and the Depositary are the same legal entity, securities held by The Bank of New York Mellon in its capacity as Custodian are also held by The Bank of New York Mellon in its capacity as Depositary on trust for Holders in accordance with the terms of the Conditions.

Relationship of Holders of GDRs with the Custodian

The Holders do not have any contractual relationship with, or rights enforceable against, The Bank of New York Mellon in its capacity as the Custodian. However, since the Custodian and the Depositary are the same legal entity, references to them separately in the Conditions and the Deposit Agreement are for convenience only, and the same legal entity is responses for discharging both functions directly to the Holders and the Company. The Custodian will hold the Deposited Shares, which will be registered in the Company's share register in the name of BNY (Nominees) Limited, as nominee for the Custodian, and deposited in the Regulation S and Rule 144A facilities.

Default of the Custodian

Failure to deliver cash

Notwithstanding the fact that TBC Bank is required by the terms of the Deposit Agreement to pay dividends to the Depositary, if at all, in U.S. dollars, payments denominated in any currency which are

made in accordance with the Depositary's current procedures and pursuant to the terms of the Deposit Agreement and Conditions will not be made through the Custodian. Rather, payments in U.S. dollars will be made directly from TBC Bank to an account of the Depositary in New York and then paid by the Depositary to the Holders in accordance with the Conditions. To the extent that payments are in a currency other than U.S. dollars, such payments may be made to an account outside of Georgia, converted into U.S. dollars and, after deduction of any fees and expenses of the Depositary, credited to the appropriate accounts of the Holders.

Failure to deliver non-cash assets

If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary, the Custodian will be in breach of its obligations to the Depositary. Subject to the Conditions, the Depositary can remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

The Depositary's obligations

The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of Holders. However, since the Custodian is the same legal entity as the Depositary, Holders will have a claim against The Bank of New York Mellon under the Conditions to the extent that an act or omission of the Custodian constitutes wilful default, negligence or bad faith of The Bank of New York Mellon or that of its agents, officers, directors or employees.

Insolvency of the Custodian

If The Bank of New York Mellon, London Branch, as Custodian, becomes insolvent, the insolvency proceedings will be governed by U.S. law applicable to the insolvency of banks. The Depositary and the Custodian are business divisions of the same legal entity and therefore, if the Custodian becomes insolvent, the Depositary will also be insolvent. Under current U.S. law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's liquidator to deliver to them such Depositary Shares and other non-cash assets, and such Depositary Shares and other non-cash assets would be unavailable to general creditors of the Depositary or the FDIC.

PERSONS HOLDING BENEFICIAL TITLE TO GDRs OR INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISORS IN MAKING A DETERMINATION.

TAXATION

The following summary of certain U.S. federal, United Kingdom and Georgian tax consequences of ownership of the GDRs based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date hereof. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as at the date hereof, and of any actual changes in applicable tax laws after such date.

Georgian Tax Considerations

The following is a general description of certain Georgian tax considerations relating to TBC's business and of the ownership of GDRs. It does not purport to be a complete analysis of all relevant tax considerations, whether in Georgia or elsewhere. Prospective investors should consult their own tax advisers as to which countries' tax laws could be relevant to their acquiring, holding and disposing of the GDRs and receiving any dividends and consequences of such actions under the tax laws of those countries. The descriptions of the Georgian tax laws and practices set forth below are based on the statutes, regulations, rulings, judicial decisions and other authorities in force and applied in practice as of the date of this Prospectus, all of which are subject to change (possibly with retroactive effect) and differing interpretations.

Corporate profit tax

Legal entities in Georgia are subject to a corporate profit tax. Georgian resident legal entities are required to pay a corporate profit tax on their worldwide income, whereas permanent establishments of non-Georgian resident legal entities in Georgia are required to pay a corporate profit tax on Georgian-source income only. Taxable profits of Georgian resident legal entities, as well as of non-resident legal entities operating in Georgia through their permanent establishments, is the difference between taxable income and tax-deductible expenses. Corporate profit is taxed at a flat rate of 15%.

A permanent establishment is defined as any permanent location in Georgia, and generally includes any legal entity or individual through which a non-Georgian resident conducts its business activities in Georgia. The Tax Code of Georgia and double taxation treaties list the activities that do not result in a taxable permanent establishment.

Non-residents (whether individuals or legal entities) earning Georgian-source income (including dividends and interest income) without a permanent establishment in Georgia are subject to withholding tax on this income at the source at a rate ranging from 0% to 15%, depending on the type of revenue received. Certain relief on the taxation of Georgian-source income may be available to non-residents (whether individuals or legal entities) pursuant to applicable double taxation treaties, if any.

Georgian withholding tax on dividends

A 5% withholding tax is imposed on dividends paid to individuals, non-commercial legal entities, and non-resident legal entities (subject to relief that may be available pursuant to applicable double taxation treaties). However, certain other dividend payments are not subject to withholding tax and are not included in the taxable profit of the recipient. These include: (i) dividends paid to Georgian commercial legal entities; (ii) dividends received from the securities/shares of an "**international financial company**" (defined as a company certified by the relevant body of the Ministry of Finance that derives no more than 10% of its gross taxable income from Georgian sources) and (iii) dividends received from publicly-traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% as at the end of the reporting year or the previous year (although the practical availability of this exemption is untested).

Georgian withholding tax on interest

A 5% withholding tax is imposed on interest payments made by Georgian legal entities or the Georgian permanent establishments of non-residents, provided that the source of interest income is in Georgia. A 15% withholding tax is imposed on interest payments made to legal entities registered in offshore countries which have beneficial taxation regimes. Certain relief on the withholding tax on interest income may be

available pursuant to double taxation treaties, if any. Interest paid on loans from Georgian resident banks as well as interest income received from financial institutions licensed in Georgia are not subject to withholding tax. Furthermore, the following types of interest income are not included in the recipient's taxable income and are not subject to withholding tax: (i) interest income received by any person (except licensed financial institutions) from a licensed financial institutions; (ii) interest income received from publicly-traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% as at the end of the reporting year or the previous year (although the practical availability of this exemption is untested); and (iii) interest income received from Georgian legal entity's debt securities admitted to trading on a recognised foreign stock exchange listing.

Furthermore, interest income received from debt securities of an international financial institution (a list of which is approved and maintained by the Government) ("**International Financial Institution**") is exempt from profit and personal income taxes.

Georgian tax on capital gains

Georgia has no separate tax on capital gains. Capital gains of Georgian resident individuals and Georgian-source capital gains of non-resident individuals arising from the sale of any assets (including securities) are taxable at a flat personal income tax rate of 20%. Certain types of capital gains are exempt from personal income tax: (i) gains received from the sale of assets (including securities) which are not used for economic activity and have been in the ownership of the individual for more than two years; (ii) gains received from the sale of publicly-traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% as at the end of the reporting year or the previous year (although the practical availability of this exemption is untested); (iii) gains received from the sale of debt securities of an International Financial Institution; (iv) gains received from the sale of securities of an International Financial Company, and (v) income received from a foreign source. Non-resident individuals are required to register as taxpayers in Georgia before declaring and paying personal income tax on capital gains.

Capital gains of Georgian resident legal entities, as well as the Georgian-source capital gains of non-resident legal entities are taxable at a flat tax rate of 15%. Certain types of capital gains are exempt from profit tax, namely: (i) gains received from the sale of publicly-traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% as at the end of the reporting year or the previous year (although the practical availability of this exemption is untested); (ii) gains received from the sale of debt securities of an International Financial Institution; and (iii) gains received from the sale of securities of an International Financial Company. Non-resident legal entities are required to register as taxpayers in Georgia before declaring and paying their profit tax on capital gains.

Certain relief on the taxation of capital gains may be available to non-residents (whether individuals or legal entities) pursuant to the applicable double taxation treaties.

Property tax

Georgia applies a property tax at a flat rate of up to 1% on the annual average net balance sheet value of taxable property (except land) of Georgian resident legal entities, as well as the Georgian permanent establishments of non-resident legal entities. Property tax rates on land vary depending on the location, purpose (agricultural or non-agricultural) and quality of the land. Property tax is a local tax and therefore the exact rates of property tax are fixed by the local government bodies.

Value added tax

The value added tax ("**VAT**") rate is 18%. Certain business activities, such as financial services, among others, are exempt from VAT, as well as the sale of securities and shares of a legal entity. Taxable activities include the supply or import of goods and services. Input VAT (VAT on purchase and import) may be offset against output VAT (VAT on sale). Excess VAT can be reclaimed back or offset against future VAT pursuant to the special provisions of the Tax Code of Georgia.

Double taxation treaties

As at the date of this Prospectus, Georgia has entered into double taxation treaties with the following 45 countries: Armenia, Austria, Azerbaijan, Bahrain, Belgium, Bulgaria, China, the Czech Republic, Denmark, Egypt, Estonia, France, Finland, Germany, Greece, Hungary, India, Iran, Ireland, Israel, Italy, San Marino, Serbia, Slovenia, Slovakia, Switzerland, Spain, Kazakhstan, Kuwait, Latvia, Lithuania,

Luxemburg, Malta, the Netherlands, Norway, Poland, Qatar, Romania, Turkmenistan, Turkey, Ukraine, the United Kingdom, the United Arab Emirates, and Uzbekistan. Georgia is also in the process of entering into double taxation treaties with 34 countries and furthermore is currently negotiating such treaties with 22 other countries.

The terms of double taxation treaties vary from country to country and, therefore, need to be analysed in light of the specific circumstances of a prospective investor.

Certain U.S. Federal Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY PROSPECTIVE PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE (THE "CODE"); (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE PURCHASERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following discussion is a general summary based on present law of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the GDRs. The discussion is not a complete description of all tax considerations that may be relevant. It applies only to U.S. Holders (as defined below) that acquire GDRs in the Global Offer, hold GDRs as capital assets and use the U.S. dollar as their functional currency. This discussion is based on the Code, its legislative history, existing and proposed Treasury Department regulations promulgated thereunder, administrative and judicial interpretations thereof, as well as on the income tax treaty between the United States and the Soviet Union (the "**Treaty**"), all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation.

This discussion is for general information only and does not address all of the tax considerations that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of GDRs by specific holders in light of their particular circumstances or to holders subject to special treatment under U.S. federal income tax law (such as banks, other financial institutions, insurance companies, tax-exempt entities, retirement plans, regulated investment companies, partnerships, grantor trusts, dealers in securities, brokers, U.S. expatriates, "dual resident" corporations, persons who have acquired the GDRs as part of a straddle, hedge, conversion transaction or other integrated investment, persons that have a "functional currency" other than the U.S. dollar, persons that own (or are deemed to own) 10% or more (by voting power or value) of TBC Bank's voting stock, persons that are resident or hold GDRs in connection with a permanent establishment outside the United States or persons that generally mark their securities to market for U.S. federal income tax purposes. This discussion does not address any U.S. state or local, or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations. It also does not address the Medicare contribution tax imposed on certain net investment income as well as any consequences of holding the GDRs through an account with a foreign financial institution.

As used in this discussion, the term "**U.S. Holder**" means a beneficial owner of GDRs that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organised in or under the laws of the United States or of any state or political subdivision thereof or therein, including the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source thereof, or (iv) a trust with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more "U.S. persons" (within the meaning of the Code) have the authority to control all of its substantial decisions, or trusts with a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds GDRs will depend on the status of the partner and the activities of the partnership. Partners in entities treated as partnerships for U.S. federal income tax purposes should consult their own tax advisors regarding the specific U.S. federal income tax consequences to them of the partnership's acquisition, ownership and disposition of GDRs.

There is a possibility that TBC has been or may become a passive foreign investment company (a "**PFIC**") for U.S. federal income tax purposes. TBC's status as a PFIC would subject U.S. Holders of GDRs to adverse U.S. federal income tax consequences. See "*—Passive Foreign Investment Company considerations*" below.

Holders of GDRs generally will be treated for U.S. federal income tax purposes as holding the Shares represented by the GDRs. No gain or loss will be recognised on an exchange of Shares for GDRs or an exchange of GDRs for a proportionate interest in Shares, provided the Depositary has not taken any action inconsistent with either the material terms of the Deposit Agreement or the U.S. Holder's ownership of the underlying shares.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE GDRs, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Dividends

Subject to the discussions in this Prospectus below in the section headed "*—Passive Foreign Investment Company considerations*", the gross amount of any distribution made by TBC Bank on GDRs (without deduction for Georgian withholding tax, if any) generally will be treated as a dividend includible in the gross income of a U.S. Holder as ordinary income when received by the U.S. Holder to the extent of TBC's current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of TBC's current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of a U.S. Holder's adjusted tax basis in its GDRs and thereafter would be treated as capital gain. TBC, however, does not calculate earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that all distributions to U.S. Holders will be treated as dividends.

Dividends paid by TBC Bank and received by corporate U.S. Holders will be subject to regular corporate rates and will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders with respect to dividends received from U.S. corporations. Dividends will also not be eligible for the preferential tax rate applicable to qualified dividend income of eligible non-corporate U.S. Holders. While the Code provides, in certain cases, for a reduced tax rate on dividends received by certain non-corporate U.S. taxpayers, this reduced tax rate will not apply to dividends received from TBC since the U.S. Internal Revenue Service (the "**IRS**") has determined that corporations resident in countries (including Georgia) covered by the Treaty will not qualify for this reduced tax rate.

Dividends paid by TBC Bank generally will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and generally will be categorised as "passive category income." In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder has not held the GDRs for at least 16 days in the 31-day period beginning 15 days before the ex-dividend date. U.S. Holders that are accrual basis taxpayers, and who do not otherwise elect, must translate Georgian taxes into U.S. dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for Georgian taxes relative to the U.S. Holder's U.S. federal income tax liability attributable to a dividend. However, cash basis and electing accrual basis U.S. Holders may translate Georgian taxes into U.S. dollars using the exchange rate in effect on the day the taxes were paid. Any such election by an accrual basis U.S. Holder will apply for the taxable year in which it is made and all subsequent taxable years, unless revoked with the consent of the IRS.

The rules governing foreign tax credits are complex and U.S. Holders should consult their own tax advisors concerning the implications of these rules in light of their particular circumstances.

The U.S. dollar value of any distribution made by TBC in foreign currency that a U.S. Holder is required to include in gross income should be calculated by reference to the exchange rate in effect on the date that such distribution is included in income by the U.S. Holder, regardless of whether the foreign currency is in fact converted into U.S. dollars. A U.S. Holder will have a basis in the foreign currency equal to the U.S.

dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency generally will be treated as ordinary income or loss to such U.S. Holder and generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if the foreign currency received as a distribution is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not recognise foreign currency gain or loss on the conversion.

Sale or other disposition of the GDRs

Subject to the discussion in this Prospectus below in the section headed "*—Passive Foreign Investment Company considerations*", a U.S. Holder generally will recognise gain or loss for U.S. federal income tax purposes upon a sale or other disposition of the GDRs in an amount equal to the difference, if any, between the U.S. dollar value of the amount realised from such sale or disposition and the U.S. Holder's U.S. dollar adjusted tax basis in such GDRs. Such gain or loss generally will be capital gain or loss and will be long-term capital gain (taxable at a reduced rate for individuals, trusts or estates) or loss if, on the date of sale or disposition, such GDRs were held by such U.S. Holder for more than one year. The deductibility of capital losses is subject to significant limitations. Any gain or loss on the sale or disposition generally will be treated as U.S. source income or loss for U.S. foreign tax credit limitation purposes. Consequently, if Georgian tax is imposed on such gain, a U.S. Holder will not be able to use the corresponding foreign tax credit, unless the U.S. Holder has other foreign source income of the appropriate type (generally "passive category income" although in certain cases, "general category income") in respect of which the credit may be used. Alternatively, such Georgian tax may be taken as a deduction against taxable income if the U.S. Holder does not take a credit for any foreign income tax during the taxable year.

With respect to a U.S. Holder that receives foreign currency on the sale or other disposition of GDRs, the amount realised generally will be the U.S. dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis U.S. Holder and (ii) the date of disposition in the case of an accrual basis U.S. Holder, whether or not converted into U.S. dollars at that time. If the GDRs are treated as traded on an "established securities market," a cash basis taxpayer or, if it so elects, an accrual basis taxpayer will determine the U.S. dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale. A U.S. Holder will have a tax basis in the foreign currency received equal to the U.S. dollar value of the amount realised. Any currency exchange gain or loss realised on a subsequent conversion of the foreign currency into U.S. dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States. However, if the foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, a cash basis or electing accrual basis U.S. Holder should not recognise any gain or loss on the conversion.

Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of Georgian taxes.

Passive Foreign Investment Company considerations

In general, a non-U.S. company will be considered a PFIC for U.S. federal income tax purposes for any taxable year in which, after applying certain look-through rules, either:

- 75% or more of its gross income consists of passive income (such as dividends, interest, rents, royalties, or gains from the sale of assets that give rise to such income); or
- 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

Based on the PFIC tests made applicable to banks as set forth in IRS Notice 89-81 and certain proposed Treasury regulations, which are proposed to be effective for taxable years after December 31, 1994, TBC does not believe that it was a PFIC for U.S. federal income tax purposes for the taxable year ended December 31, 2013 and TBC does not anticipate becoming a PFIC in subsequent years. However, since the regulations may not be finalised in their current form and PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that TBC will not be considered a PFIC for any taxable year. In particular, the fair market value of a significant portion of TBC's assets may be determined in large part by the market capitalization of TBC Bank, which is likely to fluctuate after the Global Offer.

If TBC were to be treated as a PFIC for any taxable year during which a U.S. Holder held GDRs, certain adverse U.S. federal income tax rules would apply on a disposition (including a pledge) of GDRs by the U.S. Holder, unless the U.S. holder has made a mark-to-market or qualified electing fund election (each as described below). If TBC were a PFIC in any year during a U.S. investor's holding period, TBC would ordinarily continue to be treated as a PFIC for each subsequent year during which the U.S. investor owned the GDRs and similar rules could apply to TBC Bank's subsidiaries that have been or become PFICs. If TBC were treated as a PFIC, a U.S. Holder would be subject to special rules with respect to (i) any gain realised on the sale or other disposition of the GDRs and (ii) any "excess distribution" to the U.S. Holder in respect of the GDRs (generally, any distributions to the U.S. Holder in respect of the GDRs during a single taxable year that total more than 125% of the average annual distributions received by the U.S. Holder in respect of the GDRs during the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the GDRs). Under these rules, (a) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the GDRs, (b) the amount allocated to the taxable year in which the gain or excess distribution was realised or to any year before TBC became a PFIC would be taxable as ordinary income, (c) the amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for that year and (d) an interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such other taxable year. If TBC is a PFIC, a U.S. Holder of Shares generally will be subject to similar rules with respect to distributions to TBC Bank by, and dispositions by TBC Bank of the stock of, any direct or indirect subsidiaries of TBC Bank that are also PFICs. If TBC ceases to be a PFIC, a U.S. Holder may make an election (a "deemed sale election") to be treated for U.S. federal income tax purposes as having sold its GDRs on the last day of the last taxable year of TBC during which it was a PFIC. A U.S. Holder that makes a deemed sale election will cease to be treated as owning stock in a PFIC. However, gain recognised by a U.S. Holder as a result of making the deemed sale election will be subject to the rules described above.

Certain elections may be available to U.S. Holders that may mitigate the adverse tax consequences resulting from PFIC status. A mark-to-market election may be available to a U.S. Holder if the GDRs are considered "marketable stock". Although the treatment of global depositary receipts is not specifically addressed in the relevant U.S. Treasury regulations, GDRs may be considered marketable stock if they are "regularly traded" on a "qualified exchange" within the meaning of applicable U.S. Treasury regulations. U.S. Holders should consult their own tax advisors regarding the potential availability of the mark-to-market election. In certain circumstances, a U.S. Holder may also mitigate these adverse tax consequences with a "qualified electing fund" ("**QEF**") election. However, as TBC does not expect to provide U.S. Holders with required information, the QEF election will not be available.

A U.S. Holder who owns, or who is treated as owning, PFIC stock during any taxable year in which the Company is classified as a PFIC may be required to file IRS Form 8621. Prospective purchasers should consult their tax advisers regarding the requirement to file IRS Form 8621 and the potential application of the PFIC regime.

Prospective investors should consult their own tax advisers regarding the U.S. federal income tax consequences of an investment in a PFIC.

Backup withholding tax and information reporting requirements

Certain U.S. Holders may be required to report information with respect to such holder's interest in a "specified foreign financial asset" (as defined in Section 6038D of the Code), including stock of a non-U.S. corporation that is not held in an account maintained by a financial institution, if the aggregate value of all such assets exceeds U.S.$50,000. Persons who are required to report specified foreign financial assets and fail to do so may be subject to substantial penalties. U.S. Holders are urged to consult their own tax advisers regarding the foreign financial asset reporting obligations and their possible application to the holding of GDRs.

Dividend payments and proceeds paid from the sale or other disposition of GDRs by a U.S. paying agent or other U.S. intermediary may be subject to information reporting to the IRS and possible U.S. federal backup withholding at a current rate of 28%. Certain exempt recipients (such as corporations) are not subject to these information reporting or backup withholding requirements. Backup withholding generally will not apply to a U.S. Holder who furnishes a correct taxpayer identification number (generally, on IRS Form W-9) and makes any other required certification, or to any person who is otherwise exempt from backup withholding.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, if any. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner and furnishing any required information.

Prospective investors should consult their own tax advisers as to their qualification for an exemption from backup withholding and the procedure for establishing this exemption.

United Kingdom Tax Considerations

The following is a general summary of certain U.K. tax considerations relating to the ownership and disposal of the Securities. It is based on current U.K. tax law and published HM Revenue & Customs ("**HMRC**") practice as at the date hereof, as well as the provisions of the 2004 double taxation treaty between the United Kingdom and Georgia, as amended (the "**U.K. Treaty**"), each of which is subject to change, possibly with retrospective effect. It assumes that the Finance (No 2) Bill ordered to be printed on 25 March 2014 will be enacted without amendment.

The summary applies only to persons who are resident (and, in the case of individuals, resident and domiciled) in the United Kingdom for tax purposes and who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of the Securities is connected ("**U.K. Holders**"). Persons (a) who are not resident (or, if resident, are not domiciled and to whom "split year" treatment does not apply) in the United Kingdom for tax purposes, including those individuals and companies who trade in the United Kingdom through a branch, agency or permanent establishment in the United Kingdom to which the Securities are attributable, or (b) who are resident or otherwise subject to tax in a jurisdiction outside the United Kingdom, are recommended to seek the advice of professional advisors in relation to their taxation obligations.

This summary is for general information only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular investor. It does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under U.K. tax law. In particular:

- this summary only applies to the absolute beneficial owners of the GDRs and any dividends paid in respect of the underlying Shares where the dividends are regarded for U.K. tax purposes as that person's own income (and not the income of some other person);
- this summary: (a) only addresses the principal U.K. tax consequences for investors who hold GDRs as capital assets, (b) does not address the tax consequences which may be relevant to certain special classes of investor such as dealers, brokers or traders in shares or securities and other persons who hold Securities otherwise than as an investment, (c) does not address the tax consequences for holders that are trustees, financial institutions, insurance companies, collective investment schemes, pension schemes, charities or tax-exempt organisations, (d) assumes that the holder is not one of TBC's officers or employees (or of any related company) and has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment, and (e) assumes that the holder does not control or hold (and is not deemed to control or hold), either alone or together with one or more associated or connected persons, directly or indirectly (including through the holding of the GDRs), an interest of 10% or more in TBC Bank's Shares, voting power, rights to profits or capital, and is not otherwise connected with TBC.

This summary further assumes that (a) a holder of GDRs is, for U.K. tax purposes, absolutely beneficially entitled to the underlying Shares and to the dividends on those Shares and (b) dividends paid by TBC will be treated as income distributions for U.K. tax purposes.

Potential investors in the GDRs should satisfy themselves prior to investing as to the overall tax consequences, including, specifically, the consequences under U.K. tax law and HMRC practice of the acquisition, ownership and disposal of the GDRs, in their own particular circumstances by consulting their own tax advisers.

Taxation of dividends

Withholding tax

Dividend payments in respect of the GDRs may be made without withholding or deduction for or on account of U.K. tax.

Currency of Dividends

U.K. Holders should note that their liability to U.K. tax in respect of dividends paid by TBC will be determined by reference to the amount of the dividend in the currency in which it is paid, which may not be the same as the U.S. dollar amount received by such U.K. Holders from the Depositary in respect of such dividend.

Income tax

Dividends received by individual U.K. Holders will be subject to U.K. income tax on the full amount of the dividend paid (before the deduction of any Georgian withholding tax (see "*—Georgian Tax Considerations—Georgian withholding tax on dividends*") grossed up for the amount of the non-refundable U.K. dividend tax credit referred to below, with potential credit for Georgian tax deducted at source (as described below).

The rate of U.K. income tax which is chargeable on dividends received in the tax year 2014/2015 by (i) additional rate taxpayers is 37.5%, (ii) higher rate taxpayers is 32.5%, and (iii) basic rate taxpayers is 10%. Individual U.K. Holders will be entitled to a non-refundable tax credit equal to one-ninth of the full amount of the dividend received from TBC (before the deduction of any Georgian withholding tax), which will be taken into account in computing the gross amount of the dividend which is chargeable to U.K. income tax. The tax credit will be credited against the U.K. Holder's liability (if any) to U.K. income tax on the gross amount of the dividend. An individual shareholder who is not subject to U.K. income tax on dividends received from TBC will not be entitled to claim payment of the tax credit in respect of such dividends. An individual's dividend income is treated as the top slice of their total income which is chargeable to U.K. income tax.

Corporation tax

A U.K. Holder within the charge to U.K. corporation tax should generally be entitled to exemption from U.K. corporation tax in respect of dividend payments. If the conditions for the exemption are not satisfied, or a U.K. Holder elects for an otherwise exempt dividend to be taxable, U.K. corporation tax will be chargeable on the gross amount of any dividends received from TBC (before deduction of any Georgian withholding tax), subject to any applicable credit for Georgian tax deducted at source (as described below). If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Credit for Georgian tax

Credit may be given for Georgian tax withheld from dividends, subject to general rules regarding the calculation and availability of such credit, including a requirement to take all reasonable steps to minimise the amount of Georgian tax on such dividends, including obtaining relief at source and any available refunds. See also "*—Georgian Tax Considerations—Georgian withholding tax on dividends*". Where a dividend paid by TBC is treated as exempt from U.K. corporation tax or U.K. income tax, a U.K. Holder will not be entitled to claim relief by way of credit in the United Kingdom in respect of any Georgian tax paid by such holder, either directly or by deduction, in respect of that dividend.

Provision of information

Information relating to securities may be required to be provided to HMRC in certain circumstances. This may include details of the beneficial owners of the GDRs or the Shares represented by the GDRs (or the persons for whom the GDRs or the Shares represented by the GDRs are held), details of the persons to whom payments derived from the GDRs or the Shares represented by the GDRs are or may be paid and information and documents in connection with transactions relating to the GDRs or the Shares represented by the GDRs. Information may be required to be provided by, amongst others, the holders of the GDRs, the Depositary, the Custodian, persons by (or via) whom payments derived from the GDRs or the Shares represented by the GDRs are made or who receive (or would be entitled to receive) such

payments, persons who effect or are a party to transactions relating to the GDRs or the Shares represented by the GDRs on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries. However, in accordance with guidance published by HMRC applicable for the 2014/2015 tax year, dividend payments in respect of the GDRs or the Shares represented by the GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of disposals

A disposal or deemed disposal of GDRs by an individual U.K. Holder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of U.K. capital gains tax . The principal factors that will determine the capital gains tax liability of an individual U.K. Holder on a disposal of GDRs are the extent to which the holder realises any other chargeable gains in the tax year in which the disposal is made, the extent to which the holder has incurred allowable losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "**annual exemption**"). The annual exemption for the 2014/2015 tax year is £11,000. If, after all allowable deductions, an individual U.K. Holder's taxable income for the year exceeds the basic rate income tax limit, taxable chargeable gains will be taxed at 28%. In other cases, taxable chargeable gains may be taxed at 18% or 28% or at a combination of both rates.

An individual U.K. Holder who ceases to be resident in the United Kingdom for a period of less than five years and who disposes of his or her GDRs during that period of temporary non-residence may be liable to U.K. capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions or reliefs).

A disposal of GDRs by a corporate U.K. Holder may give rise to a chargeable gain or an allowable loss for the purpose of U.K. corporation tax. Such a holder should be entitled to an indexation allowance, which (broadly) applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Any gains or losses in respect of currency fluctuations between U.S. dollars and sterling (or, in the case of certain corporate U.K. Holders, their functional currency) between the date of acquisition and the date of disposal of the GDRs would be brought into account in computing any chargeable gain or allowable loss on the disposal.

Credit for Georgian withholding tax

Certain capital gains may be subject to Georgian withholding tax. See "*—Georgian Tax Considerations—Georgian tax on on capital gains*". Credit against U.K. tax may be given for Georgian tax withheld, subject to general rules regarding the calculation and availability of such credit, including a requirement to take all reasonable steps to minimise the amount of Georgian tax on such capital gains. See "*—Georgian Tax Considerations—Tax Treaty Procedures*".

Stamp duty and stamp duty reserve tax

No U.K. stamp duty or stamp duty reserve tax will be payable on the issue of the GDRs or their delivery into DTC, Euroclear or Clearstream (as applicable).

No U.K. stamp duty or stamp duty reserve tax will be payable on any transfer of the GDRs once they are issued into DTC, Euroclear or Clearstream (as applicable), where such transfer is effected in electronic book-entry form in accordance with the procedures of DTC, Euroclear or Clearstream (as applicable).

Inheritance tax

U.K. inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the United Kingdom. If the GDRs or the underlying shares are considered to be a UK situs asset for inheritance tax purposes, regardless of the owner's domicile, the asset may be subject to UK inheritance tax upon the death of the owner or in certain circumstances on the gift by the owner of the GDRs. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit in the gifted property.

PLAN OF DISTRIBUTION

Description of the Distribution

The Global Offer comprises an offering of GDRs outside of Georgia. The Securities are being offered outside the United States in reliance on Regulation S and within the United States to certain QIBs, as defined in, and in reliance on, Rule 144A of the Securities Act.

On the terms and subject to the conditions set out in an underwriting agreement (the "**Underwriting Agreement**") dated 6 June 2014 entered into by TBC Bank, the Joint Global Coordinators, the joint bookrunners named below (the "**Joint Bookrunners**") and the co-manager named below (the "**Co-Manager**" and, with the Joint Bookrunners, the "**Managers**"), TBC Bank agreed to issue new "**Firm Subscription Shares**" in the form of the "**Firm Subscription GDRs**" to the Joint Bookrunners and the Co-Manager, and the Joint Bookrunners and the Co-Manager have severally agreed to subscribe for the Firm Subscription Shares in the form of the Firm Subscription GDRs at the Offer Price in the amount as indicated below. Any capitalised term used but not defined in this section shall have the meaning ascribed to it in the Underwriting Agreement and/or the Selling Shareholders Agreement.

On the terms and subject to the conditions set out in a selling shareholders agreement (the "**Selling Shareholders Agreement**") dated 6 June 2014 among the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners and the Co-Manager, each of the Selling Shareholders has agreed to sell the "**Firm Sale Shares**" in the form of the "**Firm Sale GDRs**" to the Joint Bookrunners and the Co-Manager, and the Joint Bookrunners and the Co-Manager have agreed to purchase the Firm Sale GDRs at the Offer Price in the amount as indicated below.

On the terms and subject to the conditions set out in the Selling Shareholders Agreement, some of the Selling Shareholders have granted to the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) the Overallotment Option to call for such Selling Shareholders to sell up to the maximum number of "**Option Shares**" in the form of the "**Option GDRs**".

The following table sets forth the number of GDRs allocated to each of the Joint Bookrunners and the Co-Manager in accordance with the terms of the Underwriting Agreement and the Selling Shareholders Agreement:

	Number of Firm Subscription GDRs and Firm Sale GDRs	Maximum number of Option GDRs
Joint Bookrunners		
Barclays Bank PLC	7,620,909	762,091
UBS Limited	7,620,909	762,091
Renaissance Securities (Cyprus) Limited	2,387,273	238,727
Co-Manager		
Peel Hunt LLP	734,545	73,455
Total	**18,363,636**	**1,836,364**

The total expenses payable by TBC Bank for the Global Offer, other than the Joint Bookrunners' and the Co-Manager's fees and commissions, are estimated to be approximately GEL 9.7 million (U.S.$5.5 million).

The Joint Bookrunners and the Co-Manager propose to offer the Securities at the Offer Price within the United States to QIBs (as defined in Rule 144A) in reliance on Rule 144A or another exemption from the registration requirements under the Securities Act and outside the United States in reliance on Regulation S. See "*Selling and Transfer Restrictions*". The price at which the Securities are offered may be changed at any time without notice.

The Securities have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "*Selling and Transfer Restrictions*".

In addition, until 40 days after the commencement of this Global Offer, an offer or sale of Securities within the United States by a dealer that is not participating in this Global Offer may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Underwriting Agreement, Selling Shareholders Agreement and Overallotment Option

The Underwriting Agreement, Selling Shareholders Agreement and/or related arrangements contain the following provisions, among others:

- Some of the Selling Shareholders will grant to the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) an Overallotment Option to to call for such Selling Shareholders to sell up to the maximum number of Option Shares specified above at the Offer Price for the purpose of covering short positions resulting from overallotments or from sales of Offer GDRs on or before the date which is 30 days after the commencement of conditional dealings in the GDRs on the London Stock Exchange (the "**Stabilisation Period End Date**"). The Overallotment Option shall be exercisable in whole or in part, once or more than once, by notice in writing to such Selling Shareholders at any time on or before the Stabilisation Period End Date and, to the extent not exercised, may be terminated by the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) at any time. The Overallotment Option shall be exercisable by notice in writing (each such notice, an "**Option Exercise Notice**") by the Stabilising Manager (on behalf of the other Joint Bookrunners and the Co-Manager) to the relevant Selling Shareholders setting out the aggregate number of Option Shares to be sold by such Selling Shareholders in the form of the Option GDRs and the time and date for closing and settlement of the purchase of the Option GDRs which are the subject of the Option Exercise Notice (the "**Option Closing Date**"). The Option Closing Date will be determined by the Joint Global Coordinators in their absolute discretion but will not be (i) before the Closing Date or (ii) later than seven Business Days after the date of the relevant Option Exercise Notice or earlier than two Business Days after such date. Following any exercise of the Overallotment Option and subject to the satisfaction or waiver of the conditions contained in the Selling Shareholders Agreement in relation to the Overallotment Option, such Selling Shareholders agree to sell the Option Shares in respect of which the Overallotment Option has been exercised in the form of the Option GDRs to the Joint Bookrunners and the Co-Manager, and the Joint Bookrunners and the Co-Manager severally agree, on the basis of the representations, warranties and undertakings in the Selling Shareholders Agreement, to purchase the relevant Option GDRs in respect of which the Overallotment Option has been exercised, each in the amount in the proportion set out in the Selling Shareholders Agreement (subject to such adjustments to eliminate fractional shares as the Joint Global Coordinators in their sole discretion may determine) at the Offer Price on the Option Closing Date.
- TBC Bank will bear and pay all the expenses reasonably incurred and properly documented by the Joint Global Coordinators, the Joint Bookrunners or the Co-Manager (together with VAT where applicable) incidental to the performance of their obligations hereunder and in connection with the Global Offer, including, without limitation, (i) costs of document production, postage, telecommunications, travel (including costs of roadshows and presentations and roadshow travel expenses); (ii) their out-of-pocket expenses and (iii) the fees and disbursements of their legal and other advisers, in each case subject to caps specified in the engagement letter between TBC Bank, the Joint Bookrunners or the Co-Manager.

