

Background

The Supervisory Board is developing a new compensation system for the members of the Supervisory and the Managements Board, as well as a long term incentive plan for the Bank's middle management.

According to the Bank's Charter and local regulation, the Supervisory Board Compensation system, as well as the number of shares for the Long Term Incentive Plan ("LTIP"), requires shareholders' approval.

According to the Bank's Charter, the Remuneration Committee advises the Supervisory Board on the compensation system for the Supervisory and the Management Boards. The Committee also reviews the achievements of and determines the compensation for the Supervisory Board and the Management Board, the heads of TBC Bank's business segments, and for certain employees of the Bank. The Remuneration Committee is also responsible for approving participants in the LTIP and for supporting its development. Additionally, the Committee sets the compensation policy relative to the dismissal of key members of the Bank's management and approves annual reports on the remuneration policy and practice.

The Remuneration Committee consists of three members of the Supervisory Board. The Committee is chaired by Ms. Irina Schmidt, who was nominated by DEG to the Supervisory Board. The other members of the Committee are Mr. Nicholas Haag, the Head of the Audit Committee, and Mr. Nikoloz Enukidze, an independent member of the Board. More information can be found on TBC Bank's Investor Relations website at www.tbcbank.com.ge/ir.

In order to ensure that the new compensation system is competitive and meets best practices, the Committee appointed Ernst & Young ("EY") as the remuneration consultant after a tender process.

EY assessed the compensation levels for the Supervisory and the Management Board members in comparison with

- LSE Premium Listed banks
- LSE listed European and CIS banks
- FTSE-250 financial sector companies (composed of banks and insurance companies on positions 101 to 350 by market capitalization)
- FTSE 250 Bottom (selected companies on positions 226 to 350 by market capitalization)

Main recommendations

According to TBC bank's request, EY provided recommendations for the new compensation system that reflect the Basel II and Basel III requirements, best practices and the UK Corporate Governance Code compensation provisions. The Bank has chosen to comply with the latter on a voluntary basis.

Based on the recommendations, the Remuneration Committee discussed and approved the Supervisory Board compensation system for the years 2015-2018 and the number of shares needed for the LTIP for the top and middle management as described below. Details of the current compensation system are also given for your information and comparison purposes.

1. Supervisory Board Compensation System

According to the current system, effective from September 2013, the Supervisory Board compensation is as follows:

	Average in GEL per month	Average in NET USD per month using average GEL/USD exchange rate for the year based on end of month rates
1. Chairman	133,600	75,660*
2. Vice Chairman of the Supervisory Board	129,323	73,238*
3. Other Supervisory Board members (5 members)	10,450	5,918

* Approximately 50% of the amount was paid in form of annual bonuses.

The new system, subject to the shareholders' approval, is proposed below:

As part of the decision to fix the Supervisory Board Members' compensation in US Dollar, compensation for the Chairman and Deputy Chairman of the Supervisory Board will also be fixed in US Dollars.

According to EY's recommendation, in line with the requirements of the UK Corporate Governance Code and the market practice, the Bank may consider eliminating the variable pay for the Chairman and the Deputy Chairman of the Supervisory Board. Accordingly, the Committee decided to change the practice of linking approximately half of the Chairman's and the Deputy Chairman's compensation to the Bank's performance. Instead, the Bank will implement the practice of paying only fixed compensation.

On the other hand, taking into account that the Chairman and the Deputy Chairman play crucial roles in the Bank, the Committee decided to leave total compensation of the Chairman and the Deputy Chairman unchanged in 2014 using average GEL/USD exchange rate for the year based on end of month rates . Accordingly, the Committee proposes the following compensation for the Chairman and the Deputy Chairman for the years 2015-2018:

Role	Monthly total compensation in USD Net of Georgian Taxes
1. Chairman	75,660
2. Deputy Chairman	73,238

For the rest of the Board members, based on the EY study, the Remuneration Committee recommended the following annual compensation:

Position	Annual total compensation in USD NET of Georgian Taxes
Board Membership fee	60,000
Committee Chairmanship fee (in addition to the Board membership fee)	20,000
Committee membership fee (in addition to the Board membership fee)	8,000

In addition, the Bank reimburses all reasonable business expenses to all the members of the Board.

2. Management Compensation System

In 2014, management compensation consisted of monthly salary, cash bonus and shares issued under the current LTIP. While monthly salary is fixed, cash bonus and the LTIP shares are subject to KPI fulfilment.