  UBS Limited as settlement manager will deduct from the payments to be made by the settlement manager (for itself and on behalf of the Joint Global Coordinators, the Joint Bookrunners and the Co-Manager) to TBC Bank or the Selling Shareholders, as the case may be, underwriting commissions payable by:

  - TBC Bank amounting to 2.75%, plus at its sole discretion an additional 1.0%, of an amount equal to the Offer Price multiplied by the aggregate number of Firm Subscription GDRs issued by it pursuant to the Underwriting Agreement;
  - the Selling Shareholders amounting to 2.75% of an amount equal to the Offer Price multiplied by the aggregate number of Firm Sale GDRs sold and delivered by them pursuant to the Selling Shareholders Agreement;
  - the Selling Shareholders amounting to 2.75% of an amount equal to the Offer Price multiplied by the aggregate number of Option GDRs sold and delivered by them pursuant to the Overallotment Option in the Selling Shareholders Agreement; and
  - each Selling Shareholder, at its sole discretion, of an additional 1.0% of an amount equal to the Offer Price multiplied by the aggregate number of Firm Sale GDRs and Option GDRs sold and delivered by it pursuant to the Overallotment Option in the Selling Shareholders Agreement.

The Joint Bookrunners and the Co-Manager are offering the GDRs when, as and if, delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the GDRs and other conditions contained in the Underwriting Agreement and the Selling Shareholders Agreement, such as the receipt by the Joint Bookrunners and the Co-Manager of, among other things, officer's certificates and legal opinions.

The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, among others, the accuracy of the representations and warranties on the part of TBC Bank under the Underwriting Agreement and on the part of each Selling Shareholder under the Selling Shareholders Agreement and the application for Admission having been approved on or prior to the Closing Date. The Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) may terminate the Underwriting Agreement and the Selling Shareholders Agreement prior to Admission in certain specified circumstances that are typical for agreements of this nature. These include the occurrence of certain material changes in the condition (financial or otherwise), or in the earnings or business affairs of TBC Bank and certain changes in the financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions is not satisfied (or expressly waived in writing) as and when required by the Underwriting Agreement and the Selling Shareholders Agreement, or the Underwriting Agreement and the Selling Shareholders Agreements are terminated prior to payment for the GDRs, then the Global Offer will lapse.

Lock-up Provisions

Each of the Selling Shareholders, TBC Bank, certain other shareholders of TBC Bank and the members of the Management Board (each a "**Covenantor**") has agreed with the Joint Bookrunners and the Co-Manager that neither it, nor, with respect to TBC Bank, any of its subsidiaries, affiliates, nor any person acting on its or their behalf will, from the date hereof until (i) 180 days after the Closing Date (in the case of the IFI Investors, ICI Investors, the individual Selling Shareholders and certain other individual shareholders), or (ii) 360 days after the Closing Date (in the case of TBC Bank, members of the Management Board, Mr. Mamuka Khazaradze, Mr. Badri Japaridze, TBC Holdings Ltd. and Liquid Crystal International N.V. LLC), without the prior written consent of the Joint Global Coordinators:

(i) issue, offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell, issue, transfer, charge, pledge, grant any option, right or warrant to purchase or otherwise transfer, lend, or dispose of, directly or indirectly, any Shares, GDRs, or any interest therein, of TBC Bank or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Shares or GDRs, or any interest therein, of TBC Bank;

(ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Shares or GDRs of TBC Bank, whether any such swap or transaction described in (i) or (ii) is to be settled by delivery of Shares or GDRs of TBC Bank or such other securities, in cash or otherwise; or

(iii) enter into any other disposal or agreement to dispose of any Shares or GDRs of TBC Bank, or make any announcement or other publication of the intention to do any of the foregoing, (each of the above, a "**Disposal**"),

(together, the "**Lock-up Restriction**").

The Lock-up Restriction does not apply to, among other things:

(i) any Disposal made in and for the purpose of the Global Offer pursuant to the Selling Shareholders Agreement and under the Stock Lending Agreements, provided that any such Disposals shall be notified in advance to the Joint Global Coordinators in writing two business days prior to the entry into of any agreement relating to the same;

(ii) with respect to TBC Bank (a) the issue and offer by or on behalf of TBC Bank of the Securities in the context of the Global Offer; (b) to the issue and offer of the new Shares in the Domestic Offer provided that the Domestic Offer shall not take place before the Option Closing Date; and (c) to the transfer by or on behalf of the Company of Shares or GDRs given as consideration in relation to the anticipated merger of Bank Constanta into TBC Bank, provided that any recipient of such Shares or

GDRs enters into a lock-up agreement in the form set out in the Underwriting Agreement with the Joint Bookrunners and the Co-Manager;

(iii) any Disposal of any title to or interest in any Shares, GDRs, or any interest therein, of TBC Bank by any Selling Shareholder to its ultimate holding company or any of its subsidiaries or subsidiary undertakings (if applicable), or to any subsidiary or subsidiary undertaking of its ultimate holding company, provided that (a) prior to the making of any such Disposal, the transferee shall have agreed to be bound by the restrictions of the Lock-up Restriction as if it were the transferor, by executing, together with the Joint Bookrunners and the Co-Manager, a lock-up agreement in the form set out in the Underwriting Agreement, and (b) in the event that any such transferee is to cease to be an entity described above, any such interest in any Shares or GDRs of TBC Bank will, prior to such cessation, be transferred to either (i) the relevant transferring shareholder, or (ii) another permitted transferee of such transferring shareholder who falls within this exception and has executed, together with the Joint Bookrunners and the Co-Manager, a lock-up agreement in the form set out in the Underwriting Agreement, and shall be held subject to the restrictions of the Selling Shareholders Agreement to which such transferring shareholder is subject.

Certain other individual shareholders (who together hold approximately 0.5% of the Shares issued and outstanding prior to the Global Offer) are not subject to the Lock-up Restriction.

Following the Option Closing Date, TBC Bank may conduct an offer of additional Shares or GDRs by way of a public offer in Georgia in accordance with the Securities Market Law (the "**Domestic Offer**"), the net proceeds of which will not exceed U.S.$5,000,000. Should TBC Bank conduct such Domestic Offer, the issuance of Shares or GDRs issued in that offering will not be subject to the foregoing undertakings of TBC Bank and any such GDRs will be part of the block listing of GDRs listed on the London Stock Exchange. TBC Bank will conduct any such Domestic Offer only through its wholly-owned subsidiary TBC Brokerage at or about the then-current market price.

Furthermore, in connection with completion of the merger of Bank Constanta into TBC Bank, which is expected to occur following the Global Offer, the current minority shareholders of Bank Constanta may receive Shares of TBC Bank in exchange for their shares in Bank Constanta (which currently represent 0.4% of Bank Constanta's share capital). The Shares that would be issued by TBC Bank in connection with such exchange are expected to amount to approximately 0.03% of the outstanding share capital of TBC Bank following the Global Offer and would not be subject to the foregoing undertakings of TBC Bank. See "*Risk Factors—Risks Related to TBC's Business—TBC may not be able to successfully integrate the operations of Bank Constanta into TBC Bank*".

Stabilisation

In connection with the Global Offer, the Stabilising Manager or any agent or other person acting for the Stabilising Manager, may overallot GDRs up to a maximum of 15% of the Global Offer or effect transactions intended to enable it to satisfy any overallocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days following the announcement of the Offer Price. However, there is no obligation on the Stabilising Manager or any agent of the Stabilising Manager, to do this. Such transactions may be effected on the London Stock Exchange and any other securities market, over-the-counter market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days following the announcement of the Offer Price. Save as required by law, the Joint Bookrunners and the Co-Manager do not intend to disclose the extent of any overallotments and/or stabilisation transactions under the Global Offer.

In connection with the Global Offer, each of the Joint Bookrunners and the Co-Manager and any affiliate acting as an investor for its own account may take up the GDRs offered in the Global Offer and in that capacity may retain, purchase or sell the GDRs for its own account and may offer or sell such securities otherwise than in connection with the Global Offer. The Joint Bookrunners and the Co-Manager do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Other relationships

The Joint Bookrunners and the Co-Manager are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory,

investment management, principal investment, hedging, financing and brokerage activities. The Joint Bookrunners, the Co-Manager and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for TBC Bank from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for TBC Bank in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the Joint Bookrunners, the Co-Manager and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve TBC Bank's securities and instruments.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares or the GDRs (together, the "**Securities**"), or distribution of this Prospectus or any supplementary prospectus or any amendment or supplement thereto in connection with the proposed resale of the Securities or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Securities may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer and sale of the Securities offered in the Global Offer, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the Securities offered in the Global Offer to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

No person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by TBC Bank, the Joint Bookrunners or the Co-Manager. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

United States

The Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. The Securities are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that certain of the Joint Bookrunners and the Co-Manager may directly or through their respective U.S. broker-dealer affiliates, arrange for the offer of the Securities within the United States only to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the Securities Act.

In addition, until 40 days after the commencement of the Global Offer of the Securities, an offer or sale of Securities within the United States by a dealer (whether or not participating in the Global Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from the registration requirements under the Securities Act.

United Kingdom

Each of the Joint Bookrunners and the Co-Manager has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the United Kingdom any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of FSMA does not apply to the Company; and (ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

European Economic Area

Each of the Joint Bookrunners and the Co-Manager has represented and agreed in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of any Securities which are the subject of the Global Offer contemplated herein to the public in that Relevant Member State, except that it may make an offer of Securities to the public in

that Relevant Member State with effect from and including the Relevant Implementation Date under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive, as implemented in the Relevant Member State;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Bookrunners and the Co-Manager for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, subject to obtaining the prior consent of the Joint Bookrunners and the Co-Manager for any such offer,

provided that no such offer of Securities shall result in a requirement for the publication by TBC Bank or any Joint Bookrunner or the Co-Manager of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "*an offer to the public*" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase or subscribe for any Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

In the case of any Securities being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will be deemed to have represented and agreed that the Securities acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Securities to the public other than their offer or resale in a Relevant Member State to qualified investors who are not financial intermediaries as so defined or in circumstances in which the prior consent of the Joint Global Coordinators has been obtained to each such proposed offer or resale. TBC, the Selling Shareholders, the Joint Bookrunners and the Co-Manager and their respective affiliates, and others will rely (and TBC and the Selling Shareholders each acknowledges that the Joint Bookrunners and the Co-Manager and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Bookrunners and the Co-Manager of such fact in writing may, with the consent of the Joint Bookrunners and the Co-Manager, be permitted to subscribe for or purchase Securities.

Georgia

Each of the Joint Bookrunners and the Co-Manager has agreed that the Securities shall not be offered or sold as part of the Global Offer in the territory of Georgia in a public offering without a prior or simultaneous delivery/publication of a final prospectus approved by the NBG in accordance with the Law of Georgia on Securities Market. A "public offering" is defined as an offer to sell securities directly or indirectly on behalf of an issuer or other person to at least 100 persons or to an unspecified number of persons. In the event, however, that the Securities are placed/listed on London Stock Exchange, which is a "recognised stock exchange of the foreign country", the Securities may be issued and offered in Georgia in a public offering without approval of the final prospectus related to the Securities by the NBG, provided that the NBG is notified about public offering of the Securities in accordance with Georgian law.

Without limitation of any of the foregoing, each of the Joint Bookrunners and the Co-Manager has represented and agreed that it has complied and will comply with all applicable provisions of Georgian law with respect to anything done by it in relation to the Securities in, from or otherwise involving Georgia.

Japan

The Securities offered hereby have not been and will not be registered under the Final Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Joint Bookrunners and the Co-Manager represents and agrees that the Securities

which it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Corporations Act**")) has been or will be lodged with, or registered by, the Australian Securities and Investments Commission ("**ASIC**") in relation to the Global Offer of the Securities. This Prospectus does not constitute a prospectus or other disclosure document under the Corporations Act and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act.

Each of Joint Bookrunners and the Co-Manager has represented and agreed that this document is being distributed in Australia by the Joint Bookrunners and the Co-Manager to persons (the "**Exempt Investors**") who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act, to "professional investors" (within the meaning of section 708(11) of the Corporations Act) and/or otherwise pursuant to one of more exemptions contained in section 708 of the Corporations Act. The entity receiving this document represents and warrants that if it is in Australia, it is either a professional or a sophisticated investor or a person to whom it is lawful to offer the Securities without disclosure to investors under Chapter 6D of the Corporations Act and that it will not distribute this document to any other person.

Each of Joint Bookrunners and the Co-Manager has represented and agreed that any of the Securities applied for by Exempt Investors in Australia will not be offered for sale in Australia for 12 months from the date of issue, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 or 708A of the Corporations Act. This document is not supplied in connection with any offering or proposed offering of securities or financial products that require disclosure in accordance with Chapter 6D or Part 7.9 of the Corporations Act. Any person acquiring the Securities will be required to observe such Australian on-sale restrictions and if in any doubt as to the application or effect of this legislation, should confer with its professional advisors.

Russia

Neither the Securities nor this Prospectus have been, or are intended to be, registered with the Russian Federal Service for Financial Markets or any other state bodies that may from time to time be responsible for such registration. Each of the Joint Global Bookrunners and the Co-Manager has represented and agreed that the Securities will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

Turkey

The issuance of the Securities has not been approved by the Turkish Capital Markets Board and the Securities are not being publicly offered or sold in Turkey. This Prospectus is not intended to be a public offering, advertisement, promotion or solicitation of the Securities or any interests therein. No transaction that may be deemed as a public offering or otherwise as a sale of the Securities (or beneficial interests therein) in Turkey by may be engaged in. Pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the purchase or sale of the Securities (or beneficial interests therein) by residents of Turkey, provided that they purchase or sell such Securities (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorized pursuant to Capital Markets Board regulations and the purchase price is transferred through banks. As such, Turkish residents should use banks or licensed brokerage institutions when purchasing the Securities (or beneficial interests therein) and transfer the purchase price through banks.

Transfer Restrictions

Rule 144A GDRs

Each purchaser of GDRs in the Rule 144A Offering, by its acceptance of delivery of this Prospectus and the GDRs, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such GDRs for its own account or for the account of one or more QIBs and (iv) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
2. The purchaser is aware that the GDRs, purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, have not been and will not be registered under the Securities Act and are being offered in the United States only in transactions not involving any public offering in the United States and are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act ("**Restricted Securities**").
3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs, purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, will bear unless otherwise determined by TBC and the Depositary in accordance with applicable law:

   THIS RULE 144A MASTER GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC TBC BANK (THE "COMPANY") REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF JSC TBC BANK THAT THE GDRs AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

   THE COMPANY MAY FROM TIME TO TIME REQUEST HOLDERS TO PROVIDE INFORMATION (A) AS TO THE CAPACITY IN WHICH SUCH HOLDERS OR BENEFICIAL OWNERS OWN OR OWNED GDRS, (B) REGARDING THE IDENTITY OF ANY OTHER PERSONS THEN OR PREVIOUSLY INTERESTED IN SUCH GDRS AND (C) REGARDING

THE NATURE OF SUCH INTEREST AND VARIOUS OTHER MATTERS PURSUANT TO APPLICABLE LAW OR THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY, ALL AS IF SUCH GDRS WERE TO THE EXTENT PRACTICABLE THE UNDERLYING SHARES. EACH HOLDER AND BENEFICIAL OWNER AGREES TO PROVIDE PROMPTLY ANY INFORMATION AS REQUIRED AND REQUESTED BY THE COMPANY OR THE DEPOSITARY. AT THE COMPANY'S WRITTEN INSTRUCTIONS THE DEPOSITARY WILL DISTRIBUTE ANY SUCH REQUESTS TO HOLDERS AND RETURN TO THE COMPANY ANY RESPONSES TO SUCH REQUESTS RECEIVED BY THE DEPOSITARY. IN ADDITION, HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR COMPLIANCE WITH RESTRICTIONS ON, AND NOTIFICATION OBLIGATIONS RELATED TO, THE OWNERSHIP OF THE UNDERLYING SHARES IMPOSED FROM TIME TO TIME BY GEORGIAN LAW OR BY ANY GEORGIAN REGULATORY AUTHORITY OR OTHERWISE. IN PARTICULAR HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR ENSURING THAT THEY DO NOT: (A) OWN, AND/OR HAVE THE ABILITY TO EXERCISE VOTING RIGHTS IN RESPECT OF, SHARES OR GDRS OR A COMBINATION OF THE FOREGOING, COMPRISING (i) MORE THAN 10 PER CENT., (ii) MORE THAN 25 PER CENT., AND/OR (iii) MORE THAN 50 PER CENT. (OR SUCH OTHER PERCENTAGE THRESHOLD AS MAY BE IMPOSED BY GEORGIAN LAW FROM TIME TO TIME) OF THE ISSUED SHARE CAPITAL OR VOTING RIGHTS OF THE COMPANY, OR (B) ACQUIRE DIRECTLY OR INDIRECTLY, THROUGH A TRANSACTION OR SERIES OF TRANSACTION SHARES OR GDRS OR A COMPBINATION OF THE FOREGOING, COMPRISING (i) MORE THAN 10 PER CENT., (ii) MORE THAN 25 PER CENT., AND/OR (iii) MORE THAN 50 PER CENT. OF THE ISSUED SHARE CAPITAL OR VOTING RIGHTS OF THE COPMANY, IN EACH CASE AT ANY TIME WITHOUT THE PRIOR WRITTEN APPROVAL OF THE NATIONAL BANK OF GEORGIA (OR ANY SUCCESSOR AUTHORITY FROM TIME TO TIME) AND SHALL NOTIFY THE COMPANY UPON RECEIPT OF SUCH APPROVAL.

4. For so long the ordinary shares are Restricted Securities, it will not deposit such ordinary shares into any unrestricted depositary receipt facility in respect of shares established and maintained by a depositary bank unless and until such time as the GDRs are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.
5. TBC, the Selling Shareholders, the Joint Bookrunners, the Co-Manager and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that sellers of the GDRs purchased within the United States pursuant to Rule 144A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Regulation S GDRs

Each purchaser of GDRs in the Regulation S Offering, by its acceptance of the delivery of this Prospectus and the GDRs, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. the purchaser is aware that the GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
3. any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by TBC;
4. TBC, the Selling Shareholders, the Joint Bookrunners, the Co-Manager and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and
5. the purchaser understands that the Regulation S GDRs and the Master Regulation S GDR will bear a legend substantially to the following effect:

   THIS REGULATION S MASTER GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC TBC BANK (THE "COMPANY") REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED

STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THE COMPANY MAY FROM TIME TO TIME REQUEST HOLDERS TO PROVIDE INFORMATION (A) AS TO THE CAPACITY IN WHICH SUCH HOLDERS OR BENEFICIAL OWNERS OWN OR OWNED GDRS, (B) REGARDING THE IDENTITY OF ANY OTHER PERSONS THEN OR PREVIOUSLY INTERESTED IN SUCH GDRS AND (C) REGARDING THE NATURE OF SUCH INTEREST AND VARIOUS OTHER MATTERS PURSUANT TO APPLICABLE LAW OR THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY, ALL AS IF SUCH GDRS WERE TO THE EXTENT PRACTICABLE THE UNDERLYING SHARES. EACH HOLDER AND BENEFICIAL OWNER AGREES TO PROVIDE PROMPTLY ANY INFORMATION AS REQUIRED AND REQUESTED BY THE COMPANY OR THE DEPOSITARY. AT THE COMPANY'S WRITTEN INSTRUCTIONS THE DEPOSITARY WILL DISTRIBUTE ANY SUCH REQUESTS TO HOLDERS AND RETURN TO THE COMPANY ANY RESPONSES TO SUCH REQUESTS RECEIVED BY THE DEPOSITARY. IN ADDITION, HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR COMPLIANCE WITH RESTRICTIONS ON, AND NOTIFICATION OBLIGATIONS RELATED TO, THE OWNERSHIP OF THE UNDERLYING SHARES IMPOSED FROM TIME TO TIME BY GEORGIAN LAW OR BY ANY GEORGIAN REGULATORY AUTHORITY OR OTHERWISE. IN PARTICULAR HOLDERS AND BENEFICIAL OWNERS SHALL BE RESPONSIBLE FOR ENSURING THAT THEY DO NOT: (A) OWN, AND/OR HAVE THE ABILITY TO EXERCISE VOTING RIGHTS IN RESPECT OF, SHARES OR GDRS OR A COMBINATION OF THE FOREGOING, COMPRISING (i) MORE THAN 10 PER CENT., (ii) MORE THAN 25 PER CENT., AND/OR (iii) MORE THAN 50 PER CENT. (OR SUCH OTHER PERCENTAGE THRESHOLD AS MAY BE IMPOSED BY GEORGIAN LAW FROM TIME TO TIME) OF THE ISSUED SHARE CAPITAL OR VOTING RIGHTS OF THE COMPANY, OR (B) ACQUIRE DIRECTLY OR INDIRECTLY, THROUGH A TRANSACTION OR SERIES OF TRANSACTION SHARES OR GDRS OR A COMPBINATION OF THE FOREGOING, COMPRISING (i) MORE THAN 10 PER CENT., (ii) MORE THAN 25 PER CENT., AND/OR (iii) MORE THAN 50 PER CENT. OF THE ISSUED SHARE CAPITAL OR VOTING RIGHTS OF THE COPMANY, IN EACH CASE AT ANY TIME WITHOUT THE PRIOR WRITTEN APPROVAL OF THE NATIONAL BANK OF GEORGIA (OR ANY SUCCESSOR AUTHORITY FROM TIME TO TIME) AND SHALL NOTIFY THE COMPANY UPON RECEIPT OF SUCH APPROVAL.

If a purchaser of GDRs is acquiring such GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Other provisions regarding transfers of the GDRs

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Depositary Agreements) from the transferor and the transferee to the effect that, among other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Rule 144A GDR only upon receipt by the depositary of written certifications from the transferor and the transferee (in the forms provided in the Depositary Agreements) to the effect that, among other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other GDR will, upon transfer, cease to be an interest in the GDRs represented by such first GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other GDR for so long as it remains such an interest.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised TBC as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "*Taxation*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Regulation S Master GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee of The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Rule 144A Master GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by The Bank of New York Mellon in New York as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC,

respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from TBC for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from TBC for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F Kennedy, L-1855 Grand Duchy of Luxembourg, Luxembourg.

TBC Bank will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Conditions.

Global Clearance and Settlement Procedures

Initial settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see "*Terms and Conditions of the Global Depositary Receipts*" and "*Selling and Transfer Restrictions*".

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs

registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Regulation S Master GDR.

Trading between Clearstream/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Regulation S Master GDR and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of TBC, the Joint Bookrunners, the Co-Manager, the Depositary or, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a Delaware bank holding company. The principal office of the Depositary is located at One Wall Street, New York, NY 10286. Its principal administrative offices are located at 101 Barclay Street, New York, NY 10286. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent quarterly financial statements and annual report are available for inspection at *www.bnymellon.com* or the principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

LEGAL MATTERS

Certain legal matters with respect to the Global Offer will be passed upon for TBC in respect of the laws of England and the United States by Baker & McKenzie LLP and in respect of the laws of Georgia by DLA Piper Georgia LP. Certain legal matters with respect to the Global Offer will be passed upon for the Joint Bookrunners and the Co-Manager in respect of the laws of England and the United States by Linklaters LLP and in respect of the laws of Georgia by BGI Advisory Services Georgia LLC.

INDEPENDENT AUDITORS

TBC's Audited Consolidated Financial Statements as of and for the years ended 31 December 2013, 2012 and 2011 included in this Prospectus have been audited by PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch, independent auditors, as stated in their audit report appearing herein (the "**Independent Auditor's Report**"). The address of PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch is 7 Bambis Rigi Street, Business Centre Mantashevi, II Floor, Tbilisi, 0150, Georgia. PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch is included in the register of audit firms maintained by the Georgian Federation of Professional Accountants and Auditors.

The Unaudited Consolidated Interim Financial Statements have been reviewed by PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch in accordance with professional standards for review of such information. Its report dated 8 May 2014 appearing at page F-4 (the "**Independent Auditor's Review Report**") states that it did not audit and does not express an opinion on this information. Accordingly, the degree of reliance on its review report should be restricted in light of the limited nature of the review procedures applied.

For the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules, PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch is responsible for the Independent Auditor's Review Report, as part of the Prospectus, and declare that it has taken all reasonable care to ensure that the information contained in the Independent Auditor's Review Report is, to the best of PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch's knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X in Appendix 3 to the Prospectus Rules.

For the purpose of compliance with item 23.1 of Annex X in Appendix 3 to the Prospectus Rules, PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch has given and not withdrawn its written consent to the inclusion of the Independent Auditor's Review Report, in the form and context in which it is included and has authorised the content of the Independent Auditor's Review Report.

A written consent under the Prospectus Rules is different from a consent filed with the U.S. Securities and Exchange Commission under Section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act. As the GDRs have not and will not be registered under the Securities Act, PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch has not filed a consent under Section 7 of the Securities Act.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Regulation S Master GDR and the Rule 144A Master GDR, to the Official List on or about 11 June 2014. Application has been made for the GDRs to be traded on the regulated market of the London Stock Exchange through its IOB. Prior to Admission to the Official List, dealings will be permitted by the London Stock Exchange in accordance with its rules on an if-and-when-issued basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.

2. TBC has obtained all consents, approvals and authorisations required under Georgian law in connection with the issue of the new Shares in the form of the GDRs and entry into the Underwriting Agreement and the Deposit Agreement. The issuance of the Shares underlying the GDRs was authorised by the resolution of the General Meeting of Shareholders passed on 4 March 2014.

3. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of TBC for a period of 12 months from the date of publication of this Prospectus:

   - this Prospectus;
   - TBC Bank's Charter;
   - the Deposit Agreement;
   - the Deed Poll;
   - TBC's Audited Consolidated Financial Statements as of and for the years ended 31 December 2011, 2012 and 2013, together with the independent auditors' report relating thereto; and
   - TBC's Unaudited Consolidated Interim Financial Statements as of and for the three month periods ended 31 March 2014 and 2013, together with the review report relating thereto.

   The registered office of TBC is located at 7 Marjanishvili Street, Tbilisi, 0102, Georgia, and its telephone number is (+995) 32 227 27 27.

4. If definitive certificates are issued in exchange for the Master GDRs, TBC will appoint an agent in the United Kingdom.

5. There has been no significant change in the financial or trading position of TBC since 31 March 2014, the end of the last financial period for which financial information has been published.

6. Save as described in "*Business Description—Legal Proceedings*", there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which TBC are aware) during the last 12 months which may have, or have had in the recent past, significant effects on TBC or TBC's financial position or profitability.

7. The GDRs are denominated in U.S. dollars and have no nominal value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Joint Bookrunners and the Co-Manager. The results of the Global Offer will be made public by TBC through a press release and notice to the Regulatory Information Service promptly upon the closing of the Global Offer.

8. The ISIN for the Rule 144A GDRs is US87217U1097, the Common Code for the Rule 144A GDRs is 107236503, the CUSIP number for the Rule 144A GDRs is 87217U 109 and the SEDOL for the Rule 144A GDRs is BMQX501.

9. The ISIN for the Regulation S GDRs is US87217U2087, the Common Code for the Regulation S GDRs is 107237402, the CUSIP number for the Regulation S GDRs is 87217U 208 and the SEDOL for the Regulation S GDRs is BMQX512.

10. The London Stock Exchange trading symbol for the GDRs is "TBCB".

11. TBC expects three unrelated investors each to subscribe for between approximately 5% and 10% of the GDRs in the Global Offer.

GLOSSARY OF TERMS

2008 Conflict	August 2008 conflict between Georgian and Russian forces in the Tskhinvali Region/South Ossetia
Admission	Admission to the Official List and unconditional trading on the London Stock Exchange
ALCO	Assets and Liabilities Management Committee of TBC's Management Board
AML Law	Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income which came into force on 1 January 2004
Ashmore	Ashmore Cayman SPC No. 2 Ltd
ATMs	Automated teller machines
Audited Consolidated Financial Statements	TBC's audited consolidated financial statements as at and for the years ended 31 December 2013, 2012 and 2011 as set out in pages F-56 through F-149 of this Prospectus
Banking Law	Georgian Law on Commercial Banks dated 23 February 1996
Basel II/III Implementation Project	TBC's Basel II/III implementation project, undertaken in consultation with Ernst & Young LLC to enable TBC to implement industry best practices
BIS Guidelines	The guidelines on capital adequacy standards for international banks contained in the July 1988 text of the Basel Capital Accord, published by the Basel Committee on Banking Supervision (as amended, updated or supplemented from time to time)
BSSC	Banking Systems Service Company LLC, a subsidiary of TBC Bank
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
Charter	TBC Bank's charter
CIG	JSC Credit Information Georgia
Closing Date	11 June 2014
Co-Manager	Peel Hunt LLP
Common Terms Agreement	The common terms agreement signed in April 2009 made between TBC Bank, the EBRD, FMO and IFC, which, provides for the provision of finance through senior and subordinated loans entered into with each lender up to a maximum aggregate principal amount of U.S.$54.4 million in respect of senior loans and U.S.$44.0 million in respect of subordinated loans, respectively
Constitutional Amendments	The significant constitutional amendments proposed by the Georgian State to the Constitution of Georgia which the parliament approved in October 2010, the effects include an enhancement of the primary governing responsibility of the Parliament and a concomitant reduction of the powers of the Presidency
Corporate Governance Code	Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009 which was drafted with the guidance of IFC and is based on internationally recognised principles of good corporate governance

Covenantor	In relation to the lock-up provisions, each of the Selling Shareholders, TBC Bank, certain other shareholders of TBC Bank and the members of the Management Board.
CPEBS	Core Principles for Effective Banking Supervision published by the Basel Committee on Banking Supervision, which governs how the NBG requires banks to conduct relationships with clients
CPI	Consumer price index
CRA Regulation	Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011
CRM	Oracle Siebel Customer Relationship Management system
Custodian	The Bank of New York Mellon, London Branch (using BNY (Nominees) Limited as its nominee)
DEG	DEG—Deutsche Investitions und Entwicklungsgesellschaft mbH
Deposit Agreement	The Deposit Agreement dated 11 June 2014 entered into between TBC and the Depositary
Depositary	The Bank of New York Mellon
Deposits	Customer accounts
DTC	The Depository Trust Company
EBRD	European Bank for Reconstruction and Development
EEA	The European Economic Area
EU	The European Union
EU Association Agreement	Association Agreement with the European Union initialed by Georgia on 28 November 2013 at the EU Eastern Partnership summit held in Vilnius, Lithuani
EWST	Enterprise Wide Stress Test used by TBC to confirm that existing capital is sufficient to withstand severe stress events
FCA	United Kingdom Financial Conduct Authority
FDI	Foreign direct investment
Financial Monitoring Group	The financial monitoring group within TBC's Compliance Department which is responsible for anti-money laundering issues
Fitch	Fitch Ratings Ltd
FMO	Nederlandse Financierings—Maatschappij voor Ontwikkelingslanden N.V
FMS	The Financial Monitoring Service, an independent public law entity in Georgia set up to monitor and supervise anti-money laundering and counter terrorism financing measures and to issue decrees setting out further preventative measures and reporting requirements
FSMA	Financial Services and Markets Act 2000 (as amended)
GDP	Gross domestic product
GDRs	In connection with the Global Offer the Global Depositary Receipts representing the Shares. One GDR represents an interest in one Share

Geostat	Legal Entity of Public Law National Statistics Office of Georgia
Global Offer	The Global Offer by TBC Bank, of 7,692,308 ordinary shares with a par value of GEL 0.4 per share and by certain of TBC Bank's shareholders of 12,507,692 Shares in the form of GDRs
GMS	General Meeting of Shareholders
Government	Government of Georgia
Gross Loans	Loans and advances to customers before provision for loan impairment
HMRC	HM Revenue & Customs
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process adopted by TBC for the purposes of calculating capital adequacy under pillar 2
ICI Investors	JPMorgan plc and Ashmore
IFC	International Finance Corporation
IFI Investors	DEG, the EBRD, FMO and the IFC
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
Independent Auditor's Report	The audit report appearing in the Prospectus, prepared by PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch, as independent auditors of TBC's Audited Consolidated Financial Statements as of and for the years ended 31 December 2013, 2012 and 2011
Intermediary	In relation to the Georgian mandatory tender offer requirement under article 53^2 of the Law on Entrepreneurs does not apply to a person, the Intermediary, who acquires more than 50% of the voting shares of a company for the benefit of other person(s), including for the purpose of issuing global depositary receipts
IOB	The International Order Book of the London Stock Exchange
IT Transformation	The IT transformation programme initiated by TBC in 2011 intended to improve the customer experience, better manage customer relationships and improve product and service capabilities (including fast time to market) as well as increase operational efficiency and level of straight-through processing
Joint Bookrunners	Barclays Bank PLC, UBS Limited and Renaissance Securities (Cyprus) Limited
JPMorgan plc	J.P. Morgan Securities plc
Law on Entrepreneurs	The Georgian Law on Entrepreneurs dated 28 October 1994
Management	Managers and management of TBC
Master GDRs	The Regulation S Master GDR and the Rule 144A Master GDR
Moody's	Moody's Investors Service Ltd.
NBG	National Bank of Georgia
NBG Law	The Organic Law on the National Bank of Georgia adopted on 24 September 2009
Net loans	Loans and advances to customers (after provision for loan impairment)

New York Convention	The United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958
Official List	The official list of the Financial Conduct Authority
Order	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005
Order 116	NBG Order No. 116, dated 4 May 2001
Overallotment Option	In connection with the Global Offer, some of the Selling Shareholders will grant to the Joint Global Coordinators (on behalf of the Joint Bookrunners and the Co-Manager) an Overallotment Option to to call for such Selling Shareholders to sell up to 1,836,364 additional GDRs at the Offer Price for the purpose of covering overallotments and other short positions, if any, in connection with the Global Offer
POS	Point of sale terminal
QIBs	Qualified institutional buyers within the meaning of Rule 144A under the Securities Act in a transaction meeting the requirements of Rule 144A
Qualified Investors	Qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive
Regulated Market	The London Stock Exchange's regulated market for listed securities which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive)
Regulation on Compatibility Criteria	The Regulation on Compatibility Criteria of Administrators of Commercial Banks (Order No. 234 dated 16 September 2002 (as subsequently amended))
Regulation S	Regulation S under the Securities Act
Regulation S GDRs	The GDRs being offered outside the United States in reliance on Regulation S.
Regulation S Master GDR	The master Regulation S global depositary receipt evidencing the GDRs being offered and sold outside the United States in reliance on Regulation S
Regulation S Offering	The offering of GDRs outside the United States in reliance on Regulation S
Relevant Implementation Date	The date on which the Prospectus Directive is implemented in a Relevant Member State
Relevant Member State	Each Member State of the European Economic Area which has implemented the Prospectus Directive
Restricted Securities	For the purposes of Rule 144A GDRs, restricted securities within the meaning of Rule 144(a)(3) under the Securities Act
Restructured Loans	Loans that would otherwise be overdue or impaired, but whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay
Risk Appetite Statement	TBC's credit risk strategy approved and reviewed by the Supervisory Board which, outlines key principles for credit risk management. sets risk tolerance levels for the definition and management of an acceptable level of credit risk, based on certain defined criteria

ROE	Return on equity
Rule 144A	Rule 144A under the Securities Act
Rule 144A GDRs	The GDRs offered and sold in the United States in reliance on Rule 144A
Rule 144A Master GDR	The master Rule 144A global depositary receipt deposited with The Bank of New York Mellon in New York as custodian for DTC, and registered in the name of Cede & Co., as nominee for DTC evidencing the offering of GDRs offered and sold in the United States
Securities Act	The United States Securities Act of 1933, as amended
Securities Market Law	The Georgian Law on Securities Market dated 24 December 1998
Selling Shareholders	IFC, EBRD, DEG, JPMorgan plc, Ashmore and certain individual shareholders of TBC Bank
Selling Shareholders Agreement	The selling shareholders agreement dated 6 June 2014 entered into by the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners and the Co-Manager
Shares	The ordinary shares of TBC Bank underlying the GDRs
SME	Small and medium enterprises
Stabilisation Period	The period beginning on the date on which adequate public disclosure of the price of the GDRs is made and ending no later than 30 calendar days thereafter for the purposes of overallotting of the GDRs or other stabilising transactions
Stabilising Manager	UBS Limited
Statutory Capital Ratio	The NBG requirements, requiring TBC to maintain a ratio of regulatory capital to risk-weighted assets of 12%
Subordinated Loans	The subordinated loans entered into pursuant to the Common Terms Agreement
TBC	TBC Bank and its subsidiaries
TBC Bank	TBC Bank Joint Stock Company
UFC	JSC United Financial Corporation, a subsidiary of TBC Bank
UKLA	The United Kingdom Listing Authority
Unaudited Consolidated Interim Financial Statements	TBC's unaudited condensed consolidated interim financial statements as at and for the periods ended 31 March 2014 and 2013, as set out in pages F-2 through F-55 of this Prospectus
Underwriting Agreement	The underwriting agreement dated 6 June 2014 entered into by TBC Bank, the Joint Global Coordinators, the Joint Bookrunners and the Co-Manager
VAT	Value added tax

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TBC's Unaudited Condensed Consolidated Interim Financial Statements as at and for the Three Months ended 31 March 2014 (with comparative figures for the three months ended 31 March 2013)

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TBC BANK GROUP

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

31 March 2014

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Report on review of interim financial information

To the Shareholders and Management of JSC TBC Bank:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC TBC Bank and its subsidiaries (the 'Group') as of 31 March 2014 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

8 May 2014
Tbilisi, Georgia

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TBC Bank Group
Condensed Consolidated Interim Statement of Financial Position
(Unaudited – see the Review Report)

In thousands of GEL	Note	31 March 2014 (Unaudited)	31 December 2013 (Audited)
ASSETS			
Cash and cash equivalents	6	329,568	390,465
Due from other banks	7	2,619	1,708
Mandatory cash balances with the National Bank of Georgia	8	294,990	295,332
Loans and advances to customers	9	2,772,629	2,801,712
Investment securities available for sale		568,865	500,651
Investments in finance leases		38,548	35,613
Investment properties		83,331	83,383
Current income tax prepayment		4,858	6,202
Goodwill		2,726	2,726
Intangible assets	10	26,672	23,491
Premises and equipment	10	199,171	199,668
Other financial assets		44,092	45,049
Other assets		69,822	65,075
TOTAL ASSETS		**4,437,891**	**4,451,075**
LIABILITIES			
Due to credit institutions	11	687,731	565,806
Customer accounts	12	2,753,884	2,886,883
Debt securities in issue		4,517	4,474
Deferred income tax liability		27,882	27,814
Provisions for liabilities and charges	13	10,581	12,380
Other financial liabilities		30,619	24,850
Other liabilities		22,955	31,305
Subordinated debt	14	172,787	168,274
TOTAL LIABILITIES		**3,710,956**	**3,721,786**
EQUITY			
Share capital	15	16,499	16,499
Share premium	15	241,231	242,624
Retained earnings		410,935	402,627
Share based payment reserve		2,658	2,032
Other reserves		42,426	50,840
Net assets attributable to the Bank's equity holders		**713,749**	**714,622**
Non-controlling interest		**13,186**	**14,667**
TOTAL EQUITY		**726,935**	**729,289**
TOTAL LIABILITIES AND EQUITY		**4,437,891**	**4,451,075**

Approved for issue and signed on behalf of the Management Board on 8 May 2014.

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 5 to 51 form an integral part of this unaudited condensed consolidated interim financial information.

TBC Bank Group
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
(Unaudited – see the Review Report)

In thousands of GEL	Notes	Three months ended 31 March 2014 (Unaudited)	31 March 2013 (Unaudited)
Interest income	19	122,767	118,150
Interest expense	19	(42,347)	(51,467)
Net interest income		**80,420**	**66,683**
Fee and commission income	20	15,809	14,906
Fee and commission expense	20	(6,464)	(5,688)
Net fee and commission income		**9,345**	**9,218**
Gains less losses from trading in foreign currencies		9,493	4,890
Foreign exchange translation (losses less gains) / gains less losses		(1,701)	2,993
Losses less gains from derivative financial instruments		(177)	(462)
Other operating income	21	5,981	3,892
Other operating non-interest income		**13,596**	**11,313**
Provision for loan impairment	9	(14,586)	(19,652)
Provision for impairment of investments in finance lease		(9)	(24)
Recovery of provision / (provision for) performance guarantees and credit related commitments	13	1,799	(95)
Provision for impairment of other financial assets		(190)	(370)
Impairment of investment securities available for sale		(22)	(5)
Operating income after provisions for impairment		**90,353**	**67,068**
Staff costs		(26,984)	(25,748)
Depreciation and amortisation		(5,295)	(5,505)
Administrative and other operating expenses	22	(16,970)	(13,041)
Operating expenses		**(49,249)**	**(44,294)**
Profit before tax		**41,104**	**22,774**
Income tax expense	23	(5,165)	(3,031)
Profit for the period		**35,939**	**19,743**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Revaluation of available-for-sale investments		(8,605)	2,855
Exchange differences on translation to presentation currency		173	62
Income tax recorded directly in other comprehensive income		18	(57)
Other comprehensive (loss) / income for the period		**(8,414)**	**2,860**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**27,525**	**22,603**
Profit is attributable to:			
- Owners of the Bank		35,415	19,147
- Non-controlling interest		524	596
Profit for the period		**35,939**	**19,743**
Total comprehensive income is attributable to:			
- Owners of the Bank		27,001	22,007
- Non-controlling interest		524	596
Total comprehensive income for the period		**27,525**	**22,603**
Earnings per share for profit attributable to the owners of the Bank:			
- Basic earnings per share	17	0.85	0.47
- Diluted earnings per share	17	0.85	0.47

The notes set out on pages 5 to 51 form an integral part of this unaudited condensed consolidated interim financial information.

TBC Bank Group
Condensed Consolidated Interim Statement of Changes in Equity
(Unaudited – see the Review Report)

	Net assets Attributable to owners							
In thousands of GEL	**Share capital**	**Share premium**	**Share based payments reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2013	**16,143**	**231,501**	**4,142**	**41,939**	**298,880**	**592,605**	**11,419**	**604,024**
Profit for the three months ended 31 March 2013	-	-	-	-	19,147	**19,147**	596	**19,743**
Other comprehensive income for three months ended 31 March 2013	-	-	-	2,860	-	**2,860**	-	**2,860**
Total comprehensive income for three months ended 31 March 2013	-	-	-	2,860	19,147	**22,007**	596	**22,603**
Share issue	32	930	-	-	-	**962**	-	**962**
Equity contribution of owners of non-controlling shareholders	-	-	-	-	-	**-**	444	**444**
Balance at 31 March 2013 (Unaudited)	**16,175**	**232,431**	**4,142**	**44,799**	**318,027**	**615,574**	**12,459**	**628,033**
Balance at 1 January 2014	**16,499**	**242,624**	**2,032**	**50,840**	**402,627**	**714,622**	**14,667**	**729,289**
Profit for the three months ended 31 March 2014	-	-	-	-	35,415	**35,415**	524	**35,939**
Other comprehensive income for three months ended 31 March 2014	**-**	-	-	(8,414)	-	**(8,414)**	-	**(8,414)**
Total comprehensive income for three months ended 31 March 2014	-	**-**	**-**	(8,414)	35,415	**27,001**	524	**27,525**
Share based payment	-	-	626	-	-	**626**	-	**626**
Transaction costs recognized directly in equity	-	(1,393)	-	-	-	**(1,393)**	-	**(1,393)**
Purchase of additional interest from minority shareholders	-	-	-	-	(615)	**(615)**	(2,005)	**(2,620)**
Dividends paid	-	-	-	-	(26,492)	**(26,492)**	-	**(26,492)**
Balance at 31 March 2014 (Unaudited)	**16,499**	**241,231**	**2,658**	**42,426**	**410,935**	**713,749**	**13,186**	**726,935**

The notes set out on pages 5 to 51 form an integral part of this unaudited condensed consolidated interim financial information.

TBC Bank Group
Condensed Consolidated Interim Statement of Cash Flows
(Unaudited – see the Review Report)

In thousands of GEL	Note	Three months ended 31 March 2014 (Unaudited)	31 March 2013 (Unaudited)
Cash flows from operating activities			
Interest received		121,519	109,906
Interest paid		(41,716)	(45,898)
Fees and commissions received		16,081	15,063
Fees and commissions paid		(6,322)	(5,283)
Income received from trading in foreign currencies		9,493	4,890
Other operating income received		5,671	2,803
Staff costs paid		(32,351)	(29,806)
Administrative and other operating expenses paid		(17,038)	(12,856)
Income tax paid		(3,661)	(73)
Cash flows from operating activities before changes in operating assets and liabilities		**51,676**	**38,746**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		(387)	60,384
Net decrease in loans and advances to customers		12,990	2,663
Net increase in investment in finance lease		(2,944)	(1,475)
Net decrease in other financial assets		643	522
Net decrease/(increase) in other assets		2,442	(7,347)
Net increase/(decrease) in due to other banks		47,426	(23,822)
Net decrease in customer accounts		(140,285)	(97,474)
Net increase in other financial liabilities		5,322	2,704
Net (decrease)/increase in other liabilities		(2,370)	407
Net cash used in operating activities		**(25,487)**	**(24,692)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(267,112)	(813,864)
Proceeds from disposal of investment securities available for sale		51,369	-
Proceeds from redemption at maturity of investment securities available for sale		144,691	758,133
Acquisition of premises, equipment and intangible assets		(7,607)	(5,961)
Proceeds from disposal of investment property		1,743	1,580
Purchase of additional shares in subsidiaries		(2,620)	-
Net cash used in investing activities		**(79,536)**	**(60,112)**
Cash flows from financing activities			
Proceeds from other borrowed funds		283,596	204,404
Redemption of other borrowed funds		(213,057)	(286,695)
Proceeds from subordinated debt		-	192
Dividends paid		(26,492)	-
Equity contribution of owners of non-controlling shareholders		-	444
Issue of ordinary shares		-	962
Transaction costs recognized directly in equity		(1,393)	-
Net cash from/(used in) financing activities		**42,654**	**(80,693)**
Effect of exchange rate changes on cash and cash equivalents		**1,472**	**(1,267)**
Net decrease in cash and cash equivalents		**(60,897)**	**(166,764)**
Cash and cash equivalents at the beginning of the period	6	390,465	398,587
Cash and cash equivalents at the end of the period	6	**329,568**	**231,823**

The notes set out on pages 5 to 51 form an integral part of this unaudited condensed consolidated interim financial information.

1 Introduction

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" for the three months ended 31 March 2014 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

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

The Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

The Group does not have an ultimate controlling party. As at 31 March 2014 and 31 December 2013, the shareholder structure by ownership interest is as follows:

Shareholders	31 March 2014 Ownership interest,%	31 December 2013 Ownership interest,%
International Finance Corporation	20%	20%
European Bank for Reconstruction and Development ("EBRD")	20%	20%
TBC Holdings LTD	19%	19%
Deutsche Investitions und Entwicklungsgesellschaft MBH	11%	11%
Liquid Crystal International N.V. LLC	7%	7%
Individuals	9%	9%
JPMorgan Chase Bank	5%	5%
Ashmore Cayman SPC	4%	4%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	5%	5%
Total	**100%**	**100%**

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

The Bank has 13 (31 December 2013: 13) branches and 47 (31 December 2013: 47) service centres within Georgia. At 31 March 2014, the Bank had 2,889 employees (31 December 2013: 2,893).

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

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

Subsidiary	31 March 2014 Ownership interest,%	31 December 2013 Ownership interest,%	Country	Date of incorpo-ration or acquisition	Industry
United Financial Corporation JSC	98.66%	93.32%	Georgia	1997	Card processing
TBC Broker LLC	100%	100%	Georgia	1999	Brokerage
TBC Leasing JSC	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	Azerbaijan	2008	Non-banking credit institution
Banking System Service Company LLC	100%	100%	Georgia	2009	Information services
TBC Pay LLC	100%	100%	Georgia	2009	Processing
Real Estate Management Fund JSC	100%	100%	Georgia	2010	Real estate management
TBC Invest LLC	100%	100%	Israel	2011	PR and marketing
Bank Constanta JSC	88.69%	84.69%	Georgia	2011	Financial institution

1 Introduction (Continued)

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

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

2 Summary of Significant Accounting Policies

Basis of preparation. This condensed consolidated interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this condensed consolidated interim financial information as used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013.

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

Foreign currency translation. At 31 March 2014 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.7477 (31 December 2013: USD 1 = GEL 1.7363); EUR 1 = GEL 2.4001 (31 December 2013: EUR 1 = GEL 2.1825).

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 7,426 thousand (31 March 2013: GEL 9,067 thousand) and additional charge for impairment of finance lease receivables of GEL 9 thousand (31 March 2013: GEL 6 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 3,071 thousand (31 March 2013: GEL 3,462 thousand), respectively.

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

A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 1 thousand (31 March 2013: 3 thousand), respectively.

Fair value disclosure of investment properties. Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group, who hold a recognised and relevant professional qualification. In determining the fair values of investment properties, three market comparatives are identified. As comparatives are usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the investment property. At 31 March 2014, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 86,278 thousand (31 December 2013: GEL 86,480 thousand).

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 24.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at 31 March 2014 and 31 December 2013, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 28.

Put options granted on shares already awarded and to be further awarded under share based compensation schemes. In 2013, the shareholders and Supervisory Board have granted put options on the shares to be awarded under the management compensation scheme introduced in 2013 and on the shares awarded under the previous share based payment arrangements (see note 16). The exercise price of all the options granted to employees is the book value per share per latest IFRS consolidated financial statements. These options are exercisable in three equal tranches during one year periods starting from 1 January 2016, 2017, 2018, and will become null and void if at least 25% of the authorised shares of the Bank are listed on a stock exchange. The management expects that the listing will happen before 1 January 2016 and the put options will expire without being exercised. If the management did not expect the put options to expire without being exercised, the Group would have to recognise cash-settled liability in the amount of present value of expected outflow upon the exercise of the put options.

4 Adoption of New or Revised Standards and Interpretations

Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2013, became effective for the Group from 1 January 2014.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendment had no effect on the Group's condensed consolidated interim financial information.

4 Adoption of New or Revised Standards and Interpretations (Continued)

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amendments had no effect on the Group's condensed consolidated interim financial information.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The amendment had no effect on the Group's condensed consolidated interim financial information.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amendment had no effect on the Group's condensed consolidated interim financial information.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendment had no effect on the Group's condensed consolidated interim financial information.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2015 or later and which the Group has not early adopted:

IFRS 9, "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

5 New Accounting Pronouncements (Continued)

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The amendments are not expected to have material impact on the Group's financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The amendments are not expected to have material impact on the Group's financial statements.

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The amendment is not expected to have any material impact on the Group's financial statements.

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

6 Cash and Cash Equivalents

In thousands of GEL	31 March 2014	31 December 2013
Cash on hand	174,166	165,385
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	12,792	61,407
Correspondent accounts and overnight placements with other banks	73,256	79,643
Placements with and receivables from other banks with original maturities of less than three months	69,354	84,030
Total cash and cash equivalents	**329,568**	**390,465**

92% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2013: 93%).

As at 31 March 2014 GEL 69,354 thousand was placed on interbank time deposits with four non-OECD banks (31 December 2013: 84,030 thousand with four non-OECD banks).

7 Due from Other Banks

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 31 March 2014 and 31 December 2013. As of 31 March 2014, GEL 2,603 thousand (31 December 2013: GEL 1,615 thousand) were kept on deposits as restricted cash.

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

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 2% annual interest on the mandatory reserve with the NBG in the three months ended 31 March 2014 and in the three months ended 31 March 2013.

In 2013, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".

9 Loans and Advances to Customers

In thousands of GEL	31 March 2014	31 December 2013
Corporate loans	1,049,789	1,157,334
Consumer loans	603,386	603,434
Mortgage loans	530,631	499,428
Loans to small and medium enterprises	404,761	392,446
Micro loans	218,011	201,287
Others	114,561	104,652
Total loans and advances to customers (before impairment)	**2,921,139**	**2,958,581**
Less: Provision for loan impairment	(148,510)	(156,869)
Total loans and advances to customers	**2,772,629**	**2,801,712**

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

Movements in the provision for loan impairment during the three months ended 31 March 2014 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro Loans	Other	Total
Provision for loan impairment at 1 January 2014	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**-**	**156,869**
Provision for / (recovery of) impairment during the period	9,243	4,963	3,695	1,045	1,768	14	**20,728**
Amounts written off during the period as uncollectible	(22,930)	(3,909)	(410)	(437)	(1,387)	(14)	**(29,087)**
Provision for loan impairment at 31 March 2014	**93,979**	**32,758**	**11,577**	**4,923**	**5,273**	**-**	**148,510**

The provision for impairment during three months ended 31 March 2014 differs from the amount presented in profit or loss for the period due to GEL 6,142 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the period.

Included in the amounts written off during the period as uncollectible is the provision of GEL 20,154 thousand for a corporate loan part of which was recovered in March 2014 through repossession of financial instruments amounting to GEL 3,014 thousand which are accounted for under investment securities available for sale.

Movements in the provision for loan impairment during the three months ended 31 March 2013 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro Loans	Others	Total
Provision for loan impairment at 1 January 2013	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**-**	**166,498**
Provision for / (recovery of) impairment during the period	12,520	8,190	(12)	1,556	38	**5**	**22,297**
Amounts written off during the period as uncollectible	(623)	(4,122)	(971)	(809)	(938)	**-**	**(7,463)**
Provision for loan impairment at 31 March 2013	**124,872**	**35,224**	**12,203**	**5,567**	**3,461**	**5**	**181,332**

The provision for impairment during three months ended 31 March 2013 differs from the amount presented in profit or loss for the period due to GEL 2,645 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the period.

9 Loans and Advances to Customers (Continued)

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

	31 March 2014		31 December 2013	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individual	1,134,017	39%	1,102,863	37%
Service	506,611	17%	539,825	18%
Agriculture	180,646	6%	164,441	6%
Real estate	132,243	5%	132,321	5%
Consumer goods and automobile trading	143,897	4%	130,152	4%
Oil and gas	124,101	4%	121,921	4%
Pawn shop	114,561	4%	104,652	4%
Energy	106,907	4%	106,083	4%
Food industry	103,086	4%	158,865	5%
Construction	101,150	3%	101,879	3%
Communication	79,056	3%	102,547	4%
Transportation	68,921	2%	67,223	2%
Mining	49,705	2%	40,346	1%
Manufacturing	31,570	1%	33,609	1%
Other	44,668	2%	51,854	2%
Total loans and advances to customers (before impairment)	**2,921,139**	**100%**	**2,958,581**	**100%**

Service sector contains loans disbursed to consumer service, healthcare, media and financial service industries.

At 31 March 2014 the Group had 64 borrowers (31 December 2013: 62 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 824,393 thousand (31 December 2013: GEL 910,248 thousand) or 28% of the gross loan portfolio (31 December 2013: 31%).

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 March 2014 is as follows:

In thousands of GEL	Corporate loans	Consu-mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	737,611	258,387	343,504	185,237	80,597	11,082	**1,616,418**
- New borrowers	141,518	303,419	169,697	199,730	129,867	98,275	**1,042,506**
Total neither past due nor impaired	**879,129**	**561,806**	**513,201**	**384,967**	**210,464**	**109,357**	**2,658,924**
Past due but not impaired							
- 1 to 30 days overdue	2,731	14,405	3,796	5,544	2,216	1,074	**29,766**
- 31 to 90 days overdue	2,772	306	21	380	-	3,663	**7,142**
- 91 to 180 days overdue	411	-	-	-	-	77	**488**
- 181 to 360 days overdue	393	-	-	-	-	83	**476**
- more than 360 days overdue	-	-	-	-	-	307	**307**
Total past due but not impaired	**6,307**	**14,711**	**3,817**	**5,924**	**2,216**	**5,204**	**38,179**
Individually assessed impaired loans (gross)							
- not overdue	121,572	-	-	-	-	-	**121,572**
- 1 to 30 days overdue	19,653	-	-	2,367	-	-	**22,020**
- 30 to 90 days overdue	9,506	-	-	-	-	-	**9,506**
- 181 to 360 days overdue	10,367	-	-	-	-	-	**10,367**
Total individually assessed impaired loans	**161,098**	**-**	**-**	**2,367**	**-**	**-**	**163,465**
Collectively assessed impaired loans (gross)							
- not overdue	2,510	5,959	4,271	1,853	1,521	-	**16,114**
- 1 to 30 days overdue	-	889	670	613	408	-	**2,580**
- 31 to 90 days overdue	449	9,480	6,641	5,803	1,628	-	**24,001**
- 91 to 180 days overdue	-	7,113	1,351	1,951	1,567	-	**11,982**
- 181 to 360 days overdue	296	2,882	680	889	27	-	**4,774**
- more than 360 days overdue	-	546	-	394	180	-	**1,120**
Total collectively assessed impaired loans	**3,255**	**26,869**	**13,613**	**11,503**	**5,331**	**-**	**60,571**
Total loans and advances to customers (before impairment)	**1,049,789**	**603,386**	**530,631**	**404,761**	**218,011**	**114,561**	**2,921,139**
Total provision	**(93,979)**	**(32,758)**	**(11,577)**	**(4,923)**	**(5,273)**	**-**	**(148,510)**
Total loans and advances to customers	**955,810**	**570,628**	**519,054**	**399,838**	**212,738**	**114,561**	**2,772,629**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

In thousands of GEL	Corporate loans	Consu-mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	619,783	285,199	335,855	179,036	70,208	9,509	**1,499,590**
- New borrowers	342,499	284,794	152,859	198,371	124,258	92,141	**1,194,922**
Total neither past due nor impaired	**962,282**	**569,993**	**488,714**	**377,407**	**194,466**	**101,650**	**2,694,512**
Past due but not impaired							
- 1 to 30 days overdue	1,012	11,973	3,735	5,287	1,827	1,440	**25,274**
- 31 to 90 days overdue	409	58	11	635	-	1,136	**2,249**
- 91 to 180 days overdue	2,786	13	-	-	-	77	**2,876**
- 181 to 360 days overdue	-	-	-	-	-	78	**78**
- more than 360 days overdue	-	-	-	-	-	271	**271**
Total past due but not impaired	**4,207**	**12,044**	**3,746**	**5,922**	**1,827**	**3,002**	**30,748**
Individually assessed impaired loans (gross)							
- not overdue	175,635	-	-	2,335	-	-	**177,970**
- 30 to 90 days overdue	357	-	-	-	-	-	**357**
- 91 to 180 days overdue	4,303	-	-	-	-	-	**4,303**
- 181 to 360 days overdue	6,040	-	-	-	-	-	**6,040**
Total individually assessed impaired loans	**186,335**	**-**	**-**	**2,335**	**-**	**-**	**188,670**
Collectively assessed impaired loans (gross)							
- not overdue	2,727	2,145	2,191	2,075	1,349	-	**10,487**
- 1 to 30 days overdue	-	776	485	131	454	-	**1,846**
- 31 to 90 days overdue	-	8,794	2,624	1,184	1,669	-	**14,271**
- 91 to 180 days overdue	295	7,014	1,234	1,702	1,328	-	**11,573**
- 181 to 360 days overdue	1,488	2,259	434	1,529	14	-	**5,724**
- more than 360 days overdue	-	409	-	161	180	-	**750**
Total collectively assessed impaired loans	**4,510**	**21,397**	**6,968**	**6,782**	**4,994**	**-**	**44,651**
Total loans and advances to customers (before impairment)	**1,157,334**	**603,434**	**499,428**	**392,446**	**201,287**	**104,652**	**2,958,581**
Total provision	**(107,666)**	**(31,704)**	**(8,292)**	**(4,315)**	**(4,892)**	**-**	**(156,869)**
Total loans and advances to customers	**1,049,668**	**571,730**	**491,136**	**388,131**	**196,395**	**104,652**	**2,801,712**

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

9 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.
The tables above show analysis of loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. The Group conducts impairment analysis of each individual loan on a quarterly basis. Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- real estate properties,
- inventory and equipment,
- cash covers,
- third party guarantees.

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

The effect of collateral at 31 March 2014:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	787,526	1,872,503	262,263	177,250
Consumer loans	404,079	964,539	199,307	5,199
Mortgage loans	509,725	1,249,544	20,906	5,520
Loans to small and medium enterprises	386,343	1,190,117	18,418	3,318
Micro loans	109,462	207,651	108,549	4,150
Others	108,778	126,642	5,783	5,491
Total	**2,305,913**	**5,610,996**	**615,226**	**200,928**

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	745,948	1,819,917	411,386	321,064
Consumer loans	404,098	955,249	199,336	6,054
Mortgage loans	476,713	1,182,387	22,715	6,531
Loans to small and medium enterprises	369,125	1,104,910	23,321	7,567
Micro loans	93,632	189,155	107,655	1,189
Others	99,637	115,216	5,015	4,752
Total	**2,189,153**	**5,366,834**	**769,428**	**347,157**

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

The Group's internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate using primarily market comparison method. Fair value of inventory, equipment and other assets was determined by the Group's credit department using the Group's internal guidelines.

Refer to Note 27 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 28

10 Premises and Equipment

In thousands of GEL	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2013	138,744	97,732	36,010	**272,486**	27,003	**299,489**
Accumulated depreciation/amortisation	(20,724)	(59,206)	-	**(79,930)**	(8,186)	**(88,116)**
Carrying amount at 1 January 2013	**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Additions	139	3,594	195	**3,928**	2,081	**6,009**
Transfers	77	119	(196)	**-**	-	**-**
Disposals	(667)	(664)	-	**(1,331)**	(28)	**(1,359)**
Reversal of impairment/impairment charge to profit and loss	-	89	1	**90**	(2)	**88**
Depreciation/amortisation charge	(1,205)	(2,943)	-	**(4,148)**	(1,288)	**(5,436)**
Elimination of accumulated depreciation/amortisation on disposals	484	659	-	**1,143**	17	**1,160**
Carrying amount at 31 March 2013	**116,848**	**39,380**	**36,010**	**192,238**	**19,597**	**211,835**
Cost or valuation at 31 March 2013	138,293	100,870	36,010	**275,173**	29,054	**304,227**
Accumulated depreciation/amortisation including accumulated impairment loss	(21,445)	(61,490)	-	**(82,935)**	(9,457)	**(92,392)**
Cost or valuation at 1 January 2014	142,683	113,273	35,619	**291,575**	35,681	**327,256**
Accumulated depreciation/amortisation	(23,678)	(68,229)	-	**(91,907)**	(12,190)	**(104,097)**
Carrying amount at 1 January 2014	**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**
Additions	130	3,291	117	**3,538**	4,129	**7,667**
Transfers	341	27	(368)	**-**	-	**-**
Disposals	(14)	(903)	(67)	**(984)**	(59)	**(1,043)**
Impairment charge to profit and loss	-	(11)	3	**(8)**	-	**(8)**
Depreciation/amortisation charge	(781)	(3,191)	-	**(3,972)**	(949)	**(4,921)**
Elimination of accumulated depreciation/amortisation on disposals	7	922	-	**929**	60	**989**
Carrying amount at 31 March 2014	**118,688**	**45,179**	**35,304**	**199,171**	**26,672**	**225,843**
Cost or valuation at 31 March 2014	143,140	115,677	35,304	**294,121**	39,751	**333,872**
Accumulated depreciation/amortisation including accumulated impairment loss	(24,452)	(70,498)	-	**(94,950)**	(13,079)	**(108,029)**

Depreciation and amortisation charge presented on the face of the condensed consolidated interim statement of comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and a new headquarter of the Bank. Upon completion, assets are transferred to premises.

The Group revalues premises every three years or if there are significant movements in the real estate prices on the market. Premises were revalued to market value at 6 July 2012. The valuation was carried out by an independent firm of valuators which holds recognised and relevant professional qualifications and who have recent experience in valuation of assets of similar location and category.

10 Premises and Equipment (Continued)

The basis used for the appraisal was sales comparison approach. As part of sales comparison approach, at least three market comparatives were identified. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the premises.

In thousands of GEL (except for range of inputs)	**Fair value as of 6 July 2012 (valuation date)**	**Carrying value at 31 December 2013**	**Carrying value at 31 March 2014**	**Valuation technique**	**Other key information**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	54,757	56,502	56,467	Sales comparison approach	Land	Price per square meter	382 - 3,784 (577)
					Buildings		244 - 2,926 (704)
Branches and service centers	81,134	82,437	82,131	Sales comparison approach	Land	Price per square meter	3 - 2,468 (345)
					Buildings		325 - 9,864 (2,292)

11 Due to Credit Institutions

In thousands of GEL	**31 March 2014**	**31 December 2013**
Due to other banks		
Correspondent accounts and overnight placements	31,099	4,894
Deposits from banks	63,590	42,358
Total due to other banks	**94,689**	**47,252**
Other borrowed funds		
Borrowings from foreign banks and financial institutions	411,161	417,504
Borrowings from local banks and financial institutions	173,730	92,987
Borrowings from Ministry of Finance	8,151	8,063
Total other borrowed funds	**593,042**	**518,554**
Total amounts due to credit institutions	**687,731**	**565,806**

12 Customer Accounts

In thousands of GEL	**31 March 2014**	**31 December 2013**
State and public organisations		
- Current/settlement accounts	59,294	134,518
- Term deposits	109,469	72,463
Other legal entities		
- Current/settlement accounts	782,605	935,083
- Term deposits	153,017	134,143
Individuals		
- Current/demand accounts	627,205	621,211
- Term deposits	1,022,294	989,465
Total customer accounts	**2,753,884**	**2,886,883**

State and public organisations include government owned profit oriented businesses.

12 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	31 March 2014		31 December 2013	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individual	1,649,499	60%	1,610,676	56%
Trade and Service	313,406	11%	344,803	12%
Oil and Gas	126,443	5%	147,005	5%
Construction	97,628	4%	131,427	5%
Transportation	95,639	3%	129,096	4%
Energy	64,428	2%	57,179	2%
Consumer Goods and Automobile Trading	50,148	2%	72,739	2%
Real Estate	46,782	2%	57,798	2%
Food Industry	45,420	2%	97,421	3%
Communication	33,725	1%	28,909	1%
Agriculture	27,733	1%	23,772	1%
Manufacturing	16,357	1%	21,013	1%
Mining	13,186	0%	21,746	1%
Other	173,490	6%	143,299	5%
Total customer accounts	**2,753,884**	**100%**	**2,886,883**	**100%**

At 31 March 2014 the Group had 93 customers (31 December 2013: 97 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 766,391 thousand (31 December 2013: GEL 915,407 thousand) or 28% (31 December 2013: 32%) of total customer accounts.

At 31 March 2014 included in customer accounts are deposits of GEL 19,120 thousand and GEL 49,368 thousand (31 December 2013: GEL 9,652 thousand and GEL 38,973 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 24.

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

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

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

In thousands of GEL	**Performance guarantees**	**Credit related commitments**	**Other**	**Total**
Carrying amount at 1 January 2013	**2,332**	**842**	**3,000**	**6,174**
Additions less releases recorded in profit or loss	(159)	254	-	95
Carrying amount at 31 March 2013	**2,173**	**1,096**	**3,000**	**6,269**
Carrying amount at 1 January 2014	**4,153**	**4,927**	**3,300**	**12,380**
Releases less additions recorded in profit or loss	(411)	(1,388)	-	(1,799)
Carrying amount at 31 March 2014	**3,742**	**3,539**	**3,300**	**10,581**

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the end of reporting period.

14 Subordinated Debt

At 31 March 2014, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	19,048	33,291
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	19,074	33,335
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	35,773	62,520
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,131	17,706
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	7,622	13,322
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,217	12,613
Total subordinated debt			**98,865**	**172,787**

At 31 December 2013, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	18,558	32,222
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,585	32,269
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	34,905	60,605
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,394	18,048
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	7,441	12,920
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,032	12,210
Total subordinated debt			**96,915**	**168,274**

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

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

15 Share Capital

In thousands of GEL except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2013	**161,419**	**16,143**	**231,501**	**247,644**
Shares issued	2,411	240	7,097	**7,337**
Increase in share capital arising from share based payment	1,157	116	4,026	**4,142**
At 31 December 2013	**164,987**	**16,499**	**242,624**	**259,123**
Share split	41,081,763	-	-	-
Transaction costs recognized directly in equity		-	(1,393)	**(1,393)**
At 31 March 2014	**41,246,750**	**16,499**	**241,231**	**257,730**

On 4 March 2014, Shareholders of the Bank approved the spilt of the ordinary shares 250-for-1 and authorised for issue additional 10,445,387 shares. Following this decision the total authorised number of ordinary amounted to 53,090,637 shares (31 December 2013: 170,581 shares). All issued ordinary shares are fully paid.

All ordinary shares have a nominal value of GEL 0.4 per share after the split (31 December 2013: GEL 100 per share) and rank equally except for 307,250 unvested shares not included in share capital and outstanding shares above, that were registered in the name of the management under share based payment arrangement and which do not have voting rights before service conditions are met (see Note 16). All other shares carry one vote.

At the reporting date the Bank also has 730,250 authorised shares reserved for issuance under share based payment arrangement (31 December 2013: 4,150 shares). For description of share based payment scheme refer to Note 16. Per management's estimate, the number of shares that the Bank will need to issue under the share based payment arrangement approximates 424,750 (31 December 2013: 2,797).

Transaction costs, that is, incremental costs, are costs directly attributable to the equity transaction that otherwise would have been avoided had the equity instruments not been issued. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. If the equity instruments are not subsequently issued, the transaction costs of GEL 1,393 thousand will be recycled through profit or loss.

16 Share Based Payments

May 2011 arrangement:

In May 2011, the Supervisory Board of the Bank approved a senior management bonus scheme for the years 2010 – 2012 and granted 3,300 new shares to the members of senior and middle management of the Group. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants set by the lending international financial institutions. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares that should be awarded to them out of the total bonus pool. The awarded shares are subject to continuous employment condition until 1 January 2014 when full title on the awarded shares is transferred to the scheme participants. Before this date, the shares are eligible to dividends but do not have voting rights and could not be sold or transferred to third parties.

16 Share Based Payments (Continued)

The Group considers 3 May 2011 as the grant date. The fair value of the shares as at the grant date was estimated at GEL 2,837 per share. The valuation was carried out by an external valuator. All staff costs related to this Senior Management Bonus scheme have been recognised during the vesting period. The last outstanding shares out of the 3,300 share grant were issued in April 2013 and the share based payment reserve was debited by GEL 4,142 thousand.

June 2013 arrangement:

In June 2013, Supervisory Board of the Bank approved a new management compensation scheme for the years 2013 – 2015 and authorised 4,150 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. Authorized numbers of new shares have increased to 1,037,500 new shares in order to reflect the share split 250-for-1 approved by the Shareholders on 4 March 2014. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares will be awarded to the top management and some of the middle managers of the Group. The performance conditions are divided into into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achievement of team goals. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them out of the total bonus pool. After awards, these shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2013, 2014 and 2015 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to June 2019.

The shareholders and Supervisory Board have granted put options on the shares to be awarded under the new management compensation scheme. These put options are exercisable during a one year period starting from the third anniversary of the each share award date. The put options become null and void if at least 25% of the authorised shares of the Bank are listed on a stock. In addition, the shareholders and the Supervisory Board have granted put options on all bonus shares awarded under the previous share based payment arrangements. These options are exercisable in three equal tranches during one year periods starting from 1 January 2016, 2017, 2018, and will become null and void if at least 25% of the authorised shares of the Bank are listed on a stock exchange as mentioned above. As the Group considers occurrence of this event more likely than not, the whole compensation scheme is accounted as an equity settled scheme and there is no liability recognized on the awarded put options. The exercise price of all the options granted to employees is the book value per share per latest IFRS consolidated financial statements.

The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 732,000 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date, as adjusted for the effect of 250-for-1 share split, is evaluated at GEL 13,93 per share and the valuation was carried out by an external valuator. The valuation was performed by applying income and market approaches. The market approach involved estimating market capitalization to book value of equity multiple and deal price to book value of equity multiple of comparable banks. Income approach involved discounting free cash flows to equity estimated over 10-year horizon. The final valuation was based on income approach, with market approach serving as reasonableness check on the result obtained by the income approach. The value of the Bank's equity so calculated was then divided by the number of ordinary shares issued as of valuation date and further reduced with the discount for lack of control.

16 Share Based Payments (Continued)

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries which is accounted as cash settled part. Tabular information on both of the schemes is given below:

In GEL except for number of shares	31 March 2014	31 March 2013 (not adjusted for the share split)
Number of unvested shares at the beginning of the period	**2,797**	**1,157**
Increase in the number of unvested shares due to 250-for-1 split	696,453	-
Change in estimate of number of shares expected to vest based on performance conditions	32,750	-
Number of unvested shares at the end of the period	**732,000**	**1,157**
Value at grant date per share as adjusted for 250-for-1 split (GEL) / Value at grant date per share (GEL)	13,93	2,837
Expense on equity-settled part (GEL thousand)	626	-
Expense on cash-settled part (GEL thousand)	152	-
Expense recognised as staff cost during the period (GEL thousand)	**778**	**-**

Liability in respect of the cash-settled part of the award amounted to GEL 819 thousand as of 31 March 2014 (31 December 2013: GEL 2,055 thousand).

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

17 Earnings per Share

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

In thousands of GEL except for number of shares	31 March 2014	31 March 2013
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 16)	35,153	19,147
Weighted average number of ordinary shares in issue	41,246,750	40,421,625
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**0.85**	**0.47**

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

In thousands of GEL except for number of shares	31 March 2014	31 March 2013
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 16)	35,275	19,147
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	41,527,629	40,713,125
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**0.85**	**0.47**

18 Segment Information

The chief operating decision maker which is the Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. In 2014, the Board has changed the way it analyses certain information in order to enhance the control and monitoring of the Group's performance. This has resulted in the creation of a new segment 'Corporate Center and Other Operations' and a change in the presentation of segment information. The operating segments are now determined as follows:

- 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 Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax.

The reportable segments are the same as the operating segments.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in note 25.

Segment information for the reportable segments of the Group for the three months periods ended 31 March 2014 is set out below:

18 Segment Information (Continued)

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate center and other operations	Total
Three months ended 31 March 2014						
– Interest income	53,092	33,697	12,238	12,985	10,755	**122,767**
– interest expense	(19,701)	(5,600)	(1,987)	(57)	(15,002)	**(42,347)**
– Inter-segment interest income/(expense)	2,174	(12,884)	(780)	(4,340)	15,830	**-**
– **Net interest income**	**35,565**	**15,213**	**9,471**	**8,588**	**11,583**	**80,420**
– Fee and commission income	9,467	3,610	1,974	755	3	**15,809**
– Fee and commission expense	(5,512)	(474)	(222)	(214)	(42)	**(6,464)**
– **Net fee and commission income**	**3,955**	**3,136**	**1,752**	**541**	**(39)**	**9,345**
– Gains less losses from trading in foreign currencies	1,948	2,847	2,472	344	1,882	**9,493**
– Foreign exchange translation losses less gains	-	-	-	-	(1,701)	**(1,701)**
– Net gain from derivative financial instruments	-	-	-	-	(177)	**(177)**
– Other operating income	-	-	-	-	5,981	**5,981**
– **Other operating non-interest income**	**1,948**	**2,847**	**2,472**	**344**	**5,985**	**13,596**
– Provision for loan impairment	(7,031)	(5,652)	(603)	(1,300)	-	**(14,586)**
– Provision for performance guarantees and credit related commitments	-	1,972	(173)	-	-	**1,799**
– Provision for impairment of investments in finance lease	-	-	-	-	(9)	**(9)**
– Provision for impairment of other financial assets	-	-	-	-	(190)	**(190)**
– Impairment of investment securities available for sale	-	-	-	-	(22)	**(22)**
– **Operating income after provisions for impairment**	**34,437**	**17,516**	**12,919**	**8,173**	**17,308**	**90,353**
– Staff costs	(12,467)	(2,483)	(2,465)	(3,844)	(5,725)	**(26,984)**
– Depreciation and amortisation	(2,942)	(185)	(456)	(594)	(1,118)	**(5,295)**
– Administrative and other operating expenses	(8,594)	(1,218)	(1,294)	(2,340)	(3,524)	**(16,970)**
– **Operating expenses**	**(24,003)**	**(3,886)**	**(4,215)**	**(6,778)**	**(10,367)**	**(49,249)**
– **Profit before tax**	**10,434**	**13,630**	**8,704**	**1,395**	**6,941**	**41,104**
– Income tax expense	(1,311)	(1,713)	(1,094)	(176)	(871)	**(5,165)**
– **Profit for the period**	**9,123**	**11,917**	**7,610**	**1,219**	**6,070**	**35,939**
31 March 2014						
– Total gross loans and advances to customers reported	1,248,578	1,049,789	404,761	218,011	-	**2,921,139**
– Total customer accounts reported	1,649,498	672,221	427,966	4,199	-	**2,753,884**
– Total credit related commitments and performance guarantees	776	323,598	38,308	109	-	**362,791**

18 Segment Information (Continued)

Segment information for the reportable segments of the Group for the three months periods ended 31 March 2013 is as follows:

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate centre and other operations	Total
Three months ended 31 March 2013						
– Interest income	50,105	36,058	10,358	11,374	10,255	118,150
– interest expense	(26,238)	(10,171)	(1,851)	(77)	(13,130)	(51,467)
– Inter-segment interest income/(expense)	8,314	(13,973)	(960)	(3,586)	10,205	-
– **Net interest income**	**32,181**	**11,914**	**7,547**	**7,711**	**7,330**	**66,683**
– Fee and commission income	9,408	3,459	1,561	478	-	14,906
– Fee and commission expense	(4,350)	(819)	(343)	(128)	(48)	(5,688)
– **Net fee and commission income**	**5,058**	**2,640**	**1,218**	**350**	**(48)**	**9,218**
– Gains less losses from trading in foreign currencies	1,762	3,562	2,061	249	(2,744)	4,890
– Foreign exchange translation losses less gains	-	-	-	-	2,993	2,993
– Net gain from derivative financial instruments	-	-	-	-	(462)	(462)
– Other operating income	-	-	-	-	3,892	3,892
– **Other operating non-interest income**	**1,762**	**3,562**	**2,061**	**249**	**3,679**	**11,313**
– Provision for loan impairment	(6,321)	(12,255)	(1,384)	308	-	(19,652)
– Provision for performance guarantees and credit related commitments	-	(6)	(89)	-	-	(95)
– Provision for impairment of investments in finance lease	-	-	-	-	(24)	(24)
– Provision for impairment of other financial assets	-	-	-	-	(370)	(370)
– Impairment of investment securities available for sale	-	-	-	-	(5)	(5)
– **Operating income after provisions for impairment**	**32,680**	**5,855**	**9,353**	**8,618**	**10,562**	**67,068**
– Staff costs	(11,099)	(1,946)	(2,153)	(3,433)	(7,117)	(25,748)
– Depreciation and amortisation	(3,171)	(204)	(532)	(527)	(1,071)	(5,505)
– Administrative and other operating expenses	(6,947)	(569)	(1,014)	(2,581)	(1,930)	(13,041)
– **Operating expenses**	**(21,217)**	**(2,719)**	**(3,699)**	**(6,541)**	**(10,118)**	**(44,294)**
– **Profit before tax**	**11,463**	**3,136**	**5,654**	**2,077**	**444**	**22,774**
– Income tax expense	(1,525)	(396)	(753)	(276)	(81)	**(3,031)**
– **Profit for the period**	**9,938**	**2,740**	**4,901**	**1,801**	**363**	**19,743**
31 December 2013						
– Total gross loans and advances to customers reported	1,207,514	1,157,334	392,446	201,287	-	**2,958,581**
– Total customer accounts reported	1,610,676	819,779	451,985	4,443	-	**2,886,883**
– Total credit related commitments and performance guarantees	256	346,587	43,099	127	-	**390,069**

18 Segment Information (Continued)

In order to present the segment information for the three months ended 31 March 2013 on a consistent basis with the segment information for the three months ended 31 March 2014, inter-segment interest income/(expense) allocation was added to the above table. During 2013, the segment performance was assessed without considering the effect of inter-segment interest income/(expense) allocation.

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

In thousands of GEL	**31 March 2014**	**31 December 2013**
Total segment assets (gross loans and advances to customers)	2,921,139	2,958,581
Provision for loan impairment	(148,510)	(156,869)
Cash and cash equivalents	329,568	390,465
Mandatory cash balances with National Bank of Georgia	294,990	295,332
Due from other banks	2,619	1,708
Investment securities available for sale	568,865	500,651
Current income tax prepayment	4,858	6,202
Other financial assets	44,092	45,049
Investments in finance leases	38,548	35,613
Other assets	69,822	65,075
Premises and equipment	199,171	199,668
Intangible assets	26,672	23,491
Investment properties	83,331	83,383
Goodwill	2,726	2,726
Total assets per statement of financial position	**4,437,891**	**4,451,075**

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

In thousands of GEL	**31 March 2014**	**31 December 2013**
Total segment liabilities (customer accounts)	2,753,884	2,886,883
Due to Credit institutions	687,731	565,806
Debt securities in issue	4,517	4,474
Deferred income tax liability	27,882	27,814
Provisions for liabilities and charges	10,581	12,380
Other financial liabilities	30,619	24,850
Other liabilities	22,955	31,305
Subordinated debt	172,787	168,274
Total liabilities per statement of financial position	**3,710,956**	**3,721,786**

19 Interest Income and Expense

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Interest income		
Loans and advances to customers	112,012	107,895
Investment securities available for sale	7,263	7,385
Due from other banks	1,411	1,213
Investments in leases	2,081	1,657
Total interest income	**122,767**	**118,150**
Interest expense		
Customer accounts	27,345	38,337
Due to credit institutions	10,520	10,044
Subordinated debt	4,322	3,059
Other	160	27
Total interest expense	**42,347**	**51,467**
Net interest income	**80,420**	**66,683**

20 Fee and Commission Income and Expense

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Card operations	7,005	7,530
- Settlement transactions	3,050	2,582
- Guarantees issued	1,670	1,423
- Issuance of letters of credit	1,644	1,030
- Cash transactions	1,167	1,032
- Foreign exchange operations	310	352
- Other	963	957
Total fee and commission income	**15,809**	**14,906**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Card operations	3,377	3,394
- Guarantees received	1,029	697
- Cash transactions	630	366
- Settlement transactions	454	429
- Foreign exchange operations	14	14
- Other	960	788
Total fee and commission expense	**6,464**	**5,688**
Net fee and commission income	**9,345**	**9,218**

21 Other Operating Income

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Revenues from pay-box terminal services	2,224	1,707
Revenues from operational leasing	1,579	497
Gain from sale of investment properties	310	508
Gain from expired liabilities related to customer loyalty programmes	281	-
Administrative fee income from international financial institutions	272	350
Revenues from plastic card processing	341	208
Gain from sale of inventories of repossessed collateral	215	249
Revenues from non-credit related fines	14	249
Gain on disposal of premises and equipment	6	-
Other	739	124
Total other operating income	**5,981**	**3,892**

Revenues from card processing operations and revenues from banking system services are included in section other of other operating income.

22 Administrative and Other Operating Expenses

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Professional services	3,686	569
Advertising and marketing services	2,683	2,425
Rent	2,867	2,799
Utility services	1,020	923
Intangible asset enhancement	919	971
Taxes other than on income	894	692
Communications and supply	775	722
Stationery and other office expenses	698	594
Insurance	442	378
Security services	369	396
Premises and equipment maintenance	338	506
Transportation and vehicle maintenance	278	290
Charity	249	199
Business trip expenses	199	133
Personnel training and recruitment	68	146
Write-down of current assets to fair value less costs to sell	10	70
Loss on disposal of investment properties	1	100
Loss on disposal of premises and equipment	-	32
Other	1,474	1,096
Total administrative and other operating expenses	**16,970**	**13,041**

23 Income Taxes

As at 31 March 2014, the statutory income tax rate applicable to the majority of the Group's income is 15% (three months ended 31 March 2013: 15%). Interim period income tax expense is recognized based on income tax rate expected for the full financial year which equalled 12.6% (three months ended 31 March 2013: 13.3%).

24 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in a number of legal claims, including claim over the non-controlling stake in a significant subsidiary, JSC Bank Constanta, described below. However, on the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of the claims. Accordingly, no provision has been made in this financial information.

Dispute over non-controlling stake in JSC Bank Constanta. On 17 March 2014, a claim was filed against, among other defendants, TBC Bank. The claimant is requesting the annulment of a transaction through which TBC Bank acquired shares representing 67.5% ownership interest in JSC Bank Constanta in May 2011. As of 31 March 2014, the disputed shares comprised 38.8% of JSC Bank Constanta's total share capital. The management is of the view that the claim is groundless and plans to vigorously defend the case should current attempts to negotiate a commercially acceptable settlement prove unsuccessful.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. To respond to the risks, the Group has engaged external tax specialists who are performing periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as at 31 March 2014 and 31 December 2013 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as at 31 March 2014, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 4,036 thousand (31 December 2013: 4,063 thousand).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 March 2014 and 31 December 2013.

Credit related commitments and performance guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

24 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

In thousands of GEL	31 March 2014	31 December 2013
Performance guarantees issued	165,618	160,704
Financial guarantees issued	78,945	95,762
Undrawn credit lines	171,864	197,801
Letters of credit	118,228	133,603
Total credit related commitments and performance guarantees (before provision)	**534,655**	**587,870**
Provision for performance guarantees	(3,742)	(4,153)
Provision for credit related commitments and financial guarantees	(3,539)	(4,927)
Total credit related commitments and performance guarantees	**527,374**	**578,790**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as at 31 March 2014 composed GEL 110,740 thousand (31 December 2013: GEL 131,342 thousand).

Capital expenditure commitments. At 31 March 2014, the Group has contractual capital expenditure commitments amounting to GEL 1,972 thousand (31 December 2013: 2,365 thousand).

25 Financial and Other Risk Management

The risk management function within the Group is carried out in respect of the following risks: credit, geographical, market (which includes principally currency and interest rate risks), liquidity, operational strategic and reputational risks. The primary objectives of the risk management function are to (i) contribute to the development of the Group's business strategy by ensuring risk adjusted profitability and (ii) guarantee the Group's sustainable development through the implementation of efficient risk management systems.

Group's risk management process encompasses all the activities that affect its risk profile and consists of the following core elements: (i) active board and senior management oversight; (ii) adequate policies and procedures aimed at effectively controlling risk exposures; (iii) adequate risk identification, measurement and management systems; and (iv) comprehensive internal controls.

The monitoring and implementation of TBC Bank's risk management function is split among eight principal risk management bodies: the Supervisory Board, the Risk, Ethics and Compliance Committee, the Audit Committee, the Management Board, the Credit Committee, the Operational Risks Committee, the Assets and Liabilities Management Committee and the Problem Loans Committee.

TBC Bank's risk management policies are implemented through a number of its departments, including the Internal Audit, Financial Risk Management, Treasury, Credit Risk Management, Corporate, SME and Retail Credit Risk Management, Operational Risk Management, Legal and Compliance Departments, each of which reports to one of the principal risk management bodies referred to above.

TBC Bank also employs a Chief Risk Officer, who reports to the Management Board and who is responsible for supervising all risk management activities across TBC Bank's business except for financial risk management, which is supervised by the Chief Financial Officer. The Chief Risk Officer is also required to ensure that TBC Bank's risk exposure level is in accordance with the defined limits set forth in TBC Bank's Risk Appetite Statement and that its operations are adequate in light of TBC Bank's risk profile. The Chief Risk Officer and Chief Financial Officer have independent access to the Chairman of the Risk, Ethics, and Compliance Committee.

25 Financial and Other Risk Management (Continued)

Credit risk. The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the condensed consolidated interim statement of financial position as well as for financial and performance guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 24. The subcategories of credit risk are: counterparty credit risk (the risk default or non-fulfilment of contracts due to a deterioration in the counterparty's credit quality); concentration risk (the risk of portfolio quality deterioration due to large exposures to small number of borrowers or individual industries); currency-induced credit risks (risks arising from foreign currency-denominated loans in the portfolio); and residual risks (resulting from the use of credit risk-mitigation techniques).

For efficient management of credit risk the adequate policies, and procedures are in place. The credit policies establish framework for lending decisions reflecting the Bank's tolerance for credit risk.

The credit risks are managed at the transaction and portfolio level. At the transaction level credit risk management includes: credit applications review, credit application rating and pricing review, approval of credits and monitoring. As for the portfolio level – credit risk management includes: definition of the risk appetite, credit portfolio analysis, industry analysis, concentrations management, undertaking stress tests and development of credit policies and instructions.

Loan Approval Committees are responsible to review credit applications and approve credit products. There are three different Loan Approval Committees that within the established loan approval limits, review and approve corporate, SME and retail loans. All of them are centralized at the Bank's Head Office. Loan Approval Committee consists of at least two persons with sufficient credit experience. Corporate Loans above GEL 2 million are additionally reviewed by the Corporate Credit Risk Management Department prior to presentation to Loan Approval Committee.

The Group has established portfolio monitoring systems in order to manage its credit exposure effectively. Reports are generated on a daily, weekly, monthly and quarterly basis in order to monitor the dynamics of loan portfolio of the Bank's business segments.

The Credit Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio, compliance with risk appetite limits, TBC Bank's related and connected party exposures, results of stress tests are presented to the Supervisory Board and Risk Ethics and Compliance Committee on a quarterly basis. The Bank's Credit Risk Management Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

25 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 March 2014 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	196,818	67,483	65,267	**329,568**
Due from other banks	612	2,007	-	**2,619**
Mandatory cash balances with National Bank of Georgia	294,990	-	-	**294,990**
Loans and advances to customers	2,672,487	31,680	68,462	**2,772,629**
Investment securities available for sale	564,124	4,741	-	**568,865**
Investments in leases	38,548	-	-	**38,548**
Other financial assets	44,014	78	-	**44,092**
Total financial assets	**3,811,593**	**105,989**	**133,729**	**4,051,311**
Non-financial assets	**385,144**	**27**	**1,409**	**386,580**
Total assets	**4,196,737**	**106,016**	**135,138**	**4,437,891**
Liabilities				
Due to credit institutions	268,779	363,410	55,542	**687,731**
Customer accounts	2,415,051	300,989	37,844	**2,753,884**
Debt securities in issue	-	-	4,517	**4,517**
Other financial liabilities	25,510	5,026	83	**30,619**
Subordinated debt	-	172,787	-	**172,787**
Total financial liabilities	**2,709,340**	**842,212**	**97,986**	**3,649,538**
Non-financial liabilities	**59,839**	**95**	**1,484**	**61,418**
Total liabilities	**2,769,179**	**842,307**	**99,470**	**3,710,956**
Net balance sheet position	**1,427,558**	**(736,291)**	**35,668**	**726,935**
Performance guarantees	**161,876**	**-**	**-**	**161,876**
Credit related commitments	**365,498**	**-**	**-**	**365,498**

25 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2013 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	242,264	74,279	73,922	**390,465**
Due from other banks	-	1,630	78	**1,708**
Mandatory cash balances with National Bank of Georgia	295,332	-	-	**295,332**
Loans and advances to customers	2,639,915	91,492	70,305	**2,801,712**
Investment securities available for sale	495,793	4,858	-	**500,651**
Investments in leases	35,613	-	-	**35,613**
Other financial assets	44,990	59	-	**45,049**
Total financial assets	**3,753,907**	**172,318**	**144,305**	**4,070,530**
Non-financial assets	**379,248**	**28**	**1,269**	**380,545**
Total assets	**4,133,155**	**172,346**	**145,574**	**4,451,075**
Liabilities				
Due to credit institutions	115,519	403,179	47,108	**565,806**
Customer accounts	2,513,794	347,410	25,679	**2,886,883**
Debt securities in issue	-	-	4,474	**4,474**
Other financial liabilities	19,638	5,164	48	**24,850**
Subordinated debt	-	168,274	-	**168,274**
Total financial liabilities	**2,648,951**	**924,027**	**77,309**	**3,650,287**
Non-financial liabilities	**70,160**	**92**	**1,247**	**71,499**
Total liabilities	**2,719,111**	**924,119**	**78,556**	**3,721,786**
Net balance sheet position	**1,414,044**	**(751,773)**	**67,018**	**729,289**
Performance guarantees	**156,551**	**-**	**-**	**156,551**
Credit related commitments	**422,239**	**-**	**-**	**422,239**

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

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain such positions within 20% of the Bank's regulatory capital. As at 31 March 2014, the Bank maintained a balance sheet (negative) open foreign currency position of 8% of regulatory capital (31 December 2013: negative 0.6%) and an aggregate (negative) open currency position of 8.4% of regulatory capital (31 December 2013: negative 0.79%). The Asset/Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure for both overnight and intra-day positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

25 Financial and Other Risk Management (Continued)

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

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. Gross amount of currency swap deposits is included in Derivatives. Therefore Total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented:

	At 31 March 2014				At 31 December 2013			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	1,566,711	1,058,061	(41,388)	**467,262**	1,438,492	994,150	(31,569)	**412,773**
US Dollars	2,251,504	2,263,921	(76,391)	**(88,808)**	2,374,574	2,333,144	(60,192)	**(18,762)**
Euros	195,689	297,335	98,405	**(3,241)**	217,267	294,734	76,450	**(1,017)**
Other	37,143	30,221	19,078	**26,000**	38,917	28,259	16,532	**27,190**
Total	**4,051,047**	**3,649,538**	**(296)**	**401,213**	**4,069,250**	**3,650,287**	**1,221**	**420,184**

To assess currency risk the Bank performs value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the income of the Group of possible worst movement of currency rates against Georgian Lari, with all other variables held constant. To identify maximum expected losses associated with currency fluctuations, 99% confidence level is defined based on monthly changes in exchange rates over the 3 years look-back period. During the three months ended 31 March 2014 and year ended 31 December 2013, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**31 March 2014**	**31 December 2013**
Maximum loss (VAR, 99% confidence level)	(2,539)	(589)
Maximum loss (VAR,95% confidence level)	(1,809)	(413)

Interest rate risk. Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The deposits and the largest part of loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at amounts monitored by the management, categorised by the earlier of contractual interest re-pricing or maturity dates. Currency swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables.

25 Financial and Other Risk Management (Continued)

In thousands of GEL	Less than 1 year	More than 1 year	Total
31 March 2014			
Total financial assets	2,037,181	2,056,865	**4,094,046**
Total financial liabilities	2,487,680	1,204,593	**3,692,273**
Net interest sensitivity gap at 31 March 2014	**(450,499)**	**852,272**	**401,773**
31 December 2013			
Total financial assets	2,001,124	2,102,561	**4,103,685**
Total financial liabilities	2,364,190	1,317,960	**3,682,150**
Net interest sensitivity gap at 31 December 2013	**(363,066)**	**784,601**	**421,535**

At 31 March 2014, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the period would have been GEL 2,300 thousand (31 March 2013: GEL 1,292 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,284 thousand (31 December 2013: GEL 5,093 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 2,300 thousand (31 March 2013: GEL 1,292 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,099 thousand (31 December 2013: GEL 4,926 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

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

The Bank calculates impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a rise of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios.

In addition, stress tests and what if scenarios are developed in accordance with Basel II requirements to ensure that the bank can withstand severe but probable stress scenarios. In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and Supervisory Board Risk, Ethics and Compliance Committee.

Liquidity Risk. Liquidity risk is the risk that TBC either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

25 Financial and other Risk Management (Continued)

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

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

The net stable funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis. TBC Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with the NBG accounting rules.

Net Stable Funding Ratio		**31 March 2014** **116.3%**	**31 December 2013** **118.6%**
In thousands of GEL	**Factor**	**Amount**	
Available stable funding		**3,347,953**	**3,410,696**
Capital: Tier 1 & Tier 2 Capital Instruments		**896,396**	**898,278**
Tier 1	100%	681,783	675,723
Tier 2	100%	214,613	222,555
Long Term Funding (year >= 1)		**381,725**	**387,814**
Long Term Borrowings (>=1 year)	100%	306,213	319,244
Subordinated debt not included in Tier 2	100%	35,108	34,314
Other funding (>=1 year)	100%	40,404	34,256
Other Funding		**2,069,832**	**2,124,604**
Total Corporate deposits	50%	336,110	409,769
Total SME deposits	80%	345,732	365,335
Total Retail deposits	80%	1,319,599	1,288,541
Short term Borrowings with remaining maturity (<1year)	50%	65,638	59,635
Subordinated Debt (<1 year)	50%	2,753	1,324
Required amount of stable funding		**2,879,013**	**2,874,587**
Long term Assets with remaining maturity >=1 year		**2,294,436**	**2,293,969**
Reserves in NGB (Stable part)	100%	280,380	273,267
Loans (>=1 year)	100%	1,765,231	1,775,280
Fixed and Intangible Assets(>=1 year)	100%	225,843	223,159
Other assets (>=1 year)	100%	22,982	22,263
Short term Assets with remaining maturity <1 year		**558,209**	**551,225**
Loans (< 1 year)	50%	558,209	551,225
Undrawn amount of committed credit and liquidity facilities		**26,368**	**29,393**
Unused credit lines and undisbursed amounts from loans	5%	8,593	9,890
Guarantees	5%	17,775	19,503

25 Financial and Other Risk Management (Continued)

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

Loan to deposit ratio was at 106.1% and 102.5%, at the 31 March 2014 and 31 December 2013 respectively.

Market liquidity risk is the risk that TBC cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, TBC Bank follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Bank's high-quality liquid assets can be sold without causing a significant movement in the price and with minimum loss of value.

In addition, TBC Bank has a ***liquidity contingency plan***, which forms part of the TBC's overall prudential liquidity policy and is designed to ensure that TBC is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business. The plan is updated once a year. Last time it was updated in January 2013.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirements of the NBG. The limit is defined by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months. As at 31 March 2014 the ratios were well above the prudential limit set by the NBG as follows:

	31 March 2014	31 December 2013
Average Liquidity Ratio	32.1%	34.0%

According to daily cash flow forecasts, and the surplus in liquidity standing, Treasury Department places funds in short-term liquid assets, largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities as at 31 March 2014 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	299,613	95,712	309,466	38,453	**743,244**
Customer accounts – individuals	918,146	625,847	135,598	15,540	**1,695,131**
Customer accounts – other	882,430	143,289	73,363	20,288	**1,119,370**
Other financial liabilities	30,597	22	-	-	**30,619**
Subordinated debt	6,556	9,430	161,152	77,064	**254,202**
Gross settled forwards	158,594	5,079	-	-	**163,673**
Performance guarantees	23,089	94,129	49,590	1,837	**168,645**
Financial guarantees	104,520	76,628	20,659	12	**201,819**
Other credit related commitments	171,864	-	-	-	**171,864**
Total potential future payments for financial obligations	**2,595,409**	**1,050,136**	**749,828**	**153,194**	**4,548,567**

25 Financial and Other Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2013 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	158,525	103,522	313,213	42,715	**617,975**
Customer accounts – individuals	917,166	595,740	129,487	13,071	**1,655,464**
Customer accounts – other	988,285	171,952	37,431	86,251	**1,283,919**
Other financial liabilities	23,717	1,133	-	-	**24,850**
Subordinated debt	906	15,418	160,948	76,045	**253,317**
Gross settled forwards	123,799	298	-	-	**124,097**
Performance guarantees	33,582	73,558	54,986	1,741	**163,867**
Financial guarantees	115,453	97,122	21,702	-	**234,277**
Other credit related commitments	197,801	-	-	-	**197,801**
Total potential future payments for financial obligations	**2,559,234**	**1,058,743**	**717,767**	**219,823**	**4,555,567**

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in customer accounts are classified based on contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon demand of a depositor. Based on Bank's deposit retention history, the Management does not expect that many customers will require repayment on the earliest possible date, accordingly, the table does not reflect Management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

25 Financial and Other Risk Management (Continued)

The expected gap may be summarised as follows at 31 March 2014:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	329,568	-	-	**329,568**
Due from other banks	16	-	2,603	**2,619**
Mandatory cash balances with National Bank of Georgia	294,990			**294,990**
Loans and advances to customers	446,543	626,411	1,699,675	**2,772,629**
Investment securities available for sale	568,865	-	-	**568,865**
Finance lease receivables	7,313	12,507	18,728	**38,548**
Other financial assets	21,417	5,022	17,653	**44,092**
Total financial assets	**1,668,712**	**643,940**	**1,738,659**	**4,051,311**
Liabilities				
Due to Credit institutions	294,898	80,765	312,068	**687,731**
Customer accounts	236,015	-	2,517,869	**2,753,884**
Debt securities in issue	4,517	-	-	**4,517**
Other financial liabilities	30,597	22	-	**30,619**
Subordinated debt	5,133	372	167,282	**172,787**
Total financial liabilities	**571,160**	**81,159**	**2,997,219**	**3,649,538**
Credit related commitments and performance guarantees				
Performance guarantees	3,742	-	-	**3,742**
Financial guarantees	3,539	-	-	**3,539**
Other credit related commitments	29,584	-	-	**29,584**
Credit related commitments and performance guarantees	**36,865**	**-**	**-**	**36,865**
Net liquidity gap at 31 March 2014	**1,060,687**	**562,781**	**(1,258,560)**	**364,908**
Cumulative gap at 31 March 2014	**1,060,687**	**1,623,468**	**364,908**	

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

25 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2013:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	390,465	-	-	**390,465**
Due from other banks	93	-	1,615	**1,708**
Mandatory cash balances with National Bank of Georgia	295,332	-	-	**295,332**
Loans and advances to customers	445,069	623,376	1,733,267	**2,801,712**
Investment securities available for sale	500,651	-	-	**500,651**
Finance lease receivables	7,148	11,593	16,872	**35,613**
Other financial assets	22,103	5,024	17,922	**45,049**
Total financial assets	**1,660,861**	**639,993**	**1,769,676**	**4,070,530**
Liabilities				
Due to Credit institutions	156,545	90,018	319,243	**565,806**
Customer accounts	261,546	-	2,625,337	**2,886,883**
Debt securities in issue	-	4,474	-	**4,474**
Other financial liabilities	23,717	1,133	-	**24,850**
Subordinated debt	833	1,814	165,627	**168,274**
Total financial liabilities	**442,641**	**97,439**	**3,110,207**	**3,650,287**
Credit related commitments and performance guarantees				
Performance guarantees	4,153	-	-	**4,153**
Financial guarantees	4,927	-	-	**4,927**
Other credit related commitments	34,962	-	-	**34,962**
Credit related commitments and performance guarantees	**44,042**	-	-	**44,042**
Net liquidity gap at 31 December 2013	**1,174,178**	**542,554**	**(1,340,531)**	**376,201**
Cumulative gap at 31 December 2013	**1,174,178**	**1,716,732**	**376,201**	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-3 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

25 Financial and Other Risk Management (Continued)

Operating environment. Most of the Group's business is concentrated in Georgia. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favorable investment environment. For example, in the "Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises" report published by the IFC and the World Bank, Georgia was ranked as the eighth (out of 189) easiest country in the world in which to do business, ahead of all its neighboring countries and many EU Member States. Moreover, according to the World Bank & IFC Doing Business Report 2014, Georgia was ranked as the number two reformer in the world. Georgia is also acknowledged to have low corruption levels as demonstrated by the Transparency International 2013 Global Corruption Barometer.

26 Management of Capital

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

Bank and the Group complied with all internally and externally imposed capital requirements throughout three months periods ended 31 March 2014 and 31 March 2013.

NBG Capital adequacy ratio

Under the current capital requirements set by NBG banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the set 12% minimum level and a ratio of Tier 1 capital to risk weighted assets above the set 8% minimum level. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

In thousands of GEL	**31 March 2014**	**31 December 2013**
Share capital	264,201	261,045
Retained earnings and other disclosed reserves	284,726	290,585
General loan loss provisions (up to 1.25 % of risk – weighted assets)	50,203	51,038
Less intangible assets	(21,552)	(18,197)
Less Investments into subsidiary companies and capital of other banks	(61,750)	(59,129)
Subordinated debt (included in regulatory capital)	132,174	131,312
Total regulatory capital	**648,002**	**656,654**
Risk-weighted Exposures		
Credit risk weighted assets (including off-balance obligations)	3,331,539	3,340,518
Currency Induced Credit Risk	1,296,275	1,321,561
minus general and special reserves	(173,359)	(166,377)
Risk-weighted assets	**4,454,455**	**4,495,702**
Tier 1 Capital adequacy ratio	**11.4%**	**10.6%**
Total Capital adequacy ratio	**14.5%**	**14.6%**

26 Management of Capital (Continued)

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 31 March 2014 and 31 December 2013 are given in the tables below:

In thousands of GEL	**31 March 2014**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,186,161	166,676
Gross Loans and accrued interests	2,676,088	3,807,107
Repossessed Assets	73,120	73,120
Fixed Assets and intangible assets	205,174	183,622
Other assets	144,283	108,640
Total	**4,284,826**	**4,339,165**
Total Off-balance	**594,693**	**288,649**
minus general and special reserves	(173,359)	(173,359)
Total Amount	**4,706,160**	**4,454,455**

In thousands of GEL	**31 December 2013**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,170,286	158,730
Gross Loans and accrued interests	2,713,271	3,829,318
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	184,705
Other assets	143,487	92,255
Total	**4,299,089**	**4,334,151**
Total Off-balance	**615,670**	**327,928**
minus general and special reserves	(166,377)	(166,377)
Total Amount	**4,748,382**	**4,495,702**

26 Management of Capital (Continued)

NBG Basel II Capital adequacy ratio

After adoption of NBG Basel II/III requirements the Bank in addition to above capital ratios calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2012. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

In thousands of GEL	31 March 2014	31 December 2013
Tier 1 Capital	518,293	526,224
Tier 2 Capital	177,977	177,950
Regulatory capital	**696,270**	**704,174**
Risk-weighted Exposures		
Credit Risk Weighted Exposures	4,448,160	4,553,155
Risk Weighted Exposures for Market Risk	41,975	3,946
Risk Weighted Exposures for Operational Risk	390,378	343,892
Total Risk-weighted Exposures	**4,880,513**	**4,900,993**
Minimum Tier 1 ratio	**8.5%**	**8.5%**
Tier 1 Capital adequacy ratio	**10.6%**	**10.7%**
Minimum total capital adequacy ratio	**10.5%**	**10.5%**
Total Capital adequacy ratio	**14.3%**	**14.4%**

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 31 March 2014 and 31 December 2013 are given in the tables below:

	31 March 2014	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,287,769	465,241
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,561,697	3,249,507
Repossessed Assets	73,120	73,120
Fixed Assets and intangible assets	226,727	201,672
Other assets	123,256	214,598
minus general provision, penalty and interest provision	(26,733)	(26,733)
Total	**4,245,836**	**4,177,405**
Total Off-balance	**659,604**	**270,755**
Market Risk	**55,092**	**41,975**
Operational Risk	**273,265**	**390,378**
Total Amount	**5,233,797**	**4,880,513**

	31 December 2013	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,253,675	467,647
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,619,707	3,321,301
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	203,833
Other assets	153,663	214,198
minus general provision, penalty and interest provision	(41,837)	(41,837)
Total	**4,257,253**	**4,234,285**
Total Off-balance	**678,453**	**318,870**
Market Risk	**5,180**	**3,946**
Operational Risk	**240,724**	**343,892**
Total Amount	**5,181,610**	**4,900,993**

26 Management of Capital (Continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	**31 March 2014**	**31 December 2013**
Tier 1 capital		
Share capital	257,730	259,123
Retained earnings and disclosed reserves	413,593	404,659
Less: Goodwill	(2,726)	(2,726)
Non-controlling interest	13,186	14,667
Total tier 1 capital	**681,783**	**675,723**
Tier 2 capital		
Revaluation reserves	42,426	50,840
General Reserve	40,013	40,403
Subordinated debt (included in tier 2 capital)	132,174	131,312
Total tier 2 capital	**214,613**	**222,555**
Total capital	**896,396**	**898,278**
Credit risk weighted assets (including off-balance obligations)	3,201,072	3,232,229
Less: General Reserve	(108,497)	(116,466)
Market Risk	96,539	19,779
Total Risk-weighted assets	**3,189,114**	**3,135,542**
Minimum Tier 1 ratio	**4.0%**	**4%**
Tier 1 Capital adequacy ratio	**21.4%**	**21.6%**
Minimum total capital adequacy ratio	**8.0%**	**8%**
Total Capital adequacy ratio	**28.1%**	**28.6%**

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

26 Management of Capital (Continued)

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 31 March 2014 and 31 December 2013 are given in the tables below:

In thousands of GEL	**31 March 2014**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,196,042	42,484
Gross loans and accrued interests	2,921,139	2,410,192
Repossessed assets	53,925	53,925
Fixed assets and intangible assets	228,569	225,843
Other assets	186,726	186,726
Total	**4,586,401**	**2,919,170**
Total Off-balance	**646,189**	**281,902**
Less: Loan loss provision minus General Reserve	(108,497)	(108,497)
Market Risk	**96,539**	**96,539**
Total Amount	**5,220,632**	**3,189,114**

In thousands of GEL	**31 December 2013**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,188,156	38,613
Gross loans and accrued interests	2,958,581	2,419,822
Repossessed assets	49,920	49,920
Fixed assets and intangible assets	225,885	223,159
Other assets	185,402	185,403
Total	**4,607,944**	**2,916,917**
Total Off-balance	**656,386**	**315,312**
Less: Loan loss provision minus General Reserve	(116,466)	(116,466)
Market Risk	**19,779**	**19,779**
Total Amount	**5,167,643**	**3,135,542**

27 Fair Value Disclosures

(a) Recurring fair value measurements.

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 March 2014				31 December 2013			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities available for sale								
- Certificates of Deposits of National Bank of Georgia	-	354,395	-	**354,395**	-	321,140	-	**321,140**
- Ministry of Finance Treasury Bills	-	1,730	-	**1,730**	-	-	-	**-**
- Government notes	-	179,252	-	**179,252**	-	173,974	-	**173,974**
- Corporate Bonds (EBRD)	-	25,055	-	**25,055**	-	-	-	**-**
- Corporate shares (Visa Inc)	4,741	-	-	**4,741**	4,858	-	-	**4,858**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets and due from banks	-	263	-	**263**	-	1,221	-	**1,221**
NON-FINANCIAL ASSETS								
- Premises and leasehold improvements	-	-	138,598	**138,598**	-	-	138,939	**138,939**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**4,741**	**560,695**	**138,598**	**704,034**	**4,858**	**496,335**	**138,939**	**640,132**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
- Interest rate swap, included in other financial liabilities	-	4,656	-	**4,656**	-	4,405	-	**4,405**
- Foreign exchange forwards included in other financial liabilities	-	559	-	**559**	-	-	-	**-**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	**5,215**	**-**	**5,215**	-	**4,405**	**-**	**4,405**

There were no transfers between levels 1 and 2 during three months ended 31 March 2014 (2013: None).

27 Fair Value Disclosures (Continued)

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

	Fair value at			
In thousands of GEL	**31 March 2014**	**31 December 2013**	**Valuation technique**	**Inputs used**
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, corporate bonds	560,432	495,114	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	263	1,221	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**560,695**	**496,335**		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Interest rate swaps	4,656	4,405	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	559	-	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**5,215**	**4,405**		

There were no changes in valuation technique for level 2 and level 3 recurring fair value measurements during the three months period ended 31 March 2014 (three months period ended 31 March 2013: None).

For description of the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 10. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

27 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 March 2014				31 December 2013			
In thousands of GEL	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS								
Cash and cash equivalents	329,568	-	-	329,568	390,465	-	-	390,465
Due from other banks	-	2,619	-	2,619	-	1,708	-	1,708
Mandatory cash balances with the NBG	-	294,990	-	294,990	-	295,332	-	295,332
Loans and advances to customers:								
- Corporate loans	-	-	1,061,567	955,810	-	-	1,172,503	1,049,668
- Consumer loans	-	-	602,429	570,628	-	-	607,940	571,730
- Mortgage loans	-	-	543,267	519,054	-	-	519,180	491,136
- Small and micro loans	-	-	408,681	399,838	-	-	397,229	388,131
- Micro	-	-	208,353	212,738	-	-	193,784	196,395
- Others	-	-	113,732	114,561	-	-	103,896	104,652
Investments in leases	-	-	38,548	38,548	-	-	35,613	35,613
Other financial assets	-	-	44,092	44,092	-	-	45,049	45,049
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	86,278	83,331	-	-	86,480	83,383
TOTAL ASSETS	**329,568**	**297,609**	**3,106,947**	**3,565,777**	**390,465**	**297,040**	**3,161,674**	**3,653,262**
FINANCIAL LIABILITIES								
Due to credit institutions	-	687,731	-	687,731	-	565,806	-	565,806
Customer accounts	-	1,469,103	1,291,323	2,753,884	-	1,690,812	1,206,300	2,886,883
Debt securities in issue	-	4,517	-	4,517	-	4,474	-	4,474
Other financial liabilities	-	25,404	-	25,404	-	20,445	-	20,445
Subordinated debt	-	172,787	-	172,787	-	168,274	-	168,274
TOTAL LIABILITIES	**-**	**2,359,542**	**1,291,323**	**3,644,323**	**-**	**2,449,811**	**1,206,300**	**3,645,882**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 3).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

When preparing this condensed interim financial information, the management has reconsidered the significance of non-observable inputs used in the fair valuation of (a) investments in leases, (b) other financial assets and (c) investment properties. Consequently, it was concluded that these items should be presented in Level 3 of the fair value hierarchy as of 31 March 2014 and 31 December 2013 in the above table.

28 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Parties that hold more than 8% of ownership stake in the Bank are considered as Significant Shareholders. Included in key management personnel are members of the Supervisory Board and the Management Board and close members of the family.

At 31 March 2014, the outstanding balances with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	4,645	961
Impairment provisions for loans and advances to customers	85	10
Derivative financial liability	4,656	-
Due to credit institutions (contractual interest rate: 0 - 13 %)	65,157	-
Customer accounts (contractual interest rate: 0 - 13 %)	7,811	4,711
Subordinated debt (contractual interest rate: 5 - 11.3 %)	97,654	-

The income and expense items with related parties for the three months ended 31 March 2014 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Interest income	204	33
Interest expense	3,543	56
Gains less losses from trading in foreign currencies	42	13
Foreign exchange translation gains less losses	35	7
Fee and commission income	2	3
Fee and commission expense	223	-
Administrative and other operating expenses	15	7
Net gain on derivative financial instruments	177	-

At 31 March 2014, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Guarantees issued by the Group at the period end	-	58

Aggregate amounts of loans advanced to and repaid by related parties during the three months ended 31 March 2014 were:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the period	180	776
Amounts repaid by related parties during the period	(5,702)	(1,167)

28 Related Party Transactions (Continued)

At 31 December 2013, the outstanding balances with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	9,928	1,312
Impairment provisions for loans and advances to customers	152	15
Derivative financial liability	4,405	-
Due to credit institutions (contractual interest rate: 0 - 13 %)	67,894	-
Customer accounts (contractual interest rate: 0 - 13 %)	5,421	4,598
Subordinated debt (contractual interest rate: 5 - 11.3 %)	95,458	-

The income and expense items with related parties for the three month ended 31 March 2013 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income	385	47
Interest expense	4,071	92
Gains less losses from trading in foreign currencies	17	2
Foreign exchange translation gains less losses	9	5
Fee and commission income	2	1
Fee and commission expense	276	-
Administrative and other operating expenses	5	9
Net loss on derivative financial instruments	(462)	-

Aggregate amounts of loans advanced to and repaid by related parties during the three months ended 31 March 2013 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the period	1,258	136
Amounts repaid by related parties during the period	(4,704)	(590)

Compensation of the key management personnel and supervisory board members is presented below:

In thousands of GEL	**Expense over the three months ended**		**Accrued liability as of**	
	31 March 2014	**31 March 2013**	**31 March 2014**	**31 December 2013**
Salaries and bonuses	2,211	2,060	873	3,798
Cash settled bonuses related to share-based compensation	126	423	126	1,692
Equity-settled share-based compensation	515	418	-	-
Total	**2,852**	**2,901**	**999**	**5,490**

TBC BANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

For the years ended 31 December 2013, 2012 and 2011

TBC Bank Group
Consolidated Financial Statements
31 December 2013

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Independent auditor's report

To the Shareholders and Management of JSC TBC Bank:

We have audited the accompanying consolidated financial statements of JSC TBC Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, 2012 and 2011 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC TBC Bank and its subsidiaries as at 31 December 2013, 2012 and 2011 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

24 February 2014
Tbilisi, Georgia

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TBC Bank Group
Consolidated Statement of Financial Position

In thousands of GEL	Notes	31 December 2013	31 December 2012	31 December 2011
ASSETS				
Cash and cash equivalents	6	390,465	398,587	374,153
Due from other banks	7	1,708	29,542	40,942
Mandatory cash balances with the National Bank of Georgia	8	295,332	316,061	250,067
Loans and advances to customers	9	2,801,712	2,370,200	2,008,745
Investment securities available for sale	10	500,651	407,733	266,436
Investment securities held to maturity	11	-	-	28,956
Investments in finance leases	13	35,613	26,377	21,979
Investment properties	16	83,383	34,305	27,082
Current income tax prepayment		6,202	10,135	-
Goodwill	17	2,726	2,726	2,726
Intangible assets	15	23,491	18,817	10,064
Premises and equipment	15	199,668	192,556	163,879
Other financial assets	12	45,049	25,301	11,339
Other assets	14	65,075	67,354	93,653
TOTAL ASSETS		**4,451,075**	**3,899,694**	**3,300,021**
LIABILITIES				
Due to credit institutions	18	565,806	627,123	628,150
Customer accounts	19	2,886,883	2,486,944	1,999,256
Current income tax liability		-	-	14,162
Debt securities in issue	20	4,474	-	-
Deferred income tax liability	34	27,814	20,143	8,048
Provisions for liabilities and charges	21	12,380	6,174	8,434
Other financial liabilities	22	24,850	19,462	11,305
Other liabilities	23	31,305	20,744	19,405
Subordinated debt	24	168,274	115,080	142,480
TOTAL LIABILITIES		**3,721,786**	**3,295,670**	**2,831,240**
EQUITY				
Share capital	25	16,499	16,143	15,171
Share premium	25	242,624	231,501	203,308
Retained earnings		402,627	298,880	201,826
Share based payment reserve	26	2,032	4,142	6,180
Other reserves	29	50,840	41,939	33,162
Net assets attributable to owners		**714,622**	**592,605**	**459,647**
Non-controlling interest	38	**14,667**	**11,419**	**9,134**
TOTAL EQUITY		**729,289**	**604,024**	**468,781**
TOTAL LIABILITIES AND EQUITY		**4,451,075**	**3,899,694**	**3,300,021**

Approved for issue and signed on behalf of the Board of Directors on 24 February 2014

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 5 to 91 form an integral part of these consolidated financial statements.

In thousands of GEL	Notes	2013	2012	2011
Interest income	30	474,796	456,545	360,215
Interest expense	30	(192,146)	(217,895)	(151,134)
Net interest income		**282,650**	**238,650**	**209,081**
Fee and commission income	31	66,497	58,140	43,802
Fee and commission expense	31	(24,301)	(18,830)	(15,094)
Net fee and commission income		**42,196**	**39,310**	**28,708**
Gains less losses from trading in foreign currencies		37,894	25,240	25,419
Foreign exchange translation (losses less gains) / gains less losses		(5,901)	7,617	394
Gains less losses/(losses less gains) from derivative financial instruments		613	(3,804)	(4,987)
Other operating income	32	24,000	19,772	9,923
Other operating non-interest income		**56,606**	**48,825**	**30,749**
Provision for loan impairment	9	(32,971)	(23,154)	(16,049)
(Provision for) / recovery of provision for impairment of investments in finance lease	13	(98)	(42)	174
Provision for performance guarantees and credit related commitments	21	(6,459)	(1,606)	(1,353)
Provision for impairment of other financial assets	12	(2,236)	(4,132)	(397)
Impairment / (recovery of impairment) of investment securities available for sale		(1,142)	(10)	116
Recovery of impairment for assets classified as held for sale		-	-	1,519
Operating income after provisions for impairment		**338,546**	**297,841**	**252,548**
Staff costs		(108,613)	(92,289)	(78,426)
Depreciation and amortisation	15,16	(19,993)	(22,103)	(15,088)
Provision for liabilities and charges	21	(1,315)	(1,700)	(200)
Administrative and other operating expenses	33	(68,692)	(69,440)	(51,744)
Operating expenses		**(198,613)**	**(185,532)**	**(145,458)**
Profit before tax		**139,933**	**112,309**	**107,090**
Income tax expense	34	(15,663)	(14,498)	(15,465)
Profit for the year		**124,270**	**97,811**	**91,625**
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Revaluation of available-for-sale investments	10	7,923	682	1,277
Exchange differences on translation to presentation currency	29	1,233	(217)	(904)
Income tax recorded directly in other comprehensive income	34	(255)	(154)	(90)
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment	29	-	10,513	1,311
Income tax recorded directly in other comprehensive income	34	-	(1,520)	(245)
Other comprehensive income for the year		**8,901**	**9,304**	**1,349**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**133,171**	**107,115**	**92,974**
Profit is attributable to:				
- Owners of the Bank		121,616	96,519	90,898
- Non-controlling interest		2,654	1,292	727
Profit for the year		**124,270**	**97,811**	**91,625**
Total comprehensive income is attributable to:				
- Owners of the Bank		130,517	105,823	92,247
- Non-controlling interest		2,654	1,292	727
Total comprehensive income for the year		**133,171**	**107,115**	**92,974**
Earnings per share for profit attributable to the owners of the Bank:				
- Basic earnings per share	27	742.0	630.1	600.6
- Diluted earnings per share	27	740.6	630.1	598.5

In thousands of GEL	Note	Net assets Attributable to owners: Share capital	Share premium	Share based payments reserve	Other reserves (note 29)	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011		**15,113**	**201,723**	**-**	**31,813**	**123,423**	**372,072**	**5,200**	**377,272**
Profit for the year		-	-	-	-	90,898	**90,898**	727	**91,625**
Other comprehensive income		-	-	-	1,349	-	**1,349**	-	**1,349**
Total comprehensive income for 2011		-	-	-	1,349	90,898	**92,247**	727	**92,974**
Increase in share capital arising from share based payment	25	58	1,585	(1,643)	-		**-**	-	**-**
Share based payment	26	-	-	7,823	-	-	**7,823**	-	**7,823**
Dividends paid			-	-	-	(12,495)	**(12,495)**		**(12,495)**
Business combination		-	-	-	-	-	**-**	3,207	**3,207**
Balance at 31 December 2011		**15,171**	**203,308**	**6,180**	**33,162**	**201,826**	**459,647**	**9,134**	**468,781**
Profit for the year		-	-	-	-	96,519	**96,519**	1,292	**97,811**
Other comprehensive income		-	-	-	9,304	-	**9,304**	-	**9,304**
Total comprehensive income for 2012		-	-	-	9,304	96,519	**105,823**	1,292	**107,115**
Share issue	25	815	23,612	-	-	-	**24,427**	-	**24,427**
Share based payment	26	-	-	2,700	-	-	**2,700**	-	**2,700**
Increase in share capital arising from share based payment		157	4,581	(4,738)	-	-	**-**	-	**-**
Equity contribution of owners of non-controlling shareholders		-	-	-	-	-	**-**	993	**993**
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(527)	535	**8**	-	**8**
Balance at 31 December 2012		**16,143**	**231,501**	**4,142**	**41,939**	**298,880**	**592,605**	**11,419**	**604,024**
Profit for the year		-	-	-	-	121,616	**121,616**	2,654	**124,270**
Other comprehensive income		-	-	-	8,901	-	**8,901**	-	**8,901**
Total comprehensive income for 2013		**-**	-	**-**	**8,901**	**121,616**	**130,517**	**2,654**	**133,171**
Share issue	25	240	7,097		-	-	**7,337**	-	**7,337**
Share based payment	26	-	-	2,032	-	-	**2,032**	-	**2,032**
Increase in share capital arising from share based payment		116	4,026	(4,142)	-	-	**-**	-	**-**
Equity contribution of owners of non-controlling shareholders		-	-	-	-	-	**-**	594	**594**
Dividends paid		-	-	-	-	(17,869)	**(17,869)**		**(17,869)**
Balance at 31 December 2013		**16,499**	**242,624**	**2,032**	**50,840**	**402,627**	**714,622**	**14,667**	**729,289**

TBC Bank Group
Consolidated Statement of Cash Flows

In thousands of GEL	Note	2013	2012	2011
Cash flows from operating activities				
Interest received		462,448	430,700	346,346
Interest paid		(192,482)	(200,303)	(168,368)
Fees and commissions received		66,958	58,140	42,746
Fees and commissions paid		(24,097)	(18,830)	(15,094)
Income received from trading in foreign currencies		37,894	25,240	25,419
Other operating income received		18,165	16,085	10,980
Staff costs paid		(102,115)	(89,589)	(67,479)
Administrative and other operating expenses paid		(66,849)	(66,465)	(50,921)
Income tax paid		(2,008)	(26,701)	(438)
Cash flows from operating activities before changes in operating assets and liabilities		**197,914**	**128,277**	**123,191**
Changes in operating assets and liabilities				
Net decrease / (increase) in due from other banks		61,275	(54,599)	(217,232)
Net increase in loans and advances to customers		(453,686)	(404,568)	(660,195)
Net increase in investment in finance lease		(9,334)	(4,398)	-
Net increase in other financial assets		(23,048)	(25,276)	-
Net decrease in other assets		22,471	26,402	11,287
Net (decrease) / increase in due to other banks		(30,334)	(34,013)	62,181
Net increase in customer accounts		297,393	474,948	703,751
Net increase in other financial liabilities		7,808	6,383	-
Net increase / (decrease) in other liabilities		5,231	1,339	(2,091)
Net cash from operating activities		**75,690**	**114,495**	**20,892**
Cash flows from investing activities				
Acquisition of investment securities available for sale	10	(755,433)	(813,864)	(646,538)
Proceeds from disposal of investment securities available for sale	10	61,626	90,857	47,815
Proceeds from redemption at maturity of investment securities available for sale	10	619,902	599,913	571,104
Acquisition of investment securities held to maturity	11	-	(5,000)	-
Proceeds from redemption of investment securities held to maturity	11	-	33,000	-
Acquisition of premises, equipment and intangible assets		(31,052)	(52,820)	(30,634)
Proceeds from disposal of investment property		18,316	14,296	4,389
Proceeds from disposal of subsidiary, net of disposed cash		-	-	150
Net cash used in investing activities		**(86,641)**	**(133,618)**	**(53,714)**
Cash flows from financing activities				
Proceeds from other borrowed funds		159,856	321,160	359,985
Redemption of other borrowed funds		(213,057)	(286,695)	(208,316)
Proceeds from subordinated debt		45,763	-	-
Redemption of subordinated debt		-	(24,738)	(7,875)
Proceeds from debt securities in issue		4,474	-	-
Dividends paid		(17,869)	-	(12,495)
Equity contribution of owners of non-controlling shareholders		594	993	-
Issue of ordinary shares		7,199	24,426	-
Net cash (used in) / from financing activities		**(13,040)**	**35,146**	**131,299**
Effect of exchange rate changes on cash and cash equivalents		**15,869**	**8,411**	**251**
Net (decrease) / increase in cash and cash equivalents		**(8,122)**	**24,434**	**98,728**
Cash and cash equivalents at the beginning of the year	6	**398,587**	**374,153**	**275,425**
Cash and cash equivalents at the end of the year	6	**390,465**	**398,587**	**374,153**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

The Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

In 2009 the Group issued new shares and since then it does not have an ultimate controlling party. At 31 December 2013, 2012 and 2011 shareholders structure is as follows:

	% of ownership interest held as at 31 December		
Shareholders	**2013**	**2012**	**2011**
International Finance Corporation	20%	20%	20%
European Bank for Reconstruction and Development	20%	20%	20%
TBC Holdings LTD	19%	20%	21%
Deutsche Investitions und Entwicklungsgesellschaft MBH	11%	12%	11%
Liquid Crystal International N.V. LLC	7%	7%	7%
Individuals	9%	7%	8%
JPMorgan Chase Bank	5%	5%	5%
Ashmore Cayman SPC	4%	4%	5%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	5%	5%	3%
Total	**100%**	**100%**	**100%**

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

The Bank has 13 (2012: 13; 2011: 13) branches and 47 (2012: 45; 2011: 37) service centres within Georgia. As at 31 December 2013, the Bank had 2,893 employees (2012: 2,705 employees; 2011: 2,598 employees).

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia and Azerbaijan, primary business activities include providing banking, leasing, brokerage card processing services to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

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

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

2 Summary of Significant Accounting Policies

Basis for preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The consolidated financial statements include the following principal subsidiaries:

	Ownership / voting % as of 31 December				Year of incorporation	
Subsidiary	**2013**	**2012**	**2011**	**Country**	**or acquisition**	**Industry**
United Financial Corporation JSC	93.32%	93.32%	93.32%	Georgia	1997	Card processing
TBC Broker LLC	100%	100%	100%	Georgia	1999	Brokerage
TBC Leasing JSC	89.53%	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	75%	Azerbaijan	2008	Non-banking credit institution
Banking System Service Company LLC	100%	100%	100%	Georgia	2009	Information services
TBC Pay LLC	100%	100%	100%	Georgia	2009	Processing
Real Estate Management Fund JSC	100%	100%	100%	Georgia	2010	Real estate management
TBC Invest LLC	100%	100%	100%	Israel	2011	PR and marketing
Bank Constanta JSC	84.69%	83.85%	83.3%	Georgia	2011	Financial institution

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

2 Summary of Significant Accounting Policies (Continued)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

2 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 1

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 10.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

2 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the NBG, excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the National Bank of Georgia are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in Other Comprehensive Income ("OCI") until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from OCI to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and reclassified from OCI. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with original maturity of more than three months and with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

2 Summary of Significant Accounting Policies (Continued)

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups or such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Loans to customers in retail, SME and micro segments (see Note 28 for segment definitions) are written off at the earliest of (a) after being past due for more than 180 days or (b) being fully provided for more than 90 days. Loans issued to customers in the corporate segment are written off after being past due for more than 270 days, unless the management expects to recover the loan within short period of time after 270 days threshold. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

2 Summary of Significant Accounting Policies (Continued)

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material.

The Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts. Such amounts are recognised as loans and receivables.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment, except for buildings and construction in progress, are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, land, buildings and construction in progress are carried at revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation surplus is credited to the revaluation reserve for premises and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognized in profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is recognized in other comprehensive income and reduces revaluation reserve for premises and equipment cumulated in equity.

Depreciation on revalued buildings is charged to profit or loss. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

2 Summary of Significant Accounting Policies (Continued)

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years; and
Leasehold improvements	lesser of 7 years or the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. Investment property is amortised on a straight line basis over expected useful lives of thirty to fifty years. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of two to eight years.

2 Summary of Significant Accounting Policies (Continued)

Investments in leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Receivables from terminated leases. The Company recognizes **r**eceivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investment in finance lease. Receivables are accounted for at amortised cost less impairment

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprise interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less impairment. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

Due to credit institutions. Amounts due to credit institutions are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in "tier 2 capital" of the Bank.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

2 Summary of Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

2 Summary of Significant Accounting Policies (Continued)

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of Georgia Lari.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of respective territories that the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2013 the closing rate of exchange used for translating foreign currency balances was USD 1 = 1.7363 GEL (2012: USD 1 = GEL 1.6567; 2011: USD 1 = GEL 1.6703); EUR 1 = 2.3891 GEL (2012: EUR 1 = GEL 2.1825; 2011: EUR 1 = GEL 2.1614).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the employees of the Group.

Earnings per share. Earnings per share ("EPS") are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

2 Summary of Significant Accounting Policies (Continued)

Diluted earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In calculating diluted EPS, non-vested ordinary shares are treated as outstanding on the grant date.

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.. Increase in equity on accrued shares resulting from the equity settled parts of both schemes is accounted for under share based payment reserve. Upon meeting vesting conditions, share based payment reserve attributable to the vested shares is transferred to share capital and share premium.

Amendments of the consolidated financial statements after issue. The Bank's shareholders and management have the power to amend the consolidated financial statements after issue.

Reclassifications. In order to achieve better and more useful presentation, the management has changed the presentation of a number of financial statement line items in 2013. The following reclassifications were made to 31 December 2011 and 31 December 2012 balances to conform to the 31 December 2013 presentation:

Period end	Financial statement line item	As previously reported	As reclassified	Description
31 December 2012	Mandatory cash balances with the NBG	-	316,061	Separate disclosure of mandatory cash balances with the NBG on the face of the statement of financial position.
	Due from other banks	345,603	29,542	
31 December 2011	Mandatory cash balances with the NBG	-	250,067	
	Due from other banks	291,009	40,942	
31 December 2012	Due to other banks	(76,204)	-	Due to other banks and other borrowed funds have been combined and are presented together on the on the face of the statement of financial position.
	Other borrowed funds	(550,919)	-	
	Due to credit institutions	-	(627,123)	
31 December 2011	Due to other banks	(110,378)	-	
	Other borrowed funds	(517,772)	-	
	Due to credit institutions	-	(628,150)	
31 December 2012	Provision for liabilities and charges	(3,306)	(1,700)	Separate disclosure of provision for performance guarantees and credit related commitments on the face of statement of profit or loss and other comprehensive income
	Provision for performance guarantees and credit related commitments	-	(1,606)	
31 December 2011	Provision for liabilities and charges	(1,553)	(200)	
	Provision for performance guarantees and credit related commitments	-	(1,353)	

In order to enhance the usefulness of consolidated statement of profit or loss and other comprehensive income the management has decided to change the grouping of the line items and introduced the following sub-totals: net fee and commission income; other operating non-interest income, operating income after provisions for impairment, operating expenses.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at 31 December 2013, 2012 and 2011, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 42.

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 7,843 thousand (2012: GEL 8,325 thousand; 2011: GEL 7,933 thousand) and additional charge for impairment of finance lease receivables of GEL 9 thousand (2012: GEL 6 thousand ; 2011: GEL 5 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 4,215 thousand (2012: GEL 3,877 thousand; 2011: GEL 1,032 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 1 thousand (2012: 1 thousand; 2011: GEL nil), respectively.

***Fair value disclosure of investment properties*.** Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group, who hold a recognised and relevant professional qualification. In determining the fair values of investment properties, three market comparatives are identified. As comparatives are usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the investment property. At 31 December 2013, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 86,480 thousand (2012: GEL 45,041 thousand; 2011: GEL 37,966 thousand).

Tax legislation. Georgian and Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 37.

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

Put options granted on shares already awarded and to be further awarded under share based compensation schemes. In 2013, the shareholders and Supervisory Board have granted put options on the shares to be awarded under the management compensation scheme introduced in 2013 and on the shares awarded under the previous share based payment arrangements (see note 26). The exercise price of all the options granted to employees is the book value per share per latest IFRS consolidated financial statements. These options are exercisable in three equal tranches during one year periods starting from 1 January 2016, 2017, 2018, and will become null and void if at least 25% of the authorised shares of the Bank are listed on a stock exchange. The management expects that the listing will happen before 1 January 2016 and the put options will expire without being exercised. If the management did not expect the put options to expire without being exercised, the Group would have to recognise cash-settled liability in the amount of present value of expected outflow upon the exercise of the put options.

4 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2013:

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard did not have any material impact on the Group's consolidated financial statements.

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Standard did not have any material impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 38.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 41.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". The amended standard did not have any material impact on the Group's consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amended standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2013) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The amended standard did not have any material impact on the Group's consolidated financial statements.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 39.

4 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group's consolidated financial statements.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group's consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Group's consolidated financial statements. Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans", which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

IFRS 9, "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

5 New Accounting Pronouncements (Continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group does not expect the amendment to have any impact on its financial statements.

5 New Accounting Pronouncements (Continued)

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

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

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

5 New Accounting Pronouncements (Continued)

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

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

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

6 Cash and Cash Equivalents

In thousands of GEL	**2013**	**2012**	**2011**
Cash on hand	165,385	139,362	116,938
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	61,407	71,707	53,024
Correspondent accounts and overnight placements with other banks	79,643	163,869	128,552
Placements with and receivables from other banks with original maturities of less than three months	84,030	23,649	75,639
Total cash and cash equivalents	**390,465**	**398,587**	**374,153**

Interest rate analysis of cash and cash equivalents is disclosed in Note 35.

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	**2013**	**2012**	**2011**
AA	-	-	749
AA-	-	-	1,242
A+	58,192	62,137	66,025
A	14,904	94,792	51,515
A-	-	-	170
BBB+	-	-	563
BBB	1,844	764	-
BBB-	-	11	366
BB	-	3,591	-
BB-	262	-	-
B+	-	511	-
B	570	-	-
B-	1,170	277	-
Not rated	2,701	1,786	7,922
Total	**79,643**	**163,869**	**128,552**

Credit rating of placements with and receivables from other banks with original maturities of less than three months is as follows:

In thousands of GEL	**2013**	**2012**	**2011**
BB+	70,042	16,369	-
Not rated	13,988	7,280	75,639
Total	**84,030**	**23,649**	**75,639**

The table contains ratings of Standard & Poor's and Fitch Ratings international agencies. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used. Balances with other banks without rating represent placements with top 10 Georgian Banks.

7 Due from Other Banks

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2013, 2012 and 2011. All of the placements were with non-rated banks.

At 31 December 2013 the Group did not have placements with any bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2012: one bank; 2011: one bank). The total aggregate amount of these deposits was GEL 28,164 thousand as of 31 December 2012 and GEL 40,006 thousand as of 31 December 2011.

As of 31 December 2013, GEL 1,615 thousand (2012: GEL 1,213 thousand; 2011 GEL 588 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company.

Refer to Note 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 2% annual interest on the mandatory reserve with the NBG in 2013, 2012 and 2011.

In 2013, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".

9 Loans and Advances to Customers

In thousands of GEL	**2013**	**2012**	**2011**
Corporate loans	1,157,334	1,142,087	1,003,849
Consumer loans	603,434	482,704	409,065
Mortgage loans	499,428	385,416	375,008
Loans to small and medium enterprises	392,446	294,217	236,016
Micro loans	201,287	145,931	85,011
Others	104,652	86,343	58,456
Total loans and advances to customers (before impairment)	**2,958,581**	**2,536,698**	**2,167,405**
Less: Provision for loan impairment	(156,869)	(166,498)	(158,660)
Total loans and advances to customers	**2,801,712**	**2,370,200**	**2,008,745**

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

Movements in the provision for loan impairment during 2013 are as follows:

In thousands of GEL	**Corpo-rate loans**	**Consumer loans**	**Mortgage loans**	**Small and medium enterprises**	**Micro loans**	**Total**
Provision for loan impairment at 1 January 2013	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**
Provision for/(recovery of) impairment during the year	21,203	22,789	(2,316)	1,846	4,234	**47,756**
Amounts written off during the year as uncollectible	(26,512)	(22,241)	(2,578)	(2,351)	(3,703)	**(57,385)**
Provision for loan impairment at 31 December 2013	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**156,869**

9 Loans and Advances to Customers (Continued)

The provision for impairment during 2013 differs from the amount presented in profit or loss for the year due to GEL 14,785 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Loans and advances to customers written off in 2013 included loans to customers in the gross amount of GEL 7,387 thousand issued during 2013 and GEL 49,998 thousand issued in prior years.

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of GEL	Corpo-rate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2012	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**
Provision for impairment during the year	10,993	22,040	2,541	2,571	5,056	**43,201**
Amounts written off during the year as uncollectible	(12,124)	(16,717)	(2,016)	(3,210)	(1,296)	**(35,363)**
Provision for loan impairment at 31 December 2012	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**

The provision for impairment during 2012 differs from the amount presented in profit or loss for the year due to GEL 20,047 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Loans and advances to customers written off in 2012 included loans to customers in the gross amount of GEL 1,613 thousand issued during 2012 and GEL 33,750 thousand issued in prior years.

Movements in the provision for loan impairment during 2011 are as follows:

In thousands of GEL	Corpo-rate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2011	**116,440**	**24,527**	**15,924**	**10,563**	-	**167,454**
(Recovery of)/Provision for impairment during the year	27,596	12,691	1,767	(1,263)	966	**41,757**
Amounts written off during the year as uncollectible	(29,930)	(11,385)	(5,030)	(3,841)	(365)	**(50,551)**
Provision for loan impairment at 31 December 2011	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**

The provision for impairment during 2011 differs from the amount presented in profit or loss for the year due to GEL 25,708 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Loans and advances to customers written off in 2011 included loans to customers in the gross amount of GEL 2,331 thousand issued during 2011 and GEL 48,220 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off during the year refer to Note 43.

9 Loans and Advances to Customers (Continued)

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

	2013		2012		2011	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	1,102,863	37%	868,119	34%	784,073	36%
Service	539,825	18%	487,938	19%	398,698	18%
Real estate	132,321	5%	149,328	6%	140,708	6%
Oil and gas	121,921	4%	143,355	6%	114,798	5%
Consumer goods and automobile trading	130,152	4%	132,579	5%	120,311	6%
Food industry	158,865	5%	109,031	4%	90,781	4%
Construction	101,879	3%	108,914	4%	83,168	4%
Agriculture	164,441	6%	119,935	5%	64,685	3%
Energy	106,083	4%	79,929	3%	95,615	4%
Communication	102,547	4%	82,360	3%	83,982	4%
Pawn shop	104,652	4%	86,343	4%	58,456	3%
Transportation	67,223	2%	70,453	3%	55,020	3%
Manufacturing	33,609	1%	30,073	1%	12,200	1%
Mining	40,346	1%	31,140	1%	30,490	1%
Other	51,854	2%	37,201	2%	34,420	2%
Total loans and advances to customers (before impairment)	**2,958,581**	**100%**	**2,536,698**	**100%**	**2,167,405**	**100%**

Service sector contains loans disbursed to consumer service, healthcare, media and financial service industries.

In 2013, the Group has re-assessed allocation of the loans into the economic sectors. The Group has revised the sector split for 2011 and 2012 in order to make it consistent with 2013.

At 31 December 2013 the Group had 62 borrowers (2012: 61 borrower; 2011: 52 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 910,248 thousand (2012: GEL 879,619 thousand; 2011: GEL 746,079 thousand) or 31% of the gross loan portfolio (2012: 35%; 2010: 37%).

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

In thousands of GEL	Corporate loans	Consu-mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	619,783	285,199	335,855	179,036	70,208	9,509	**1,499,590**
- New borrowers	342,499	284,794	152,859	198,371	124,258	92,141	**1,194,922**
Total neither past due nor impaired	**962,282**	**569,993**	**488,714**	**377,407**	**194,466**	**101,650**	**2,694,512**
Past due but not impaired							
- 1 to 30 days overdue	1,012	11,973	3,735	5,287	1,827	1,440	**25,274**
- 31 to 90 days overdue	409	58	11	635	-	1,136	**2,249**
- 91 to 180 days overdue	2,786	13	-	-	-	77	**2,876**
- 181 to 360 days overdue	-	-	-	-	-	78	**78**
- more than 360 days overdue	-	-	-	-	-	271	**271**
Total past due but not impaired	**4,207**	**12,044**	**3,746**	**5,922**	**1,827**	**3,002**	**30,748**
Individually assessed impaired loans (gross)							
- not overdue	175,635	-	-	2,335	-	-	**177,970**
- 30 to 90 days overdue	357	-	-	-	-	-	**357**
- 91 to 180 days overdue	4,303	-	-	-	-	-	**4,303**
- 181 to 360 days overdue	6,040	-	-	-	-	-	**6,040**
Total individually assessed impaired loans	**186,335**	**-**	**-**	**2,335**	**-**	**-**	**188,670**
Collectively assessed impaired loans (gross)							
- not overdue	2,727	2,145	2,191	2,075	1,349	-	**10,487**
- 1 to 30 days overdue	-	776	485	131	454	-	**1,846**
- 31 to 90 days overdue	-	8,794	2,624	1,184	1,669	-	**14,271**
- 91 to 180 days overdue	295	7,014	1,234	1,702	1,328	-	**11,573**
- 181 to 360 days overdue	1,488	2,259	434	1,529	14	-	**5,724**
- more than 360 days overdue	-	409	-	161	180	-	**750**
Total collectively assessed impaired loans	**4,510**	**21,397**	**6,968**	**6,782**	**4,994**	**-**	**44,651**
Total loans and advances to customers (before impairment)	**1,157,334**	**603,434**	**499,428**	**392,446**	**201,287**	**104,652**	**2,958,581**
Total provision	**(107,666)**	**(31,704)**	**(8,292)**	**(4,315)**	**(4,892)**	**-**	**(156,869)**
Total loans and advances to customers	**1,049,668**	**571,730**	**491,136**	**388,131**	**196,395**	**104,652**	**2,801,712**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of GEL	Corporate loans	Consu-mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	583,682	214,312	236,243	120,317	672	4,134	**1,159,360**
- New borrowers	354,076	237,939	128,516	162,895	137,690	82,209	**1,103,325**
Total neither past due nor impaired	**937,758**	**452,251**	**364,759**	**283,212**	**138,362**	**86,343**	**2,262,685**
Past due but not impaired							
- 1 to 30 days overdue	4,251	8,945	4,590	2,051	930	-	**20,767**
- 31 to 90 days overdue	414	4,469	3,048	430	-	-	**8,361**
- 91 to 180 days overdue	123	27	-	10	-	-	**160**
- 181 to 360 days overdue	6	-	-	-	-	-	**6**
Total past due but not impaired	**4,794**	**13,441**	**7,638**	**2,491**	**930**	**-**	**29,294**
Individually assessed impaired loans (gross)							
- not overdue	173,965	-	-	-	-	-	**173,965**
- 31 to 90 days overdue	13,377	-	-	-	-	-	**13,377**
- 91 to 180 days overdue	3,334	-	-	-	-	-	**3,334**
- 181 to 360 days overdue	4,115	-	-	-	-	-	**4,115**
Total individually assessed impaired loans	**194,791**	**-**	**-**	**-**	**-**	**-**	**194,791**
Collectively assessed impaired loans (gross)							
- not overdue	2,811	3,177	8,407	4,904	1,753	-	21,052
- 1 to 30 days overdue	1,134	600	232	94	104	-	2,164
- 31 to 90 days overdue	-	2,968	623	2,126	2,335	-	8,052
- 91 to 180 days overdue	35	6,665	2,401	510	2,447	-	12,058
- 181 to 360 days overdue	764	3,128	1,356	590	-	-	5,838
- more than 360 days overdue	-	474	-	290	-	-	764
Total collectively assessed impaired loans	**4,744**	**17,012**	**13,019**	**8,514**	**6,639**	**-**	**49,928**
Total loans and advances to customers (before impairment)	**1,142,087**	**482,704**	**385,416**	**294,217**	**145,931**	**86,343**	**2,536,698**
Total provision	**(112,975)**	**(31,156)**	**(13,186)**	**(4,820)**	**(4,361)**	**-**	**(166,498)**
Total loans and advances to customers	**1,029,112**	**451,548**	**372,230**	**289,397**	**141,570**	**86,343**	**2,370,200**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In thousands of GEL	Corporate loans	Consu-mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	383,614	137,038	195,279	85,932	629	-	**802,492**
- New borrowers	577,053	249,289	168,567	139,319	83,911	58,456	**1,276,595**
Total neither past due nor impaired	**960,667**	**386,327**	**363,846**	**225,251**	**84,540**	**58,456**	**2,079,087**
Past due but not impaired							
- 1 to 30 days overdue	790	7,225	1,286	1,309	306	-	**10,916**
- 31 to 90 days overdue	12	3,517	1,055	487	72	-	**5,143**
- 91 to 180 days overdue	-	37	-	-	42	-	**79**
- 181 to 360 days overdue	-	56	-	-	51	-	**107**
Total past due but not impaired	**802**	**10,835**	**2,341**	**1,796**	**471**	**-**	**16,245**
Individually assessed impaired loans (gross)							
- not overdue	25,786	-	-	-	-	-	**25,786**
- 1 to 30 days overdue	5,586	-	-	-	-	-	**5,586**
- 90 to 180 days overdue	2,120	-	-	-	-	-	**2,120**
Total individually impaired loans	**33,492**	**-**	**-**	**-**	**-**	**-**	**33,492**
Collectively assessed impaired loans (gross)							
- not overdue	7,779	3,070	5,759	6,592	-	-	23,200
- 1 to 30 days overdue	-	354	317	65	-	-	736
- 31 to 90 days overdue	1,109	1,355	521	118	-	-	3,103
- 91 to 180 days overdue	-	5,137	1,790	1,780	-	-	8,707
- 181 – 360 days overdue	-	1,829	434	414	-	-	2,677
- more than 360 days overdue	-	158	-	-	-	-	158
Total collectively assessed impaired loans	**8,888**	**11,903**	**8,821**	**8,969**	**-**	**-**	**38,581**
Total loans and advances to customers (before impairment)	**1,003,849**	**409,065**	**375,008**	**236,016**	**85,011**	**58,456**	**2,167,405**
Total provision	**(114,106)**	**(25,833)**	**(12,661)**	**(5,459)**	**(601)**	**-**	**(158,660)**
Total loans and advances to customers	**889,743**	**383,232**	**362,347**	**230,557**	**84,410**	**58,456**	**2,008,745**

The retail segment in Note 28 includes the following classes from above tables: consumer, mortgage and other. Included in other are primarily pawn shop loans secured with precious metals.

9 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The tables above show analysis of loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. The Group conducts impairment analysis of each individual loan on a quarterly basis.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- Real estate properties,
- inventory and equipment,
- cash covers,
- third party guarantees.

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

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	745,948	1,819,917	411,386	321,064
Consumer loans	404,098	955,249	199,336	6,054
Mortgage loans	476,713	1,182,387	22,715	6,531
Loans to small and medium enterprises	369,125	1,104,910	23,321	7,567
Micro loans	93,632	189,155	107,655	1,189
Others	99,637	115,216	5,015	4,752
Total	**2,189,153**	**5,366,834**	**769,428**	**347,157**

The effect of collateral at 31 December 2012:

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	774,701	1,873,588	367,386	203,772
Consumer loans	300,655	744,061	182,049	6,555
Mortgage loans	363,332	999,838	22,084	6,705
Loans to small and medium enterprises	271,350	789,728	22,867	6,256
Micro loans	57,368	124,177	88,563	775
Others	81,758	81,990	4,585	4,412
Total	**1,849,164**	**4,613,382**	**687,534**	**228,475**

9 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2011:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	775,932	3,219,868	227,917	111,416
Consumer loans	217,830	608,937	191,235	4,570
Mortgage loans	358,019	929,690	16,989	5,453
Loans to small and medium enterprises	224,275	767,600	11,741	4,202
Micro loans	34,177	83,751	50,834	153
Others	58,456	58,456	-	-
Total	**1,668,689**	**5,668,302**	**498,716**	**125,794**

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

The Group's internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate at the balance sheet date using primarily market comparison method. Fair value of inventory, equipment and other assets was determined by the Group's credit department using the Group's internal guidelines.

Refer to Note 41 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 43.

10 Investment Securities Available for Sale

In thousands of GEL	2013	2012	2011
Certificates of Deposit of the National Bank of Georgia	321,140	187,551	168,537
Ministry of Finance of Georgia Treasury Bills	-	19,210	61,014
Georgian Government notes	173,974	196,004	32,942
Total debt securities	**495,114**	**402,765**	**262,493**
Corporate shares – unquoted	679	1,812	1,812
Corporate shares – quoted (VISA Inc)	4,858	3,156	2,131
Total investment securities available for sale	**500,651**	**407,733**	**266,436**

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 679 thousand (2011: GEL 1,812 thousand; 2011: GEL 1,812 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

At 31 December 2013 investment securities available for sale carried at GEL 84,086 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2012: 54,800; 2011: GEL nil). Refer to Note 18.

None of the debt securities available for sale are overdue or impaired.

At 31 December 2013 the principal equity investment securities available for sale are:

Name	Nature of business	Country of registration	Carrying value at 31 December		
			2013	2012	2011
JSC GRDC	Property development	Netherlands Antilles	365	1,502	1,502
Visa Inc.	Card Processing	USA	4,858	3,156	2,131
Other			314	310	310
Total			**5,537**	**4,968**	**3,943**

10 Investment Securities Available for Sale (Continued)

The movements in investment securities available for sale are as follows:

In thousands of GEL	Note	2013	2012	2011
Carrying amount at 1 January		**407,733**	**266,436**	**216,323**
Purchases		755,433	813,864	646,538
Disposals		(61,626)	(90,857)	(47,815)
Redemption at maturity		(619,902)	(599,913)	(571,104)
Revaluation	29	7,923	682	1,277
Interest income accrued (Note 30)		30,442	27,211	23,253
Interest income received		(18,210)	(9,680)	(2,152)
Impairment) / recovery of impairment related to investment in equity security		(1,142)	(10)	116
Carrying amount at 31 December		**500,651**	**407,733**	**266,436**

11 Investment Securities Held to Maturity

In thousands of GEL	2013	2012	2011
Georgian Government notes	-	-	28,956
Total investment securities held to maturity	**-**	**-**	**28,956**

The movement in investment securities held to maturity is as follows:

In thousands of GEL	2013	2012	2011
Gross amount at 1 January	**-**	**28,956**	**28,986**
Additions	-	5,000	-
Redemption at maturity	-	(33,000)	-
Interest income accrual (Note 30)	-	2,373	3,642
Interest income received	-	(3,329)	(3,672)
Gross amount at 31 December	**-**	**-**	**28,956**

Refer to Note 41 for the disclosure of the fair value of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 35.

12 Other Financial Assets

In thousands of GEL	2013	2012	2011
Receivable on terminated leases	2,249	4,345	4,528
Prepayments for purchase of leasing assets	13,516	6,859	5,480
Receivables on credit card services and money transfers	6,557	3,349	1,025
Receivables on guarantees	11,660	10,890	575
Other	14,147	6,743	3,697
Less: Provision for impairment	(3,080)	(6,885)	(3,966)
Total other financial assets	**45,049**	**25,301**	**11,339**

Movements in the provision for impairment of other financial assets during 2013 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2013	**3,887**	**2,998**	**6,885**
Provision for impairment during the year	236	2,000	2,236
Amounts written off during the year as uncollectible	(2,069)	(4,022)	(6,091)
Recovery of amounts previously written off	-	50	50
Provision for impairment at 31 December 2013	**2,054**	**1,026**	**3,080**

12 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2012 are as follows:

In thousands of GEL	**Receivables on terminated leases**	**Other**	**Total**
Provision for impairment at 1 January 2012	**3,966**	**-**	**3,966**
Provision for impairment during the year	579	3,553	**4,132**
Amounts written off during the year as uncollectible	(658)	(736)	**(1,394)**
Recovery of amounts previously written off	-	181	**181**
Provision for impairment at 31 December 2012	**3,887**	**2,998**	**6,885**

Movements in the provision for impairment of other financial assets during 2011 are as follows:

In thousands of GEL	**Receivables on terminated leases**	**Other**	**Total**
Provision for impairment at 1 January 2011	**4,639**	**358**	**4,997**
Provision for impairment/(release from provision) during the year	755	(358)	**397**
Amounts written off during the year as uncollectible	(1,428)	-	**(1,428)**
Provision for impairment at 31 December 2011	**3,966**	**-**	**3,966**

Analysis by credit quality of other financial receivables is as follows:

In thousands of GEL	**2013**	**2012**	**2011**
Neither past due nor impairment			
- Prepayments for purchase of leasing assets	13,516	6,859	5,480
- Receivables on credit card services and money transfers	6,557	3,349	1,025
- Receivables on guarantees	880	1,084	575
- Other	11,830	3,873	3,697
Total neither past due nor impaired	**32,783**	**15,165**	**10,777**
Past due but not impaired			
- Receivables on guarantees			
- more than 90 days overdue	10,780	9,806	-
Total past due but not impaired	**10,780**	**9,806**	**-**
Receivables individually determined to be impaired (gross)			
- Receivables on terminated leases			
- less than 90 days overdue	-	175	-
- more than 90 days overdue	2,249	4,170	4,528
- Other receivables			
- less than 90 days overdue	504	2,870	-
- more than 90 days overdue	1,813	-	-
Total individually impaired (gross)	**4,566**	**7,215**	**4,528**
Less impairment provision	**(3,080)**	**(6,885)**	**(3,966)**
Total other financial assets	**45,049**	**25,301**	**11,339**

12 Other Financial Assets (Continued)

Receivables individually determined to be impaired include receivables on terminated leases and other receivables for which impairment provision was assessed individually. The primary factors by which the Group considers a receivable as impaired is overdue status. Receivables on terminated leases are under-collateralised, estimated fair value of collateral on these equals GEL 95 thousand (2012: GEL 472 thousand; 2011: GEL 636 thousand). The remaining assets are not collateralized.

13 Investments in Finance Lease

Investments in finance lease of GEL 35,613 thousand (2012: GEL 26,377 thousand; 2011: GEL 21,979 thousand) are represented by leases of equipment.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 2 and 5 years	Total
Finance lease payments receivable at 31 December 2013	24,775	20,592	45,367
Unearned finance income	(5,941)	(3,636)	**(9,577)**
Impairment loss provision	(110)	(67)	**(177)**
Present value of lease payments receivable at 31 December 2013	18,724	16,889	35,613
Finance lease payments receivable at 31 December 2012	**18,616**	**15,418**	**34,034**
Unearned finance income	(4,629)	(2,914)	**(7,543)**
Impairment loss provision	(71)	(43)	**(114)**
Present value of lease payments receivable at 31 December 2012	**13,916**	**12,461**	**26,377**
Finance lease payments receivable at 31 December 2011	**14,110**	**15,742**	**29,852**
Unearned finance income	(4,209)	(3,556)	**(7,765)**
Impairment loss provision	(61)	(47)	**(108)**
Present value of lease payments receivable at 31 December 2011	**9,840**	**12,139**	**21,979**

At 31 December 2013 the estimated fair value of financial lease receivables was GEL 35,613 thousand (2012: GEL 26,377 thousand; 2011: GEL 21,979 thousand). Refer to Note 41.

Movements in the provision for impairment of net investment in finance lease are as follows:

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Provision for impairment at the beginning of the year	**114**	**108**	**514**
(Recovery) / provision for impairment during the year	98	42	(174)
Amounts written off during the year as uncollectible	(35)	(27)	(212)
Transfer from receivable from terminated leases	-	(9)	(20)
Provision for impairment at the end of the year	**177**	**114**	**108**

13 Investments in Finance Lease (Continued)

Analysis by credit quality of net investment in finance lease are as follows:

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Neither past due nor impaired			
- Customers with more than two year experience	8,750	7,044	4,525
- New customers	19,854	15,365	16,802
Total neither past due nor impaired	**28,604**	**22,409**	**21,327**
Past due but not impaired			
- Less than 90 days overdue	3,261	872	719
- 180 days to 360 days overdue	-	6	41
Total past due but not impaired	**3,261**	**878**	**760**
Individually impaired			
- Not overdue	2,419	2,686	-
- 1 to 30 days overdue	603	385	-
- 31 days to 90 days overdue	59	133	-
- From 91 to 180 days	583	-	-
- From 181 to 360 days	251	-	-
- More than 360 days	10	-	-
Individually impaired gross	**3,925**	**3,204**	**-**
Total investment in finance lease- gross	**35,790**	**26,491**	**22,087**
Impairment loss provision	(177)	(114)	(108)
Total net investment in finance lease	**35,613**	**26,377**	**21,979**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors that the Group considers whether a lease is impaired are deterioration of financial position of lessee, its overdue status and realisability of the leased asset.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- Leased assets (inventory and equipment)
- Down payment
- Real estate properties,
- Third party guarantees.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralized assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralized assets").

13 Investments in Finance Lease (Continued)

The effect of collateral at 31 December 2013:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	32,280	62,169	3,510	3,229
Total	**32,280**	**62,169**	**3,510**	**3,229**

The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	24,670	51,590	1,821	221
Total	**24,670**	**51,590**	**1,821**	**221**

The effect of collateral at 31 December 2011:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	21,023	37,949	1,064	899
Total	**21,023**	**37,949**	**1,064**	**899**

14 Other Assets

In thousands of GEL	2013	2012	2011
Current other assets			
Inventories of repossessed collateral	49,920	56,316	82,317
Prepayments for other assets	3,006	3,401	3,350
Other inventories	3,130	3,383	2,293
Prepaid taxes other than income tax	402	528	2,193
Total current other assets	**56,458**	**63,628**	**90,153**
Non-current other assets			
Assets repossessed from terminated leases	1,752	1,852	867
Prepayments for construction in progress	5,016	905	2,131
Assets purchased for leasing purposes	-	413	82
Prepaid insurance of leasing assets	482	347	316
Other	1,367	209	104
Total non-current other assets	**8,617**	**3,726**	**3,500**
Total other assets	**65,075**	**67,354**	**93,653**

Inventories of repossessed collateral represents real estate assets and equipment acquired by the Group in settlement of overdue loans, other than those classified as investment property or premises and equipment. The Group expects to dispose of the assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value.

With respect to certain inventories of repossessed collaterals, the Group has granted the previous owners a right to repurchase the inventories at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 12 months from the date of repossession during which the Group obliges not to dispose of the repossessed collateral to third parties. As of 31 December 2013, the carrying value of the inventories of repossessed collateral which were subject to the repurchase agreement was GEL 19,840 thousand (2012: GEL 16,158 thousand, 2011: GEL 27,949 thousand).

15 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2011		100,323	72,141	23,867	**196,331**	8,384	**204,715**
Accumulated depreciation/amortisation		(12,701)	(39,201)	-	**(51,902)**	(4,824)	**(56,726)**
Carrying amount at 1 January 2011		**87,622**	**32,940**	**23,867**	**144,429**	**3,560**	**147,989**
Additions		4,647	11,799	6,870	**23,316**	4,759	**28,075**
Transfers		9,122	631	(9,753)	**-**	-	**-**
Transfers from Investment Property, net	16	3,188	-	-	**3,188**	-	**3,188**
Disposals		(786)	(3,339)	(1,392)	**(5,517)**	(54)	**(5,571)**
Increase / (decrease) in value on revaluation	29	1,311	-	(481)	**830**	-	**830**
Acquisition of subsidiaries		5,093	1,317	671	**7,081**	773	**7,854**
Adjustment due to previous recognition of disposal group held for sale (net of depreciation and amortisation)		-	1,299	-	**1,299**	2,216	**3,515**
Depreciation/amortisation charge		(3,898)	(9,587)	-	**(13,485)**	(1,210)	**(14,695)**
Elimination of accumulated depreciation/amortisation on disposals and reclassification to disposal group held for sale		250	2,488	-	**2,738**	20	**2,758**
Carrying amount at 31 December 2011		**106,549**	**37,548**	**19,782**	**163,879**	**10,064**	**173,943**
Cost or valuation at 31 December 2011		124,851	86,677	19,782	**231,310**	16,272	**247,582**
Accumulated depreciation/amortisation including accumulated impairment loss		(18,302)	(49,129)	-	**(67,431)**	(6208)	**(73,639)**
Carrying amount at 31 December 2011		**106,549**	**37,548**	**19,782**	**163,879**	**10,064**	**173,943**
Additions		1,892	16,533	23,969	**42,394**	10,750	**53,144**
Transfers		15,751	309	(16,060)	**-**	-	**-**
Transfers to Investment Property, net	16	(2,418)	-	-	**(2,418)**	-	**(2,418)**
Disposals		(2,149)	(5,478)	(609)	**(8,236)**	(16)	**(8,252)**
Transfer to Inventory		-	(309)	-	**(309)**	-	**(309)**
Increase / (decrease) in value on revaluation	28	1,585	-	8,928	**10,513**	-	**10,513**
Impairment charge to profit and loss		(769)	-	-	**(769)**	(1)	**(770)**
Depreciation/amortisation charge		(4,275)	(15,360)	-	**(19,635)**	(2,015)	**(21,650)**
Elimination of accumulated depreciation/amortisation on disposals		1,853	5,284	-	**7,137**	35	**7,172**
Carrying amount at 31 December 2012		**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Cost or valuation at 31 December 2012		138,744	97,732	36,010	**272,486**	27,003	**299,489**
Accumulated depreciation/amortisation including accumulated impairment loss		(20,724)	(59,206)	-	**(79,930)**	(8,186)	**(88,116)**
Carrying amount at 31 December 2012		**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Additions		3,458	18,136	3,199	24,793	8,729	33,522
Transfers		1,383	201	(1,584)	-	-	-
Transfers from (to) Investment Property, net	16	244	-	(345)	**(101)**	-	**(101)**
Disposals		(1,146)	(2,577)	(1,665)	**(5,388)**	(51)	**(5,439)**
Impairment charge to profit and loss		-	(219)	4	**(215)**	-	**(215)**
Depreciation/amortisation charge		(3,607)	(11,390)	-	**(14,997)**	(4,038)	**(19,035)**
Elimination of accumulated depreciation/amortisation on disposals		653	2,367	-	**3,020**	34	**3,054**
Carrying amount at 31 December 2013		**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**
Cost or valuation at 31 December 2013		142,683	113,273	35,619	291,575	35,681	327,256
Accumulated depreciation/amortisation including accumulated impairment loss		(23,678)	(68,229)	-	(91,907)	(12,190)	(104,097)
Carrying amount at 31 December 2013		**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**

15 Premises, Equipment and Intangible Assets (Continued)

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and a new headquarter of the Bank. Upon completion, assets are transferred to premises.

Premises were revalued to market value at 6 July 2012. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was sales comparison method. As part of sales comparison method, three market comparatives were identified. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the premises.

At 31 December 2013 the carrying amount of premises would have been GEL 88,942 thousand (2012: GEL 87,957 thousand; 2011: GEL 78,071 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2013 the carrying amount of construction in progress would have been GEL 20,345 thousand (2012: GEL 20,736 thousand; 2011: GEL 13,278 thousand) had the assets been carried at cost less impairment losses.

16 Investment Properties

In thousands of GEL	**Note**	**2013**	**2012**	**2011**
Gross book value at 1 January		34,973	27,621	28,015
Accumulated depreciation at 1 January		(668)	(539)	(273)
Carrying amount at 1 January		**34,305**	**27,082**	**27,742**
Transfer from premises and equipment	15	345	2,418	-
Transfer from inventories of repossessed collateral		23,648	19,230	8,988
Addition from foreclosure		38,638	-	-
Transfer to finance lease		-	-	(1,805)
Disposals at cost		(12,481)	(14,296)	(4,389)
Elimination of depreciation on disposal		130	324	127
Transfer to property, plant and equipment	15	(244)	-	(3,188)
Depreciation charge		(958)	(453)	(393)
Gross book value at 1 January		84,879	34,973	27,621
Accumulated depreciation at 1 January		(1,496)	(668)	(539)
Carrying amount at 31 December		**83,383**	**34,305**	**27,082**

At 31 December 2013, investment properties comprised of 12 lots (2012: 10 lots) of land and 58 buildings (2012: 22 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 86,480 thousand (2012: GEL 34,928 thousand; 2011: GEL 37,966 thousand). For details behind valuation refer to Note 3.

16 Investment properties (Continued)

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, are as follows:

In thousands of GEL	2013	2012	2011
Not later than 1 year	163	68	68
Later than 1 year and not later than 5 years	1,736	1,657	1,670
Total operating lease payments receivable	**1,899**	**1,725**	**1,738**

17 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	2013	2012	2011
Carrying amount at 1 January	**2,726**	**2,726**	**1,262**
Addition from acquisition of subsidiary	-	-	769
Transfer on de-classification of non-current assets previously held for sale	-	-	695
Carrying amount at 31 December	**2,726**	**2,726**	**2,726**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2013	2012	2011
JSC Bank Constanta	769	769	769
JSC United Financial Corporation	695	695	695
LLC TBC Kredit	1,262	1,262	1,262
Total carrying amount of goodwill	**2,726**	**2,726**	**2,726**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2013	2012	2011
JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	5.00% p.a.	5.00% p.a.	5.00% p.a.
Pre-tax discount rate	24.85% p.a.	24.11% p.a.	29.7% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	5.00% p.a.	5.00% p.a.	7.00% p.a.
Pre-tax discount rate	22.08% p.a.	21.50% p.a.	27.11% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	3.20% p.a.	5.00% p.a.	7.00% p.a.
Pre-tax discount rate	23.00% p.a.	22.41% p.a.	28.31% p.a.

17 Goodwill (Continued)

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates reflect specific risks relating to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC Bank Constanta had been 10 percentage points higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 769 thousand and carrying value of net assets of the CGU by GEL 16,402 thousand (2012: GEL 769 thousand and 16,076 thousand; 2011: GEL 769 thousand and 10,368 thousand). Recoverable amount of JSC Constanta Bank CGU exceeds its carrying amount by GEL 20,467 thousand (2012: GEL 13,370 thousand; 2011: GEL 1,720 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.01% p.a. (2012: 27.28% p.a.; 2011: 30.59% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 695 thousand and carrying value of net assets of the CGU by GEL 101 thousand (2012: nil; 2011: nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 982 thousand (2012: GEL 3,636 thousand; 2011: GEL 1,742 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 23.02% p.a. (2012: 40.01% p.a.; 2011: 38.61% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10 percentage points higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill (2012:nil; 2011: would need to reduce the carrying value of goodwill by GEL 1,262 thousand and carrying value of net assets of the CGU by GEL 3,803 thousand). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 16,829 thousand (2012: GEL 13,972 thousand; 2011: GEL 1,911 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 38.26% p.a. (2012: 37.86% p.a; 2011: 30.43% p.a.).

18 Due to Credit Institutions

In thousands of GEL	**2013**	**2012**	**2011**
Due to other banks			
Correspondent accounts and overnight placements	4,894	6,569	15,003
Deposits from banks	42,358	53,700	89,470
Short-term loans from banks	-	15,935	5,905
Total due to other banks	**47,252**	**76,204**	**110,378**
Other borrowed funds			
Borrowings from foreign banks and financial institutions	417,504	479,854	513,006
Borrowings from local banks and financial institutions	92,987	63,599	-
Borrowings from Ministry of Finance	8,063	7,466	4,766
Total other borrowed funds	**518,554**	**550,919**	**517,772**
Total amounts due to credit institutions	**565,806**	**627,123**	**628,150**

19 Customer Accounts

In thousands of GEL	2013	2012	2011
State and public organisations			
- Current/settlement accounts	134,518	72,638	103,619
- Term deposits	72,463	225,926	70,887
Other legal entities			
- Current/settlement accounts	935,083	635,181	506,432
- Term deposits	134,143	155,112	219,436
Individuals			
- Current/demand accounts	621,211	386,737	354,582
- Term deposits	989,465	1,011,350	744,300
Total customer accounts	**2,886,883**	**2,486,944**	**1,999,256**

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2013		2012		2011	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	1,610,676	56%	1,398,087	56%	1,098,882	55%
Energy	57,179	2%	92,121	4%	75,306	3%
Transportation	129,096	4%	197,115	8%	175,069	9%
Trade and Service	344,803	12%	211,729	8%	216,710	11%
Construction	131,427	5%	116,392	5%	99,521	5%
Real Estate	57,798	2%	45,116	2%	35,344	2%
Food Industry	97,421	3%	53,745	2%	34,829	2%
Consumer Goods and Automobile Trading	72,739	2%	50,286	2%	40,979	2%
Communication	28,909	1%	19,305	1%	38,397	2%
Manufacturing	21,013	1%	15,507	1%	8,534	0%
Oil and Gas	147,005	5%	142,173	6%	12,493	1%
Agriculture	23,772	1%	14,198	0%	15,759	1%
Mining	21,746	1%	6,240	0%	8,742	0%
Other	143,299	5%	124,930	5%	138,691	7%
Total customer accounts	**2,886,883**	**100%**	**2,486,944**	**100%**	**1,999,256**	**100%**

In 2013, the Group has re-assessed allocation of the customer accounts into the economic sectors. The Group has revised the sector split for 2011 and 2012 in order to make it consistent with 2013.

At 31 December 2013 the Group had 97 customers (2012: 78 customers; 2011: 64 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 915,407 thousand (2012: GEL 758,428 thousand; 2011: GEL 615,557 thousand) or 32% (2012:30%; 2011: 31%) of total customer accounts.

At 31 December 2013 included in customer accounts are deposits of GEL 9,652 thousand and GEL 38,973 thousand (2012: GEL 3,572 thousand and GEL 33,135 thousand; 2011: GEL 16,543 thousand and GEL 31,307 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 37.

Refer to Note 41 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 35. Information on related party balances is disclosed in Note 43.

20 Debt Securities in Issue

At 31 December 2013, the Group has debt securities in issue of GEL 4,474 thousand (2012: nil, 2011: nil) in bonds issued on Azerbaijani market. These bonds have a coupon rate of 7% and an effective interest rate of 8.4% based on their issue price, net of transaction costs, at the date of origination.

Refer to Note 41 for the disclosure of the fair value of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 35.

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

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

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount at 1 January 2011	**5,067**	**714**	**1,100**	**6,881**
Additions less releases recorded in profit or loss	359	994	200	1,553
Carrying amount at 31 December 2011	**5,426**	**1,708**	**1,300**	**8,434**
Additions less releases recorded in profit or loss	2,471	(866)	1,700	3,306
Utilisation of provision	(5,565)	-	-	(5,565)
Carrying amount at 31 December 2012	**2,332**	**842**	**3,000**	**6,174**
Additions less releases recorded in profit or loss	2,374	4,085	1,315	7,774
Utilisation of provision	(553)	-	(1,015)	(1,568)
Carrying amount at 31 December 2013	**4,153**	**4,927**	**3,300**	**12,380**

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the year-end.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	Note	2013	2012	2011
Derivative financial liabilities	40	4,405	7,139	5,152
Trade payables		8,129	5,688	2,210
Security deposits for finance lease		6,098	3,388	1,770
Debit or credit card payables		2,488	1,166	274
Other accrued liabilities		3,730	2,081	1,899
Total other financial liabilities		**24,850**	**19,462**	**11,305**

Refer to Note 41 for disclosure of the fair value of other financial liabilities.

23 Other Liabilities

Other liabilities comprise the following:

In thousands of GEL	2013	2012	2011
Accrued employee benefit costs	17,740	13,412	12,978
Advances received	1,297	534	1,986
Taxes payable other than on income	9,705	1,337	468
Other	2,563	5,461	3,973
Total other liabilities	**31,305**	**20,744**	**19,405**

All of the above liabilities are expected to be settled less than twelve months after the year-end.

24 Subordinated Debt

At 31 December 2013, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	18,558	32,222
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,585	32,269
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	34,905	60,605
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,394	18,048
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	7,441	12,920
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,032	12,210
Total subordinated debt			**96,915**	**168,274**

At 31 December 2012, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	18,481	30,617
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,413	30,505
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	13-Dec-12	15-Apr-22	15,210	25,198
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,353	17,152
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,007	11,608
Total subordinated debt			**69,464**	**115,080**

24 Subordinated Debt (Continued)

At 31 December 2011, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	20,219	33,771
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,682	31,205
International Financial Corporation	23-Apr-09	12-Nov-18	18,632	31,120
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	10,486	17,514
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,237	17,099
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,047	11,771
Total subordinated debt			**85,303**	**142,480**

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

Refer to Note 41 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 43.

25 Share Capital

In thousands of GEL except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2011	**151,131**	**15,113**	**201,723**	**216,836**
Increase in share capital arising from share based payment	579	58	1,585	**1,643**
At 31 December 2011	**151,710**	**15,171**	**203,308**	**218,479**
Shares issued	8,145	815	23,612	**24,427**
Increase in share capital arising from share based payment	1,564	157	4,581	**4,738**
At 31 December 2012	**161,419**	**16,143**	**231,501**	**247,644**
Shares issued	2,411	240	7,097	**7,337**
Increase in share capital arising from share based payment	1,157	116	4,026	**4,142**
At 31 December 2013	**164,987**	**16,499**	**242,624**	**259,123**

The total issued number of ordinary shares as at 31 December 2013 is 164,987 shares (2012: 161,419 shares; 2011: 151,710 shares). The total authorised number of ordinary shares as at 31 December 2013 is 170,581 shares (2012: 166,431 shares; 2011: 154,431 shares).

All ordinary shares have a nominal value of GEL 100 per share (2012: GEL 100 per share; 2011: GEL 100 per share) and rank equally, except for 3,300 shares included in the share capital, that were awarded to the management under share based payment arrangement enacted in 2011 and which do not have voting rights before service conditions are met (see Note 26). All other shares carry one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

At the reporting date the entity also has 4,150 shares reserved for issuance under share based payment arrangement (2012: 1,157; 2011: 2,721). Per management's estimate, the number of shares that the Bank will need to be issued under the share based payment arrangement approximates 2,797 (2012:1,157; 2011: 2,721). For share based payments refer to Note 26.

The Bank has declared dividends of GEL 108.3 per share during the year ended 31 December 2013 (2012: nil; 2011: 82.7 per share).

26 Share Based Payments

May 2011 arrangement:

In May 2011, the Supervisory Board of the Bank approved a senior management bonus scheme for the years 2010 – 2012 and granted 3,300 new shares to the members of senior and middle management of the Group. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants set by the lending international financial institutions. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares that should be awarded to them out of the total bonus pool. The awarded shares are subject to continuous employment condition until 1 January 2014 when full title on the awarded shares is transferred to the scheme participants. Before this date, the shares are eligible to dividends but do not have voting rights and could not be sold or transferred to third parties.

The Group considers 3 May 2011 as the grant date. The fair value of the shares as at the grant date was estimated at GEL 2,837 per share. The valuation was carried out by an external valuator. All staff costs related to this Senior Management Bonus scheme have been recognised during the vesting period. The last outstanding shares out of the 3,300 share grant were issued in April 2013 and the share based payment reserve was debited by GEL 4,142 thousand.

June 2013 arrangement:

In June 2013, Supervisory Board of the Bank approved a new management compensation scheme for the years 2013 – 2015 and authorised 4,150 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares will be awarded to the top management and some of the middle managers of the Group. The performance conditions are divided into into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achievement of team goals. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them out of the total bonus pool After awards, these shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2013, 2014 and 2015 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to June 2019.

The shareholders and Supervisory Board have granted put options on the shares to be awarded under the new management compensation scheme. These put options are exercisable during a one year period starting from the third anniversary of the each share award date. The put options become null and void if at least 25% of the authorised shares of the Bank are listed on a stock. In addition, the shareholders and the Supervisory Board have granted put options on all bonus shares awarded under the previous share based payment arrangements. These options are exercisable in three equal tranches during one year periods starting from 1 January 2016, 2017, 2018, and will become null and void if at least 25% of the authorised shares of the Bank are listed on a stock exchange as mentioned above. As the Group considers occurrence of this event more likely than not, the whole compensation scheme is accounted as an equity settled scheme and there is no liability recognized on the awarded put options. The exercise price of all the options granted to employees is the book value per share per latest IFRS consolidated financial statements.

26 Share Based Payments (Continued)

The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 2,797 shares were granted during 2013 that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date is evaluated at GEL 3,482 per share and the valuation was carried out by an external valuator. The valuation was performed by applying income and market approaches. The market approach involved estimating market capitalization to book value of equity multiple and deal price to book value of equity multiple of comparable banks. Income approach involved discounting free cash flows to equity estimated over 10-year horizon. The final valuation was based on income approach, with market approach serving as reasonableness check on the result obtained by the income approach. The value of banks equity so calculated was then divided by the number of ordinary shares issued as of valuation date and further reduces with the discount for lack of control.

The Bank also pays personal income tax on behalf of beneficiaries of both of the equity settled schemes which is accounted for as cash settled part. Tabular information on both of the schemes is given below:

In GEL except for number of shares	**2013**	**2012**	**2011**
Number of unvested shares at the beginning of the year	**1,157**	**2,721**	-
Number of shares granted	2,797	-	3,300
Number of shares vested	(1,157)	(1,564)	(579)
Number of unvested shares at the end of the year	**2,797**	**1,157**	**2,721**
Value at grant date per share (GEL)	3,482	2,837	2,837
Expense on equity-settled part (GEL thousand)	2,032	2,700	7,823
Expense on cash-settled part (GEL thousand)	2,055	676	1,942
Expense recognised as staff cost during the year (GEL thousand)	**4,087**	**3,376**	**9,765**

Liability in respect of the cash-settled part of the award amounted to GEL 2,055 thousand as of 31 December 2013 (2012: GEL 432 thousand; 2011: GEL 1,725 thousand).

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

27 Earnings per Share

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

In thousands of GEL except for number of shares	**2013**	**2012**	**2011**
Profit for the period attributable to the owners of the Bank	121,616	96,519	90,898
Weighted average number of ordinary shares in issue	163,912	153,169	151,343
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**742.0**	**630.1**	**600.6**

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

In thousands of GEL except for number of shares	**2013**	**2012**	**2011**
Profit for the period attributable to the owners of the Bank	121,616	96,519	90,898
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	166,126	153,169	151,886
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**732.1**	**630.1**	**598.5**

28 Segment Analysis

The chief operating decision maker which is the Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. The operating segments have been determined based on these reports as follows:

- Retail – all individual customers of the Group.
- 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-finance 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 U.S.150,000.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of certain expenses from the operating segments as disclosed in the relevant reconciliation below. Other information provided to the Board of Directors is measured in a manner consistent with that in these consolidated financial statements, except for the items presented in the relevant reconciliation below. The reconciling items are managed at the Group level and are not allocated to the segments for management and/or reporting purposes.

The reportable segments are the same as the operating segments.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in note 35.

Segment information for the reportable segments of the Group for the years ended 31 December 2013, 2012 and 2011 is set out below:

In thousands of GEL	**Retail**	**Corporate**	**SME**	**Micro**	**Total**
31 December 2013					
External revenues:					
- Interest income on loans and advances to customers	207,028	131,385	44,370	51,185	**433,968**
- Fee and commission income	40,823	15,881	7,349	2,444	**66,497**
- Gains less losses from trading in foreign currencies	8,614	12,522	9,244	1,513	**31,893**
Revenue from external customers	**256,465**	**159,788**	**60,963**	**55,142**	**532,358**
External Expenses:					
- Interest expense on customer accounts	96,144	35,721	7,622	426	**139,913**
- Fee and commission expense	17,627	4,688	1,089	620	**24,024**
- Provision for loan impairment	13,377	17,035	88	2,471	**32,971**
- Provision for liabilities and charges	-	6,124	335	-	**6,459**
Expenses from external customers	**127,148**	**63,568**	**9,134**	**3,517**	**203,367**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**129,317**	**96,220**	**51,829**	**51,625**	**328,991**
31 December 2013					
Total gross loans and advances to customers reported	1,207,514	1,157,334	392,446	201,287	**2,958,581**
Total customer accounts reported	1,610,676	819,779	451,985	4,443	**2,886,883**
Total credit related commitments and performance guarantees	256	346,587	43,099	127	**390,069**

28 Segment Analysis (Continued)

In thousands of GEL	Retail	Corporate	SME	Micro	Total
31 December 2012					
External revenues:					
- Interest income on loans and advances to customers	189,942	148,720	38,486	37,101	**414,249**
- Fee and commission income	33,860	15,333	7,442	1,505	**58,140**
- Gains less losses from trading in foreign currencies	6,858	15,580	8,242	875	**31,555**
Revenue from external customers	**230,660**	**179,633**	**54,170**	**39,481**	**503,944**
External Expenses:					
- Interest expense on customer accounts	93,854	55,560	7,026	194	**156,634**
- Fee and commission expense	13,459	438	713	427	**15,037**
- Provision for loan impairment	16,298	1,190	1,198	4,468	**23,154**
- Provision for liabilities and charges	(1)	2,045	(438)	-	**1,606**
Expenses from external customers	**123,610**	**59,233**	**8,499**	**5,089**	**196,431**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**107,050**	**120,400**	**45,671**	**34,392**	**307,513**
31 December 2012					
Total gross loans and advances to customers reported	954,463	1,142,087	294,217	145,931	**2,536,698**
Total customer accounts reported	1,398,087	800,346	285,219	3,292	**2,486,944**
Total credit related commitments and performance guarantees	253	336,765	24,804	-	**361,822**

In thousands of GEL	Retail	Corporate	SME	Micro	Total
31 December 2011					
External revenues:					
- Interest income on loans and advances to customers	153,103	125,345	30,387	14,671	**323,506**
- Fee and commission income	24,777	12,249	5,934	842	**43,802**
- Gains less losses from trading in foreign currencies	6,765	12,478	6,176	-	**25,419**
Revenue from external customers	**184,645**	**150,072**	**42,497**	**15,513**	**392,727**
External Expenses:					
- Interest expense on customer accounts	68,713	32,882	3,566	226	**105,387**
- Fee and commission expense	10,729	382	467	146	**11,724**
- Provision for loan impairment	(601)	20,617	(4,282)	315	**16,049**
- Provision for liabilities and charges	9	1,200	144	-	**1,353**
Expenses from external customers	**78,850**	**55,081**	**(105)**	**687**	**134,513**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**105,795**	**94,991**	**42,602**	**14,826**	**258,214**
31 December 2011					
Total gross loans and advances to customers reported	842,529	1,003,849	236,016	85,011	**2,167,405**
Total customer accounts reported	1,098,882	699,590	199,677	1,107	**1,999,256**
Total credit related commitments and performance guarantees	2,063	351,651	34,640	-	**388,354**

28 Segment Analysis (Continued)

A reconciliation of adjusted profit before non-segmental income, administrative and other expenses and income tax is provided as follows:

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Adjusted profit before non-segmental income, administrative and other expense and income tax	**328,991**	**307,513**	**258,214**
Non-segmental interest income	40,828	42,296	36,709
Non-segmental interest expense	(52,233)	(61,261)	(45,747)
Non-segmental net fee and commission expense	(277)	(3,793)	(3,370)
Non-segmental gains less losses / (losses less gains) from trading in foreign currency	6,001	(6,315)	-
Non-segmental provision for liabilities and charges	(1,315)	(1,700)	(200)
Net gains/(losses) from derivative financial instruments	613	(3,804)	(4,987)
Foreign exchange translation (losses less gains) / gains less losses	(5,901)	7,617	394
(Impairment of) / recovery of impairment for investment securities available for sale	(1,142)	(10)	116
(Provision for) / recovery of impairment of investments in finance lease	(98)	(42)	174
Provision for impairment of other financial assets	(2,236)	(4,132)	(397)
Recovery of impairment for assets classified as held for sale	-	-	1,519
Other operating income	24,000	19,772	9,923
Staff costs	(108,613)	(92,289)	(78,426)
Depreciation and amortisation	(19,993)	(22,103)	(15,088)
Administrative and other operating expenses	(68,692)	(69,440)	(51,744)
Profit before tax	**139,933**	**112,309**	**107,090**

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

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Total segment assets (gross loans and advances to customers)	2,958,581	2,536,698	2,167,405
Provision for loan impairment	(156,869)	(166,498)	(158,660)
Cash and cash equivalents	390,465	398,587	374,153
Mandatory cash balances with National Bank of Georgia	295,332	316,061	250,067
Due from other banks	1,708	29,542	40,942
Investment securities available for sale	500,651	407,733	266,436
Current income tax prepayment	6,202	10,135	-
Investment securities held to maturity	-	-	28,956
Other financial assets	45,049	25,301	11,339
Investments in finance leases	35,613	26,377	21,979
Other assets	65,075	67,354	93,653
Premises and equipment	199,668	192,556	163,879
Intangible assets	23,491	18,817	10,064
Investment properties	83,383	34,305	27,082
Goodwill	2,726	2,726	2,726
Total assets per statement of financial position	**4,451,075**	**3,899,694**	**3,300,021**

28 Segment Analysis (Continued)

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

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Total segment liabilities (customer accounts)	2,886,883	2,486,944	1,999,256
Due to Credit institutions	565,806	627,123	628,150
Debt securities in issue	4,474	-	-
Current income tax liability	-	-	14,162
Deferred income tax liability	27,814	20,143	8,048
Provisions for liabilities and charges	12,380	6,174	8,434
Other financial liabilities	24,850	19,462	11,305
Other liabilities	31,305	20,744	19,405
Subordinated debt	168,274	115,080	142,480
Total liabilities per statement of financial position	**3,721,786**	**3,295,670**	**2,831,240**

Reportable segments' interest income is reconciled to total interest income as follows:

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Segments' interest income	**433,968**	**414,249**	**323,506**
Investment securities available for sale (Note 10)	30,442	27,211	23,253
Due from other banks	3,030	6,960	6,113
Investment securities held to maturity (Note 11)	-	2,373	3,642
Investments in leases	7,356	5,734	3,438
Other	-	18	263
Total interest income	**474,796**	**456,545**	**360,215**

Reportable segments' interest expense is reconciled to total interest expense as follows:

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Segments' interest expense	139,913	156,634	105,387
Due to credit institutions	38,645	47,946	31,212
Subordinated debt	13,182	13,226	14,497
Other	406	89	38
Total interest expense	**192,146**	**217,895**	**151,134**

Starting from 2014, the chief operating decision maker will be reviewing the more detailed segmental analysis in order to assess performance and allocate resources. The operating segments, which are the same as reportable segments, will be similar to that in previous years however new segment "Corporate Center and Other Operations" will be added, that comprise central support functions, back office and auxiliary services of the Group.

Segment information for the reportable segments as it will be presented from 2014 and beyond, is set out below for the year ended 31 December 2013:

28 Segment Analysis (Continued)

In thousands of GEL	Retail	Corpo-rate	SME	Micro	Corporate center and other operations	Total
31 December 2013						
- Interest income	207,028	131,385	44,370	51,185	40,828	**474,796**
- interest expense	(96,144)	(35,721)	(7,622)	(426)	(52,233)	**(192,146)**
- Inter-segment interest income/(expense)	24,157	(50,675)	(3,679)	(15,045)	45,242	**-**
- **Net interest income**	**135,041**	**44,989**	**33,069**	**35,714**	**33,837**	**282,650**
- Fee and commission income	40,823	15,881	7,349	2,444	-	**66,497**
- Fee and commission expense	(17,627)	(4,688)	(1,089)	(620)	(277)	**(24,301)**
- **Net Fee and commission income**	**23,196**	**11,193**	**6,260**	**1,824**	**(277)**	**42,196**
- Gains less losses from trading in foreign currencies	8,614	12,522	9,244	1,513	6,001	**37,894**
- Foreign exchange translation losses less gains	-	-	-	-	(5,901)	**(5,901)**
- Net gain from derivative financial instruments	-	-	-	-	613	**613**
- Other operating income	-	-	-	-	24,000	**24,000**
- **Other operating non-interest income**	**31,810**	**23,715**	**15,504**	**3,337**	**24,436**	**98,802**
- Provision for loan impairment	(13,377)	(17,035)	(88)	(2,471)	-	**(32,971)**
- Provision for performance guarantees and credit related commitments	-	(6,124)	(335)	-	-	**(6,459)**
- Provision for impairment of investments in finance lease	-	-	-	-	(98)	**(98)**
- Provision for impairment of other financial assets	-	-	-	-	(2,236)	**(2,236)**
- Impairment of investment securities available for sale	-	-	-	-	(1,142)	**(1,142)**
- **Profit before administrative and other expenses and income taxes**	**153,474**	**45,545**	**48,150**	**36,580**	**54,797**	**338,546**
- Staff costs	(49,949)	(8,329)	(9,909)	(14,138)	(26,288)	**(108,613)**
- Depreciation and amortisation	(11,862)	(753)	(1,904)	(2,061)	(3,413)	**(19,993)**
- Provision for liabilities and charges	-	-	-	-	(1,315)	**(1,315)**
- Administrative and other operating expenses	(32,693)	(3,175)	(4,135)	(10,130)	(18,559)	**(68,692)**
- **Operating expenses**	**(94,504)**	**(12,257)**	**(15,948)**	**(26,329)**	**(49,575)**	**(198,613)**
- **Profit before tax**	**58,970**	**33,288**	**32,202**	**10,251**	**5,222**	**139,933**
- Income tax expense	(6,602)	(3,726)	(3,604)	(1,147)	(584)	**(15,663)**
- **Profit for the year**	**52,368**	**29,562**	**28,598**	**9,104**	**4,638**	**124,270**

29 Other Reserves

In thousands of GEL	Note	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Total other reserves
At 1 January 2011		**27,203**	**1,333**	**3,277**	**31,813**
Revaluation of investments available for sale	10	-	1,277	-	1,277
Revaluation of premises	15	1,311	-	-	1,311
Currency translation		-	-	(904)	(904)
Income tax effects		(245)	(90)	-	(335)
At 31 December 2011		**28,269**	**2,520**	**2,373**	**33,162**
Revaluation of investments available for sale	10	-	682	-	682
Revaluation of premises	15	10,513	-	-	10,513
Transfer of revaluation surplus on premises to retained earnings		(527)	-	-	(527)
Currency translation		-	-	(217)	(217)
Income tax effects		(1,520)	(154)	-	**(1,674)**
At 31 December 2012		**36,735**	**3,048**	**2,156**	**41,939**
Revaluation of investments available for sale	10	-	7,923	-	7,923
Currency translation		-	-	1,233	1,233
Income tax effects		-	(255)	-	(255)
At 31 December 2013		**36,735**	**10,716**	**3,389**	**50,840**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises is transferred to retained earnings when realised through sale or other disposal.

30 Interest Income and Expense

In thousands of GEL	2013	2012	2011
Interest income			
Loans and advances to customers	433,968	414,249	323,506
Investment securities available for sale (Note 10)	30,442	27,211	23,253
Due from other banks	3,030	6,960	6,113
Investment securities held to maturity (Note 11)	-	2,373	3,642
Investments in leases	7,356	5,734	3,438
Other	-	18	263
Total interest income	**474,796**	**456,545**	**360,215**
Interest expense			
Customer accounts	139,913	156,634	105,387
Due to credit institutions	38,645	47,946	31,212
Subordinated debt	13,182	13,226	14,497
Other	406	89	38
Total interest expense	**192,146**	**217,895**	**151,134**
Net interest income	**282,650**	**238,650**	**209,081**

31 Fee and Commission Income and Expense

In thousands of GEL	2013	2012	2011
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	31,834	26,844	19,337
- Guarantees issued	6,271	9,530	8,167
- Settlement transactions	11,856	10,006	7,638
- Cash transactions	5,040	4,092	4,111
- Foreign exchange operations	1,550	1,632	1,296
- Issuance of letters of credit	6,769	2,762	1,056
- Other	3,177	3,274	2,197
Total fee and commission income	**66,497**	**58,140**	**43,802**
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	13,143	9,657	6,500
- Guarantees received	4,048	3,625	4,752
- Settlement transactions	2,157	1,501	1,477
- Cash transactions	1,544	1,084	521
- Foreign exchange operations	70	62	28
- Other	3,339	2,901	1,816
Total fee and commission expense	**24,301**	**18,830**	**15,094**
Net fee and commission income	**42,196**	**39,310**	**28,708**

32 Other Operating Income

In thousands of GEL	2013	2012	2011
Gain from sale of inventories of repossessed collateral	1,519	4,102	475
Gain from sale of investment properties	5,835	2,734	-
Revenues from pay-box terminal services	7,446	5,154	3,094
Revenues from operational leasing	2,980	3,292	2,876
Administrative fee income from international financial institutions	1,268	1,163	799
Revenues from non-credit related fines	339	434	1,610
Net gain on terminated finance lease contracts	-	108	218
Gain on disposal of premises and equipment	37	-	213
Other	4,576	2,785	638
Total other operating income	**24,000**	**19,772**	**9,923**

Revenues from card processing operations and revenues from banking system services are included in section other of other operating income. Carrying value of inventories of repossessed collateral disposed of during year ended 31 December 2013 was GEL 19,558 thousand (2012: GEL 7,212 thousand; 2011: GEL 26,524 thousand).

33 Administrative and Other Operating Expenses

In thousands of GEL	2013	2012	2011
Advertising and marketing services	13,211	15,183	10,014
Rent	10,809	10,295	8,429
Professional services	6,247	10,054	7,932
Communications and supply	3,103	3,199	2,566
Taxes other than on income	3,043	3,363	2,435
Utility services	3,369	3,036	2,381
Stationery and other office expenses	2,360	2,958	1,790
Intangible asset enhancement	3,767	2,605	1,590
Premises and equipment maintenance	2,484	1,904	971
Transportation and vehicle maintenance	1,215	1,687	1,518
Loss on disposal of premises and equipment	54	1,658	-
Security services	1,597	1,522	1,327
Insurance	1,496	1,440	1,366
Write-down of current assets to fair value less costs to sell	6,178	1,317	1,281
Business trip expenses	1,230	1,104	753
Charity	905	911	982
Personnel training and recruitment	902	574	722
Loss on disposal of inventories	221	-	-
Loss on disposal of investment properties	76	-	-
Other	6,425	6,630	5,687
Total administrative and other operating expenses	**68,692**	**69,440**	**51,744**

34 Income Taxes

Income tax expense comprises the following:

In thousands of GEL	2013	2012	2011
Current tax charge	8,247	4,077	14,904
Deferred tax charge	7,416	10,421	561
Income tax expense for the year	**15,663**	**14,498**	**15,465**

The income tax rate applicable to the majority of the Group's income is 15% (2012: 15%; 2011: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2012: 15% - 20%; 2011: 15% - 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	2013	2012	2011
Profit before tax	**139,933**	**112,309**	**107,090**
Theoretical tax charge at statutory rate (2012: 15%; 2011: 15%; 2010: 15%)	20,990	16,846	16,064
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	(4,865)	(4,756)	(4,012)
- Non deductible expenses and other differences	1,758	2,408	3,413
- Recognition of previously unrecognized deferred tax assets	(2,220)	-	-
Income tax expense for the year	**15,663**	**14,498**	**15,465**

34 Income Taxes (Continued)

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 3,653 thousand (2012: GEL 1,524 thousand; 2011: GEL 484 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2012: 15%; 2011: 15%) for Georgia and 20% for Azerbaijan (2012: 20%; 2011: 20%).

In thousands of GEL	31 December 2012	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(16,961)	(1,345)	-	(18,306)
Loan impairment provision	(834)	(4,832)	-	(5,666)
Fair valuation of investment securities available for sale	(473)	171	(255)	(557)
Tax loss carry forwards	678	(678)	-	-
Other financial assets	1,320	(1,129)	-	191
Other assets	865	876	-	1,741
Investment in leases	(197)	184	-	(13)
Investment property	(2,576)	(4,436)	-	(7,012)
Due to credit institutions	(433)	897	-	464
Subordinated debt	(219)	(70)	-	(289)
Other financial liabilities	-	1,027	-	1,027
Other liabilities	(1,313)	1,614	-	301
Share based payment	-	305	-	305
Net deferred tax asset/(liability)	**(20,143)**	**(7,416)**	**(255)**	**(27,814)**

In thousands of GEL	31 December 2011	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2012
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(13,790)	(1,651)	(1,520)	(16,961)
Loan impairment provision	9,752	(10,586)	-	(834)
Fair valuation of investment securities available for sale	(407)	88	(154)	(473)
Tax loss carry forwards	198	480	-	678
Other financial assets	-	1,320	-	1,320
Other assets	(276)	1,141	-	865
Investment in leases	3	(200)	-	(197)
Investment property	(2,382)	(194)	-	(2,576)
Due to credit institutions	(521)	88	-	(433)
Subordinated debt	(167)	(52)	-	(219)
Other liabilities	(458)	(855)	-	(1,313)
Net deferred tax asset/(liability)	**(8,048)**	**(10,421)**	**(1,674)**	**(20,143)**

34 Income Taxes (Continued)

In thousands of GEL	31 December 2010	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2011
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(17,180)	3,635	(245)	(13,790)
Loan impairment provision	5,741	4,011	-	9,752
Fair valuation of investment securities available for sale	(235)	(82)	(90)	(407)
Tax loss carry forwards	5,212	(5,014)	-	198
Other assets	1,674	(1,950)	-	(276)
Investment in leases	64	(61)	-	3
Investment property	(2,610)	228	-	(2,382)
Due to credit institutions	22	(543)	-	(521)
Subordinated debt	8	(175)	-	(167)
Other liabilities	146	(604)	-	(458)
Net deferred tax asset/(liability)	**(7,158)**	**(561)**	**(335)**	**(8,048)**

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

35 Financial and Other Risk Management

The risk management function within the Group is carried out in respect of the following risks: credit, geographical, market which includes principally currency and interest rate risks, liquidity, operational strategic and reputational risks. The primary objectives of the risk management function are to (i) contribute to the development of the Group's business strategy by ensuring risk adjusted profitability and (ii) guarantee the Group's sustainable development through the implementation of efficient risk management systems.

Group's risk management process encompasses all the activities that affect its risk profile and consists of the following core elements: (i) active board and senior management oversight; (ii) adequate policies and procedures aimed at effectively controlling risk exposures; (iii) adequate risk identification, measurement and management systems; and (iv) comprehensive internal controls.

The monitoring and implementation of TBC Bank's risk management function is split among eight principal risk management bodies: the Supervisory Board, the Risk, Ethics and Compliance Committee, the Audit Committee, the Management Board, the Credit Committee, the Operational Risks Committee, the Assets and Liabilities Management Committee and the Problem Loans Committee.

TBC Bank's risk management policies are implemented through a number of its departments, including the Internal Audit, Financial Risk Management, Treasury, Credit Portfolio Risk Management, Corporate, SME and Retail Credit Risk Management, Operational Risk Management, Legal and Compliance Departments, each of which reports to one of the principal risk management bodies referred to above.

TBC Bank also employs a Chief Risk Officer, who reports to the Management Board and who is responsible for supervising all risk management activities across TBC Bank's business except for financial risk management, which is supervised by the Chief Financial Officer. The Chief Risk Officer is also required to ensure that TBC Bank's risk exposure level is in accordance with the defined limits set forth in TBC Bank's Risk Appetite Statement and that its operations are adequate in light of TBC Bank's risk profile. The Chief Risk Officer and Chief Financial Officer have independent access to the Chairman of the Risk, Ethics, and Compliance Committee.

35 Financial and Other Risk Management (Continued)

Credit risk. The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position as well as for financial and performance guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 37.The subcategories of credit risk are: counterparty credit risk (the risk default or non-fulfilment of contracts due to a deterioration in the counterparty's credit quality); concentration risk (the risk of portfolio quality deterioration due to large exposures to small number of borrowers or individual industries); currency-induced credit risks (risks arising from foreign currency-denominated loans in the portfolio); and residual risks (resulting from the use of credit risk-mitigation techniques).

For efficiently management of credit risk the adequate policies, and procedures are in place. The credit policies establish framework for lending decisions reflecting the Bank's tolerance for credit risk.

The credit risks are managed at the transaction and portfolio level. At the transaction level credit risk management includes: credit applications review, credit application rating and pricing review, approval of credits and monitoring. As for the portfolio level – credit risk management includes: definition of the risk appetite, credit portfolio analysis, industry analysis, concentrations management, undertaking stress tests and development of credit policies and instructions.

Loan Approval Committees are responsible to review credit applications and approve credit products. There are three different Loan Approval Committees that within the established loan approval limits, review and approve corporate, SME and retail loans. All of them are centralized at the Bank's Head Office. Loan Approval Committee consists of at least two persons with sufficient credit experience, Corporate Loans are above GEL 2 million in addition reviewed by the Corporate Credit Risk Management Department prior to presentation to Loan Approval Committee.

The Group has established portfolio monitoring systems in order to manage its credit exposure effectively. Reports are generated on a daily, weekly, monthly and quarterly basis in order to monitor the dynamics of loan portfolio of the Bank's business segments.

The Credit Portfolio Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio, compliance with risk appetite limits, TBC Bank's related and connected party exposures, results of stress tests are presented to the Supervisory Board and Risk Ethics and Compliance Committee on a quarterly basis. The Bank's Credit Portfolio Risk Management Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

35 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2013 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	242,264	74,279	73,922	**390,465**
Due from other banks	-	1,630	78	**1,708**
Mandatory cash balances with National Bank of Georgia	295,332	-	-	**295,332**
Loans and advances to customers	2,639,915	91,492	70,305	**2,801,712**
Investment securities available for sale	495,793	4,858	-	**500,651**
Investments in leases	35,613	-	-	**35,613**
Other financial assets	44,990	59	-	**45,049**
Total financial assets	**3,753,907**	**172,318**	**144,305**	**4,070,530**
Non-financial assets	**379,248**	**28**	**1,269**	**380,545**
Total assets	**4,133,155**	**172,346**	**145,574**	**4,451,075**
Liabilities				
Due to credit institutions	115,519	403,179	47,108	**565,806**
Customer accounts	2,513,794	347,410	25,679	**2,886,883**
Debt securities in issue	-	-	4,474	**4,474**
Other financial liabilities	19,638	5,164	48	**24,850**
Subordinated debt	-	168,274	-	**168,274**
Total financial liabilities	**2,648,951**	**924,027**	**77,309**	**3,650,287**
Non-financial liabilities	**70,160**	**92**	**1,247**	**71,499**
Total liabilities	**2,719,111**	**924,119**	**78,556**	**3,721,786**
Net balance sheet position	**1,414,044**	**(751,773)**	**67,018**	**729,289**
Performance guarantees	**156,551**	**-**	**-**	**156,551**
Credit related commitments	**422,239**	**-**	**-**	**422,239**

35 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2012 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	216,913	160,598	21,076	**398,587**
Due from other banks	28,164	1,378	-	**29,542**
Mandatory cash balances with National Bank of Georgia	316,061	-	-	**316,061**
Loans and advances to customers	2,273,550	36,917	59,733	**2,370,200**
Investment securities available for sale	404,577	3,156	-	**407,733**
Investments in leases	26,377	-	-	**26,377**
Other financial assets	25,262	39	-	**25,301**
Total financial assets	**3,290,904**	**202,088**	**80,809**	**3,573,801**
Non-financial assets	**324,112**	**52**	**1,729**	**325,893**
Total assets	**3,615,016**	**202,140**	**82,538**	**3,899,694**
Liabilities				
Due to credit institutions	128,610	445,140	53,373	**627,123**
Customer accounts	2,245,785	239,433	1,726	**2,486,944**
Other financial liabilities	18,679	297	486	**19,462**
Subordinated debt	-	115,080	-	**115,080**
Total financial liabilities	**2,393,074**	**799,950**	**55,585**	**3,248,609**
Non-financial liabilities	**45,666**	**112**	**1,283**	**47,061**
Total liabilities	**2,438,740**	**800,062**	**56,868**	**3,295,670**
Net balance sheet position	**1,176,276**	**(597,922)**	**25,670**	**604,024**
Performance guarantees	**157,795**	**-**	**-**	**157,795**
Credit related commitments	**380,442**	**-**	**-**	**380,442**

35 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2011 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	246,023	123,054	5,076	**374,153**
Due from other banks	40,007	935	-	**40,942**
Mandatory cash balances with National Bank of Georgia	250,067	-	-	**250,067**
Loans and advances to customers	1,963,564	-	45,181	**2,008,745**
Investment securities available for sale	264,305	2,131	-	**266,436**
Investment securities held to maturity	28,956	-	-	**28,956**
Investments in leases	21,979	-	-	**21,979**
Other financial assets	11,339	-	-	**11,339**
Total financial assets	**2,826,240**	**126,120**	**50,257**	**3,002,617**
Non-financial assets	**296,310**	**36**	**1,058**	**297,404**
Total assets	**3,122,550**	**126,156**	**51,315**	**3,300,021**
Liabilities				
Due to credit institutions	103,671	469,074	55,405	**628,150**
Customer accounts	1,916,520	82,654	82	**1,999,256**
Other financial liabilities	5,603	5,420	282	**11,305**
Subordinated debt	-	142,480	-	**142,480**
Total financial liabilities	**2,025,794**	**699,628**	**55,769**	**2,781,191**
Non-financial liabilities	**49,502**	**7**	**540**	**50,049**
Total liabilities	**2,075,296**	**699,635**	**56,309**	**2,831,240**
Net balance sheet position	**1,047,254**	**(573,479)**	**(4,994)**	**468,781**
Performance guarantees	**229,865**	**-**	**-**	**229,865**
Credit related commitments	**350,409**	**-**	**-**	**350,409**

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

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain such positions within 20% of the Bank's regulatory capital. As at 31 December 2013, the Bank maintained a balance sheet (negative) open foreign currency position of 0.6% of regulatory capital (2012: 5.7%; 2011: 0.03%) and an aggregate (negative) open currency position of 0.79% of regulatory capital (2012: 4.3%; 2011: negative 1.65%). The Asset/Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure for both overnight and intra-day positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

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

35 Financial and Other Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. Gross amount of currency swap deposits is included in Derivatives. Therefore Total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented:

	At 31 December 2013			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	1,438,492	994,150	(31,569)	**412,773**
US Dollars	2,374,574	2,333,144	(60,192)	**(18,762)**
Euros	217,267	294,734	76,450	**(1,017)**
Other	38,917	28,259	16,532	**27,190**
Total	**4,069,250**	**3,650,287**	**1,221**	**420,184**

	At 31 December 2012				At 31 December 2011			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	1,088,821	809,165	20,139	**299,795**	829,932	616,346	8,407	**221,993**
US Dollars	2,153,303	2,133,821	(14,891)	**4,591**	1,861,326	1,826,247	(53,967)	**(18,888)**
Euros	277,692	272,759	(4,802)	**131**	244,902	258,868	13,617	**(349)**
Other	54,119	32,864	-	**21,255**	66,457	79,730	32,109	**18,836**
Total	**3,573,935**	**3,248,609**	**446**	**325,772**	**3,002,617**	**2,781,191**	**166**	**221,592**

To assess currency risk the Bank performs value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the income of the Group of possible worst movement of currency rates against Georgian Lari, with all other variables held constant. To identify maximum expected losses associated with currency fluctuations, 99% confidence level is defined based on monthly changes in exchange rates over the 3 years look-back period. During the year ended 31 December 2013, year ended 31 December 2012 and year ended 31 December 2010, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**As at 31 December 2013**	**As at 31 December 2012**	**As at 31 December 2011**
Maximum loss (VAR, 99% confidence level)	**(589)**	**(183)**	**(734)**
Maximum loss (VAR,95% confidence level)	**(413)**	**(130)**	**(520)**

Interest rate risk. Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The deposits and the largest part of loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk, analyses of derivative financial instruments is given in Note 40. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

35 Financial and Other Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at amounts monitored by the management, categorised by the earlier of contractual interest re-pricing or maturity dates. Currency swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables.

In thousands of GEL	**Less than 1 year**	**More than 1 year**	**Total**
31 December 2013			
Total financial assets	2,001,124	2,102,561	**4,103,685**
Total financial liabilities	2,364,190	1,317,960	**3,682,150**
Net interest sensitivity gap at 31 December 2013	**(363,066)**	**784,601**	**421,535**
31 December 2012			
Total financial assets	1,917,616	1,715,962	**3,633,578**
Total financial liabilities	2,256,548	1,051,705	**3,308,253**
Net interest sensitivity gap at 31 December 2012	**(338,932)**	**664,257**	**325,325**
31 December 2011			
Total financial assets	1,580,289	1,422,328	**3,002,617**
Total financial liabilities	1,896,863	884,328	**2,781,191**
Net interest sensitivity gap at 31 December 2011	**(316,574)**	**538,000**	**221,426**

At 31 December 2013, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 1,800 thousand (2012: GEL 1,695 thousand; 2011 GEL 1,583 thousand;) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,093 thousand (2012: GEL 4,951 thousand, 2011: GEL 1,256 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 1,800 thousand (2012: GEL 1,695 thousand 2011: GEL 1,583 thousand;) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 4,786 thousand (2012: GEL 4,926 thousand, 2011: GEL 1,239 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

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

The Bank calculates impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a rise of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios.

In addition, stress tests and what if scenarios are developed in accordance with Basel II requirements to ensure that the bank can withstand severe but probable stress scenarios. In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and Supervisory Board Risk, Ethics and Compliance Committee.

35 Financial and Other Risk Management (Continued)

Liquidity Risk. Liquidity risk is the risk that TBC either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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

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

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

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

The net stable funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis. TBC Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with the NBG accounting rules.

Calculation of the NSFR as at 31 December 2013 is summarized in the table below. The Bank introduced the ratio in 2012 therefore the comparative data is only for the year 2012:

35 Financial and Other Risk Management (Continued)

		As at 31 December	
		2013	2012
Net Stable Funding Ratio		**118.6%**	**121.6%**
In thousands of GEL	**Factor**	**Amount**	
Available stable funding		**3,410,696**	**2,952,368**
Capital: Tier 1 & Tier 2 Capital Instruments		**898,278**	**737,179**
Tier 1	100%	675,723	559,359
Tier 2	100%	222,555	177,820
Long Term Funding (year >= 1)		**387,814**	**358,006**
Long Term Borrowings (>=1 year)	100%	319,244	284,372
Subordinated debt not included in Tier 2	100%	34,314	13,120
Other funding (>=1 year)	100%	34,256	60,514
Other Funding		**2,124,604**	**1,857,183**
Total Corporate deposits	50%	409,769	401,239
Total SME deposits	80%	365,335	229,866
Total Retail deposits	80%	1,288,541	1,117,706
Short term Borrowings with remaining maturity (<1year)	50%	59,635	107,259
Subordinated Debt (<1 year)	50%	1,324	1,113
Required amount of stable funding		**2,874,587**	**2,427,415**
Long term Assets with remaining maturity >=1 year		**2,293,969**	**1,884,688**
Reserves in NGB (Stable part)	100%	273,267	256,157
Loans (>=1 year)	100%	1,775,280	1,401,093
Fixed and Intangible Assets(>=1 year)	100%	223,159	211,373
Other assets (>=1 year)	100%	22,263	16,065
Short term Assets with remaining maturity <1 year		**551,225**	**515,816**
Loans (< 1 year)	50%	551,225	515,816
Undrawn amount of committed credit and liquidity facilities		**29,393**	**26,911**
Unused credit lines and undisbursed amounts from loans	5%	9,890	8,979
Guarantees	5%	19,503	17,932

35 Financial and Other Risk Management (Continued)

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

Loan to deposit ratio was at 102.5%, 102.0% and 108.4%, at the 31 December 2013, 2012 and 2011 respectively.

Market liquidity risk is the risk that TBC cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, TBC Bank follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Bank's high-quality liquid assets can be sold without causing a significant movement in the price and with minimum loss of value.

In addition, TBC Bank has a ***liquidity contingency plan***, which forms part of the TBC's overall prudential liquidity policy and is designed to ensure that TBC is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business. The plan is updated once a year. Last time it was updated in January 2013.

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

	2013	2012	2011
Average Liquidity Ratio	34.0%	36.6%	33.5%

According to daily cash flow forecasts, and the surplus in liquidity standing, Treasury Department places funds in short-term liquid assets, largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities as at 31 December 2013 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	158,525	103,522	313,213	42,715	**617,975**
Customer accounts – individuals	917,166	595,740	129,487	13,071	**1,655,464**
Customer accounts – other	988,285	171,952	37,431	86,251	**1,283,919**
Other financial liabilities	23,717	1,133	-	-	**24,850**
Subordinated debt	906	15,418	160,948	76,045	**253,317**
Gross settled forwards	123,799	298	-	-	**124,097**
Performance guarantees	33,582	73,558	54,986	1,741	**163,867**
Financial guarantees	115,453	97,122	21,702	-	**234,277**
Other credit related commitments	197,801	-	-	-	**197,801**
Total potential future payments for financial obligations	**2,559,234**	**1,058,743**	**717,767**	**219,823**	**4,555,567**

35 Financial and Other Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	222,660	98,844	309,509	53,391	**684,404**
Customer accounts – individuals	679,547	583,177	193,330	9,212	**1,465,266**
Customer accounts – other	753,368	142,647	173,640	19,854	**1,089,509**
Other financial liabilities	19,353	109	-	-	**19,462**
Subordinated debt	862	10,998	92,189	78,303	**182,352**
Gross settled forwards	63,094	8,075	-	-	**71,169**
Performance guarantees	47,431	99,154	59,962	-	**206,547**
Financial guarantees	35,482	55,248	28,991	45,865	**165,586**
Other credit related commitments	179,589	-	-	-	**179,589**
Total potential future payments for financial obligations	**2,001,386**	**998,252**	**857,621**	**206,625**	**4,063,884**

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	197,593	226,001	225,539	64,497	**713,630**
Customer accounts – individuals	528,762	457,578	166,794	6,737	**1,159,871**
Customer accounts – other	677,435	76,376	167,640	5,675	**927,126**
Other financial liabilities	6,582	1,382	3,414	358	**11,736**
Subordinated debt	19,318	21,870	109,269	59,874	**210,331**
Gross settled forwards	61,964	-	-	-	**61,964**
Performance guarantees	13,698	109,605	31,714	3,195	**158,212**
Financial guarantees	86,196	61,713	49,372	44,844	**242,125**
Other credit related commitments	199,054	-	-	-	**199,054**
Total potential future payments for financial obligations	**1,790,602**	**954,525**	**753,742**	**185,180**	**3,684,049**

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in customer accounts are classified based on contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon demand of a depositor. Based on Bank's deposit retention history, the Management does not expect that many customers will require repayment on the earliest possible date, accordingly, the table does not reflect Management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

35 Financial and Other Risk Management (Continued)

The expected gap may be summarised as follows at 31 December 2013:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	390,465	-	-	**390,465**
Due from other banks	93	-	1,615	**1,708**
Mandatory cash balances with National Bank of Georgia	295,332	-	-	**295,332**
Loans and advances to customers	445,069	623,376	1,733,267	**2,801,712**
Investment securities available for sale	500,651	-	-	**500,651**
Finance lease receivables	7,148	11,593	16,872	**35,613**
Other financial assets	22,103	5,024	17,922	**45,049**
Total financial assets	**1,660,861**	**639,993**	**1,769,676**	**4,070,530**
Liabilities				
Due to Credit institutions	156,545	90,018	319,243	**565,806**
Customer accounts	261,546	-	2,625,337	**2,886,883**
Debt securities in issue	-	4,474	-	**4,474**
Other financial liabilities	23,717	1,133	-	**24,850**
Subordinated debt	833	1,814	165,627	**168,274**
Total financial liabilities	**442,641**	**97,439**	**3,110,207**	**3,650,287**
Credit related commitments and performance guarantees				
Performance guarantees	4,153	-	-	**4,153**
Financial guarantees	4,927	-	-	**4,927**
Other credit related commitments	34,962	-	-	**34,962**
Credit related commitments and performance guarantees	**44,042**	-	-	**44,042**
Net liquidity gap at 31 December 2013	**1,174,178**	**542,554**	**(1,340,531)**	**376,201**
Cumulative gap at 31 December 2013	**1,174,178**	**1,716,732**	**376,201**	

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

35 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2012:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	398,587	-	-	**398,587**
Due from other banks	1,378	28,164	-	**29,542**
Mandatory cash balances with National Bank of Georgia	316,061	-	-	**316,061**
Loans and advances to customers	442,312	560,935	1,366,953	**2,370,200**
Investment securities available for sale	407,733	-	-	**407,733**
Finance lease receivables	4,799	9,127	12,451	**26,377**
Other financial assets	8,973	2,989	13,339	**25,301**
Total financial assets	**1,579,843**	**601,215**	**1,392,743**	**3,573,801**
Liabilities				
Due to Credit institutions	219,787	83,007	324,329	**627,123**
Customer accounts	310,867	87,043	2,089,034	**2,486,944**
Other financial liabilities	19,353	109	-	**19,462**
Subordinated debt	793	1,434	112,853	**115,080**
Total financial liabilities	**550,800**	**171,593**	**2,526,216**	**3,248,609**
Credit related commitments and performance guarantees				
Performance guarantees	2,332	**-**	**-**	**2,332**
Financial guarantees	842	**-**	**-**	**842**
Other credit related commitments	33,601	**-**	**-**	**33,601**
Credit related commitments and performance guarantees	**36,775**	**-**	**-**	**36,775**
Net liquidity gap at 31 December 2012	**992,268**	**429,622**	**(1,133,473)**	**288,417**
Cumulative gap at 31 December 2012	**992,268**	**1,421,890**	**288,417**	

35 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2011:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	374,153	-	-	**374,153**
Due from other banks	769	40,173	-	**40,942**
Mandatory cash balances with National Bank of Georgia	250,067	-	-	**250,067**
Loans and advances to customers	351,624	468,693	1,188,428	**2,008,745**
Investment securities available for sale	266,436	-	-	**266,436**
Investment securities held to maturity	8,833	20,123	-	**28,956**
Finance lease receivables	3,315	6,534	12,130	**21,979**
Other financial assets	5,559	2,575	3,205	**11,339**
Total financial assets	**1,260,756**	**538,098**	**1,203,763**	**3,002,617**
Liabilities				
Due to Credit institutions	186,300	207,105	234,745	**628,150**
Customer accounts	253,706	69,822	1,675,728	**1,999,256**
Other financial liabilities	6,153	1,380	3,772	**11,305**
Subordinated debt	18,122	9,664	114,694	**142,480**
Total financial liabilities	**464,281**	**287,971**	**2,028,939**	**2,781,191**
Credit related commitments and performance guarantees				
Performance guarantees	5,426	-	-	**5,426**
Financial guarantees	1,708	-	-	**1,708**
Other credit related commitments	27,351	-	-	**27,351**
Credit related commitments and performance guarantees	**34,485**	-	-	**34,485**
Net liquidity gap at 31 December 2011	**761,990**	**250,127**	**(825,176)**	**186,941**
Cumulative gap at 31 December 2011	**761,990**	**1,012,117**	**186,941**	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-3 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

35 Financial and Other Risk Management (Continued)

Operating environment. Most of the Group's business in concentrated in Georgia. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favorable investment environment. For example, in the "Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises" report published by the IFC and the World Bank, Georgia was ranked as the eighth (out of 189) easiest country in the world in which to do business, ahead of all its neighboring countries and many EU Member States. Moreover, according to the World Bank & IFC Doing Business Report 2014, Georgia was ranked as the number two reformer in the world. Georgia is also acknowledged to have low corruption levels as demonstrated by the Transparency International 2013 Global Corruption Barometer.

36 Management of Capital

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

Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2011, 2012 and 2013.

NBG Capital adequacy ratio

Under the current capital requirements set by NBG banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the set 12% minimum level and a ratio of Tier 1 capital to risk weighted assets above the set 8% minimum level. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

In thousands of GEL	**2013**	**2012**	**2011**
Share capital	261,045	251,785	224,659
Retained earnings and other disclosed reserves	290,585	253,057	222,985
General loan loss provisions (up to 1.25 % of risk – weighted assets)	51,038	44,224	42,172
Less intangible assets	(18,197)	(14,048)	(6,380)
Less Investments into subsidiary companies and capital of other banks	(59,129)	(68,615)	(70,764)
Subordinated debt (included in regulatory capital)	131,312	99,733	79,239
Total regulatory capital	**656,654**	**566,136**	**491,911**
Risk-weighted Exposures			
Credit risk weighted assets (including off-balance obligations)	3,340,518	3,030,372	2,701,318
Currency Induced Credit Risk	1,321,561	1,232,923	1,118,611
minus general and special reserves	(166,377)	(137,411)	(65,889)
Risk-weighted assets	**4,495,702**	**4,125,884**	**3,754,040**
Tier 1 Capital adequacy ratio	**10,6%**	**11,2%**	**8,5%**
Total Capital adequacy ratio	**14,6%**	**13,7%**	**13,1%**

36 Management of Capital (Continued)

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 2013, 2012, 2011 are given in the tables below:

In thousands of GEL	2013	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,170,286	158,730
Gross Loans and accrued interests	2,713,271	3,829,318
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	184,705
Other assets	143,487	92,255
Total	**4,299,089**	**4,334,151**
Total Off-balance	**615,670**	**327,928**
minus general and special reserves	(166,377)	(166,377)
Total Amount	**4,748,382**	**4,495,702**

In thousands of GEL	2012	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,166,966	180,826
Gross Loans and accrued interests	2,323,789	3,433,936
Repossessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	184,502
Other assets	152,965	93,105
Total	**3,870,280**	**3,920,379**
Total Off-balance	**555,768**	**342,916**
minus general and special reserves	(137,411)	(137,411)
Total Amount	**4,288,637**	**4,125,884**

In thousands of GEL	2011	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	916,545	115,689
Gross Loans and accrued interests	2,045,550	3,026,525
Repossessed Assets	36,054	36,054
Fixed Assets and intangible assets	174,549	168,169
Other assets	148,102	86,251
Total	**3,320,800**	**3,432,688**
Total Off-balance	**666,067**	**387,241**
minus general and special reserves	(65,889)	(65,889)
Total Amount	**3,920,978**	**3,754,040**

36 Management of Capital (Continued)

NBG Basel II Capital adequacy ratio

After adoption of NBG Basel II/III requirements the Bank in addition to above capital ratios calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2012. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

In thousands of GEL	2013	2012
Tier 1 Capital	526,224	467,509
Tier 2 Capital	177,950	138,957
Regulatory capital	**704,174**	**606,466**
Risk-weighted Exposures		
Credit Risk Weighted Exposures	4,553,155	4,093,417
Risk Weighted Exposures for Market Risk	3,946	18,635
Risk Weighted Exposures for Operational Risk	343,892	343,018
Total Risk-weighted Exposures	**4,900,993**	**4,455,070**
Minimum Tier 1 ratio	**8.5%**	**8.5%**
Tier 1 Capital adequacy ratio	**10.7%**	**10.5%**
Minimum total capital adequacy ratio	**10.5%**	**10.5%**
Total Capital adequacy ratio	**14.4%**	**13.6%**

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 2013, 2012 are given in the tables below:

	2013	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,253,675	467,647
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,619,707	3,321,301
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	203,833
Other assets	153,663	214,198
minus general provision, penalty and interest provision	(41,837)	(41,837)
Total	**4,257,253**	**4,234,285**
Total Off-balance	**678,453**	**318,870**
Market Risk	**5,180**	**3,946**
Operational Risk	**240,724**	**343,892**
Total Amount	**5,181,610**	**4,900,993**

	2012	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,187,804	372,002
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,299,656	3,041,501
Repossessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	207,791
Other assets	156,259	192,909
minus general provision, penalty and interest provision	(20,128)	(20,128)
Total	**3,850,151**	**3,822,085**
Total Off-balance	617,134	271,332
Market Risk	24,459	18,635
Operational Risk	240,112	343,018
Total Amount	**4,731,856**	**4,455,070**

36 Management of Capital (Continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	**2013**	**2012**	**2011**
Tier 1 capital			
Share capital	259,123	247,644	218,479
Retained earnings and disclosed reserves	404,659	303,022	207,454
Less: Goodwill	(2,726)	(2,726)	(2,726)
Non-controlling interest	14,667	11,419	9,134
Total tier 1 capital	**675,723**	**559,359**	**432,341**
Tier 2 capital			
Revaluation reserves	50,840	41,939	33,162
General Reserve	40,403	36,148	31,829
Subordinated debt (included in tier 2 capital)	131,312	99,733	79,239
Total tier 2 capital	**222,555**	**177,820**	**144,230**
Total capital	**898,278**	**737,179**	**576,571**
Credit risk weighted assets (including off-balance obligations)	3,232,229	2,891,766	2,546,304
Less: General Reserve	(116,466)	(130,350)	(126,832)
Market Risk	19,779	25,977	19,237
Total Risk-weighted assets	**3,135,542**	**2,787,393**	**2,438,709**
Minimum Tier 1 ratio	**4%**	**4%**	**4%**
Tier 1 Capital adequacy ratio	**21.6%**	**20.1%**	**17.7%**
Minimum total capital adequacy ratio	**8%**	**8%**	**8%**
Total Capital adequacy ratio	**28.6%**	**26.4%**	**23.6%**

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

36 Management of Capital (Continued)

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2013, 2012, 2011 are given in the tables below:

In thousands of GEL	2013	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,188,156	38,613
Gross loans and accrued interests	2,958,581	2,419,822
Repossessed assets	49,920	49,920
Fixed assets and intangible assets	225,885	223,159
Other assets	185,402	185,403
Total	**4,607,944**	**2,916,917**
Total Off-balance	**656,386**	**315,312**
Less: Loan loss provision minus General Reserve	(116,466)	(116,466)
Market Risk	**19,779**	**19,779**
Total Amount	**5,167,643**	**3,135,542**

In thousands of GEL	2012	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,151,923	48,388
Gross loans and accrued interests	2,536,697	2,145,081
Repossessed assets	56,316	56,316
Fixed assets and intangible assets	214,099	211,373
Other assets	107,156	107,157
Total	**4,066,191**	**2,568,315**
Total Off-balance	**622,791**	**323,451**
Less: Loan loss provision minus General Reserve	(130,350)	(130,350)
Market Risk	**25,977**	**25,977**
Total Amount	**4,584,609**	**2,787,393**

In thousands of GEL	2011	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale, Investment securities held to maturity	960,553	52,978
Gross loans and accrued interests	2,167,405	1,828,024
Repossessed assets	82,317	82,317
Fixed assets and intangible assets	176,669	173,941
Other assets	71,736	71,740
Total	**3,458,680**	**2,209,000**
Total Off-balance	**727,598**	**337,304**
Less: Loan loss provision minus General Reserve	(126,832)	(126,832)
Market Risk	**19,237**	**19,237**
Total Amount	**4,078,683**	**2,438,709**

37 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in legal claims, however on the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. To respond to the risks, the Group has engaged external tax specialists who are performing periodic reviews of Group's taxation policies and tax filings, consequently the Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, and customs positions will be sustained. Accordingly, as at 31 December 2013, 2012 and 2011 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as at 31 December 2013, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 1,750 thousand (2012: 1,675 thousand; 2011: 1,760 thousand).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 December 2013, 2012 and 2011.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

37 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

In thousands of GEL	2013	2012	2011
Performance guarantees issued	160,704	160,127	235,291
Financial guarantees issued	95,762	112,997	86,972
Undrawn credit lines	197,801	179,589	199,054
Letters of credit	133,603	88,698	66,091
Total credit related commitments and performance guarantees (before provision)	**587,870**	**541,411**	**587,408**
Provision for performance guarantees	(4,153)	(2,332)	(5,426)
Provision for credit related commitments and financial guarantees	(4,927)	(842)	(1,708)
Total credit related commitments and performance guarantees	**578,790**	**538,237**	**580,274**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as at 31 December 2013 composed GEL 131,342 thousand (2012: GEL 124,448 thousand; 2011 GEL 101,301 thousand).

Fair value of credit related commitments and financial guarantees was GEL 4,927 thousand at 31 December 2013 (2012: GEL 842 thousand; 2011: GEL 1,708 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	2013	2012	2011
Georgian Lari	218,553	194,178	164,997
US Dollars	299,190	279,563	318,830
Euro	42,388	36,431	42,509
Other	27,739	31,239	61,072
Total	**587,870**	**541,411**	**587,408**

***Capital expenditure commitments*.** At 31 December 2013, the Group has contractual capital expenditure commitments amounting to GEL 2,365 thousand (2012: nil; 2011: 1,290 thousand).

38 Non-Controlling Interest

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2013:

In thousands of GEL	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	10.47%	10.47%	60	624	-
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	833	6,036	-
United Financial Corporation JSC	Georgia	6.68%	6.68%	35	303	-
Bank Constanta JSC	Georgia	16.15%	16.15%	1,726	7,704	-
TOTAL				**2,654**	**14,667**	**-**

The summarised financial information of these subsidiaries was as follows at 31 December 2013:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total comprehensive income	Cash flows
TBC Leasing JSC	33,570	24,212	27,160	24,664	3,767	573	573	996
TBC Kredit LLC	41,867	31,814	26,024	22,150	11,291	3,334	3,334	1,120
United Financial Corporation JSC	1,529	4,712	1,046	286	6,758	522	522	71
Bank Constanta JSC	195,077	150,631	134,591	160,989	55,972	11,271	11,271	2,362
Total	**272,043**	**211,369**	**188,821**	**208,089**	**77,788**	**15,700**	**15,700**	**4,549**

38 Non-Controlling Interest (Continued)

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2012:

In thousands of GEL	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	10.47%	10.47%	17	564	-
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	509	5,203	-
United Financial Corporation JSC	Georgia	6.68%	6.68%	58	267	-
Bank Constanta JSC	Georgia	16.15%	16.15%	708	5,385	-
TOTAL				**1,292**	**11,419**	-

The summarised financial information of these subsidiaries was as follows at 31 December 2012:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total comprehensive income	Cash flows
TBC Leasing JSC	24,491	15,439	14,821	19,725	5,766	220	220	2,541
TBC Kredit LLC	34,300	27,919	8,511	32,704	9,239	2,037	2,037	(3,665)
United Financial Corporation JSC	1,161	4,845	1,269	350	5,092	871	871	309
Bank Constanta JSC	159,916	84,573	93,123	116,634	39,195	4,295	4,295	9,441
Total	**219,868**	**132,776**	**117,724**	**169,413**	**59,292**	**7,423**	**7,423**	**8,626**

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2011:

In thousands of GEL	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	10.47%	10.47%	29	547	-
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	94	4,693	-
United Financial Corporation JSC	Georgia	6.68%	6.68%	7	210	-
Bank Constanta JSC	Georgia	16.7%	16.7%	597	3,684	-
TOTAL				**727**	**9,134**	**-**

38 Non-Controlling Interest (Continued)

The summarised financial information of these subsidiaries was as follows at 31 December 2011:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total compre-hensive income	Cash flows
TBC Leasing JSC	16,509	14,570	7,157	18,698	3,891	231	231	(793)
TBC Kredit LLC	34,513	16,428	9,814	22,050	6,915	375	375	1,662
United Financial Corporation JSC	747	4,074	983	322	3,406	111	111	(122)
Bank Constanta JSC	101,988	49,170	50,189	78,032	23,350	3,372	3,924	8,177
Total	**153,757**	**84,242**	**68,143**	**119,102**	**37,562**	**4,089**	**4,641**	**8,924**

39 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instru-ments (d)	Cash collateral received (e)	
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	115,901	31,871	84,030	-	-	84,030
Other financial assets:						
- Receivables on credit card services and money transfers	7,481	924	6,557	-	-	6,557
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**123,381**	**32,795**	**90,586**	**-**	**-**	**90,586**
LIABILITIES						
Due to credit institutions	597,677	31,871	565,806	-	-	565,806
Other financial liabilities	25,774	924	24,850	-	-	24,850
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**623,451**	**32,795**	**590,656**	**-**	**-**	**590,656**

39 Offsetting Financial Assets and Financial Liabilities (Continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instruments (d)	Cash collateral received (e)	
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	78,320	54,671	23,649	-	-	23,649
Other financial assets:						
- Receivables on credit card services and money transfers	4,436	1,087	3,349	-	-	3,349
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**82,756**	**55,758**	**26,998**	**-**	**-**	**26,998**
LIABILITIES						
Due to credit institutions	681,794	54,671	627,123	-	-	627,123
Other financial liabilities	20,549	1,087	19,462	-	-	19,462
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**702,343**	**55,758**	**646,585**	**-**	**-**	**646,585**

39 Offsetting Financial Assets and Financial Liabilities (Continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2011:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instruments (d)	Cash collateral received (e)	
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	1,718	693	1,025	-	-	1,025
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**1,718**	**693**	**1,025**	**-**	**-**	**1,025**
LIABILITIES						
Other financial liabilities	11,998	693	11,305	-	-	11,305
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**11,998**	**693**	**11,305**	**-**	**-**	**11,305**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangement have been netted-off in these financial statements and the instrument has been presented as either asset or a liability at fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

40 Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	2013	2012	2011
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial assets and due from banks	1,221	446	165
Fair value of Interest rate swaps, included in other financial liabilities	(4,405)	(7,139)	(5,152)
Total	**(3,184)**	**(6,693)**	**(4,987)**

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2013		2012		2011	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD payable on settlement (-)	-	(91,590)	-	(36,428)	-	(53,968)
- USD receivable on settlement (+)	31,398	-	26,507	-	-	-
- GEL payable on settlement (-)	-	-	-	(26,508)	-	-
- GEL receivable on settlement (+)	-	(31,569)	41,676	-	8,407	-
- EUR payable on settlement (-)	-	-	-	(8,075)	-	-
- EUR receivable on settlement (+)	76,450	-	3,274	-	13,617	-
- Other payable on settlement (-)	-	(637)	-	-	-	-
- Other receivable on settlement (+)	17,169	-	-	-	32,109	-
Fair value of foreign exchange forwards and gross settled currency swaps	**125,017**	**(123,796)**	**71,457**	**(71,011)**	**54,133**	**(53,968)**
Net fair value of foreign exchange forwards and gross settled currency swaps	**1,221**	**-**	**446**	-	**165**	-

Interest rate swaps. In March 2010 TBC Bank entered into interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expires in November 2018. At the reporting date fair value of interest rate swaps was estimated to be negative GEL 4,405 thousand (2012: negative GEL 7,139 thousand; 2011: negative GEL 5,152 thousand).

Information on related party balances is disclosed in Note 43.

41 Fair Value Disclosures

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2013				31 December 2012				31 December 2011			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities available for sale												
- Certificates of Deposits of National Bank of Georgia	-	321,140	-	**321,140**	-	187,551	-	**187,551**	-	168,537	-	**168,537**
- Ministry of Finance Treasury Bills	-	-	-	**-**	-	19,210	-	**19,210**	-	61,014	-	**61,014**
- Government notes	-	173,974	-	**173,974**	-	196,004	-	**196,004**	-	32,942	-	**32,942**
- Corporate shares (Visa Inc)	4,858	-	-	**4,858**	3,156	-	-	**3,156**	2,131	-	-	**2,131**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets and due from banks	-	1,221	-	**1,221**	-	446	-	**446**	-	165	-	**165**
NON-FINANCIAL ASSETS												
- Premises and leasehold improvements	-	119,005	-	**119,005**	-	118,020	-	**118,020**	-	106,549	-	**106,549**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**4,858**	**615,340**	**-**	**620,198**	**3,156**	**521,231**	**-**	**524,387**	**2,131**	**369,207**	**-**	**371,338**
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
- Interest rate swap, included in other financial liabilities	-	4,405	-	**4,405**	-	7,139	-	**7,139**	-	5,152	-	**5,152**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	**4,405**	**-**	**4,405**	-	**7,139**	**-**	**7,139**	**-**	**5,152**	**-**	**5,152**

There were no transfers between levels 1 and 2 during 2013 (2012: none, 2011: none).

41 Fair Value Disclosures (Continued)

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

In thousands of GEL	Fair value at 31 December 2013	2012	2011	Valuation technique	Inputs used
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes	495,114	402,765	262,493	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	1,221	446	165	Forward pricing using present value calculations	Official exchange rate, risk-free rate
NON-FINANCIAL ASSETS					
- Premises and leasehold improvements	119,005	118,020	106,549	Market comparable assets	Comparable prices from less active markets
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**615,340**	**521,231**	**369,207**		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps	4,405	7,139	5,152	Swap model using present value calculations	Observable yield curves
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**4,405**	**7,139**	**5,152**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2013 (2012: none; 2011: none).

41 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2013				31 December 2012				31 December 2011			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**
FINANCIAL ASSETS												
Cash and cash equivalents	390,465	-	-	390,465	398,587	-	-	398,587	374,153	-	-	374,153
Due from other banks	1,708			1,708	29,542	-	-	29,542	40,942	-	-	40,942
Mandatory cash balances with the NBG	-	295,332	-	295,332	-	316,061	-	316,061	-	250,067	-	250,067
Loans and advances to customers:												
- Corporate loans	-	-	1,172,503	1,049,668	-	-	1,046,831	1,029,112	-	-	919,868	889,743
- Consumer loans	-	-	607,940	571,730	-	-	455,020	451,548	-	-	368,090	383,232
- Mortgage loans	-	-	519,180	491,136	-	-	375,406	372,230	-	-	356,354	362,347
- Small and micro loans	-	-	397,229	388,131	-	-	293,294	289,397	-	-	217,611	230,557
- Micro	-	-	193,784	196,395	-	-	134,010	141,570	-	-	80,114	84,410
- Others	-	-	103,896	104,652	-	-	85,449	86,343	-	-	58,386	58,456
Investment securities held to maturity	-	-	-	-	-	-	-	-	-	29,677	-	28,956
Investments in leases	-	35,613	-	35,613	-	26,377	-	26,377	-	21,979	-	21,979
Other financial assets	-	45,049	-	45,049	-	25,301	-	25,301	-	11,339	-	11,339
NON-FINANCIAL ASSETS												
Investment properties, at cost		86,480	-	83,383	-	34,928	-	34,305	-	37,966	-	27,082
TOTAL ASSETS	**392,173**	**462,474**	**2,994,532**	**3,653,262**	**428,129**	**402,667**	**2,390,010**	**3,200,373**	**415,095**	**351,028**	**2,000,423**	**2,763,263**
FINANCIAL LIABILITIES												
Due to credit institutions	-	565,806	-	565,806	-	627,123	-	627,123	-	628,150	-	628,150
Customer accounts	-	1,690,812	1,206,300	2,886,883	-	1,094,556	1,392,388	2,486,944	-	964,633	1,034,623	1,999,256
Debt securities in issue	-	4,474	-	4,474		-	-	-	-	-	-	-
Other financial liabilities	-	24,850	-	24,850	-	19,462	-	19,462	-	11,305	-	11,305
Subordinated debt	-	168,274	-	168,274	-	115,080	-	115,080	-	142,480	-	142,480
TOTAL LIABILITIES	**-**	**2,454,216**	**1,206,300**	**3,650,287**	**-**	**1,856,221**	**1,392,388**	**3,248,609**	**-**	**1,746,568**	**1,034,623**	**2,781,191**

41 Fair Value Disclosures (Continued)

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 3).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2013 (2012: none; 2011: none).

42 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2013:

In thousands of GEL	**Loans and receivables**	**Available for sale assets**	**Finance lease receivables**	**Assets designated at FVTPL**	**Held to maturity**	**Total**
ASSETS						
Cash and cash equivalents	-	-	-	-	-	**390,465**
Due from other banks	1,708	-	-	-	-	**1,708**
Mandatory cash balances with the National Bank of Georgia	295,332	-	-	-	-	**295,332**
Loans and advances to customers	2,801,712	-	-	-	-	**2,801,712**
Investment securities available for sale	-	500,651	-	-	-	**500,651**
Investments in leases	-	-	35,613	-	-	**35,613**
Other financial assets:						
- Other financial receivables	43,828	-	-	1,221	-	**45,049**
TOTAL FINANCIAL ASSETS	**3,142,580**	**500,651**	**35,613**	**1,221**	**-**	**4,070,530**
NON-FINANCIAL ASSETS	-	-	-	-	-	**380,545**
TOTAL ASSETS	-	-	-	-	-	**4,451,075**

42 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2012:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Held to maturity	Total
ASSETS						
Cash and cash equivalents	-	-	-	-	-	**398,587**
Due from other banks	29,407	-	-	135	-	**29,542**
Mandatory cash balances with the National Bank of Georgia	316,061	-	-	-	-	**316,061**
Loans and advances to customers	2,370,200	-	-	-	-	**2,370,200**
Investment securities available for sale	-	407,733	-	-	-	**407,733**
Investments in leases	-	-	26,377	-	-	**26,377**
Other financial assets:						
- Other financial receivables	24,855	-	-	446	-	**25,301**
TOTAL FINANCIAL ASSETS	**2,740,523**	**407,733**	**26,377**	**581**	**-**	**3,573,801**
NON-FINANCIAL ASSETS	-	-	-	-	-	**325,893**
TOTAL ASSETS	-	-	-	-	-	**3,899,694**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Held to maturity	Total
ASSETS						
Cash and cash equivalents	-	-	-	-	-	**374,153**
Due from other banks	40,942	-	-	-	-	**40,942**
Mandatory cash balances with the National Bank of Georgia	250,067	-	-	-	-	**250,067**
Loans and advances to customers	2,008,745	-	-	-	-	**2,008,745**
Investment securities held to maturity	-	-	-	-	28,956	**28,956**
Investment securities available for sale	-	266,436	-	-	-	**266,436**
Investments in leases	-	-	21,979	-	-	**21,979**
Other financial assets:						
- Other financial receivables	11,174	-	-	165	-	**11,339**
TOTAL FINANCIAL ASSETS	**2,310,928**	**266,436**	**21,979**	**165**	**28,956**	**3,002,617**
NON-FINANCIAL ASSETS	-	-		-	-	**297,404**
TOTAL ASSETS	-	-		-	-	**3,300,021**

As at 31 December 2013, 2012 and 2011, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

43 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Parties that hold more than 8% of ownership stake in the Bank are considered as Significant Shareholders. Included in key management personnel are members of the Supervisory Board and the Management Board and close members of the family. Other related parties include entities in which shareholders have significant influence.

At 31 December 2013, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		9,928	1,312
Impairment provisions for loans and advances to customers		152	15
Derivative financial liability	40	4,405	-
Due to credit institutions (contractual interest rate: 0 - 13 %)		67,894	-
Customer accounts (contractual interest rate: 0 - 13 %)		5,421	4,598
Subordinated debt (contractual interest rate: 5 - 11 %)		95,458	-

The income and expense items with related parties except from key management compensation for the year 2013 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Interest income		1,527	159
Interest expense		14,596	352
Gains less losses from trading in foreign currencies		67	9
Foreign exchange translation gains less losses/ (losses less gains)		(227)	50
Fee and commission income		10	7
Fee and commission expense		993	-
Administrative and other operating expenses (excluding staff costs)		67	205
Net gain/(loss) on derivative financial instruments	40	613	-

Aggregate amounts of loans advanced to and repaid by related parties during 2013 were:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	4,246	1,751
Amounts repaid by related parties during the year	(8,756)	(2,218)

43 Related Party Transactions (Continued)

At 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		13,137	1,571	15,358
Impairment provisions for loans and advances to customers		250	19	318
Derivative financial liability	40	7,139	-	-
Due to credit institutions (contractual interest rate: 0 - 13 %)		161,767	-	-
Customer accounts (contractual interest rate: 0 - 13 %)		3,839	4,530	22,192
Subordinated debt (contractual interest rate: 5 - 11 %)		61,122	-	-

The income and expense items with related parties except from key management compensation for the year 2012 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		1,757	261	1,644
Interest expense		16,805	386	565
Provision for loan impairment		-	-	26
Gains less losses from trading in foreign currencies		8	4	392
Foreign exchange translation gains less losses/ (losses less gains)		(106)	2	926
Fee and commission income		11	5	376
Administrative and other operating expenses (excluding staff costs)		17	133	-
Net gain/(loss) on derivative financial instruments	40	(3,804)	-	-

At 31 December 2012, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	-	-	5,401

Aggregate amounts of loans advanced to and repaid by related parties during 2012 were:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year	1,816	1,018	15,253
Amounts repaid by related parties during the year	(5,041)	(1,994)	(9,398)

43 Related Party Transactions (Continued)

At 31 December 2011, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		14,711	2,283	6,933
Impairment provisions for loans and advances to customers		(213)	(35)	(262)
Derivative financial liability	40	5,152	-	-
Due to credit institutions (contractual interest rate: 0 - 13 %)		106,941	-	-
Customer accounts (contractual interest rate: 0 - 13 %)		3,899	3,491	13,204
Subordinated debt (contractual interest rate: 5 - 11 %)		62,325	-	-

The income and expense items with related parties except from key management compensation for the year 2011 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		3,328	259	276
Interest expense		19,856	342	428
Gains less losses from trading in foreign currencies		13	5	611
Fee and commission income		8	10	126
Administrative and other operating expenses (excluding staff costs)		55	317	-
Net loss on derivative financial instruments	40	(4,987)	-	-

At 31 December 2011, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	-	-	7,049

Aggregate amounts of loans advanced to and repaid by related parties during 2011 were:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year	1,435	1,448	12,467
Amounts repaid by related parties during the year	(1,422)	(645)	(9,580)

Compensation of the key management personnel and supervisory board members is presented below:

	2013		2012		2011	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	8,783	3,798	7,256	3,983	7,903	3,162
Cash settled bonuses related to share-based compensation	1,692	1,692	676	432	1,942	1,725
Equity-settled share-based compensation	1,671	-	2,700	-	7,823	-
Total	**12,146**	**5,490**	**10,632**	**4,415**	**17,668**	**4,887**

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