The following shows the proportions of the compensation paid in 2014. Market value at grant date is used for calculating share values.



Vesting of the shares is completed according to the 10%/10%/80% formula over 3 years, respectively, and cash bonuses and shares were granted based on the 2013 results. Number of shares granted to top managers was 252,710 (after the share split effect). Please note that the Bank paid withholding tax of 20% in addition to the number of shares granted. Please also note that in 2013, respective KPIs were achieved at 120%, which in accordance with current compensation system, increased the bonus payout scale by 20%.

On the basis of EY study results and recommendations the bank may consider increasing total compensation level and set **target** compensation levels for the managers. The Board will gradually implement the recommendations during 2015-2018 years. However, number of shares is calculated with the assumption that compensation increase takes place in 2015. Therefore, the number of shares is maximum needed.

Based on EY recommendations, and respective assumptions on the share price and top management compensation, the Remuneration Committee recommended to the Supervisory Board for approval and the Supervisory Board approved the number of shares for the new compensation system for the management for the years 2015-2018. This also requires shareholders' approval.

In the **basic** scenario, when the KPIs are reached at 100%, the **maximum** number of shares to be awarded in one year to top management members is as follows:

type	Fixed compensation 40%		Variable compensation 60%	
	Monthly Salary	30% fixed compensation, Number of shares	25% of the Variable compensation, Number of shares	75% of the variable compensation, Number of shares
Total	Cash	76,297	158,952	222,532
Average per top manager	Cash	9,537	19,869	27,817

The actual number of shares depends on the total compensation of the top management members that is set by the Supervisory Board based on the recommendations received from the Remuneration Committee each year and considering the EY study and other factors relevant for the compensation. Please note, the numbers in the table are gross of income tax.

The following gives information on the new structure of bonuses under the new management compensation system (assuming the basic scenario when KPIs are reached at 100%):



The variable compensation can change depending on the level at which the management meets the targets. The table below is the guidance developed by EY. The final decision is made by the Supervisory Board.

	Threshold (80%) – Target (100%)	Target (100%)	Target (100%) – Maximum (120%)
Payout scale	80%-100%	100%	100% – 140%

The Supervisory Board can choose the award method either through share grant or through nil cost options. Awarded shares will have vesting conditions as follows:

Compensation component	Vesting requirements
Share based component is approximately 30% of the fixed compensation (fixed compensation is 40% of total compensation)	Immediate vesting
25% of the variable compensation (variable compensation is 60% of total compensation)	Immediate vesting
75% of the variable compensation (variable compensation is 60% of total compensation)	10% of the share/options is vested on the first anniversary from the award date, further 10% is vested on the second anniversary from the award date and the remaining 80% is vested on the third anniversary from the award date

The Supervisory Board, based on the recommendation of the Remuneration Committee, can determine and change the vesting requirements and vesting conditions.

Based on the recommendation from the Remuneration Committee, the Supervisory Board may change the structure of compensation or salary of an individual senior manager. However, the number of shares it can grant will be limited at the amount approved by the shareholders.

KPIs for the Top Management

Current compensation system defines KPIs that are used to assess the Top management performance and calculate their bonuses. There are two types of KPIs - Team KPIs and Individual KPIs. KPIs are Size Determine KPIs and Blocking KPIs, where Size Determine KPIs determine the size of the bonus under the predefined range and the Blocking KPIs are conditions, non-fulfillment of which might bar the top managers from receiving any bonuses in the respective year.

Team Size-Determine KPIs are ROE and Loan Book Growth rate. Team Blocking KPIs are Compliance with NPL Coverage Ratio, Compliance with Liquidity and Capital Adequacy Requirements. Individual KPIs are determined considering specifics of each role and usually consists of financial, non-financial and quality goals of the respective top management members. EY has specific recommendations on how to improve KPIs and the Remuneration Committee and Supervisory Board will be considering these recommendations in the new system.

3. Middle Management Compensation System

According to the current system, the Bank's middle management was awarded the following number of shares during 2014:

Type	Total Number of shares granted in 2014 based on 2013 performance
Number of managers participating in the system	75

Number of shares granted in 2014	54,500
Average per manager	727

According to the best practice, as well as EY's recommendation, the variable share-based compensation of the middle management should increase. Based on EY recommendations and respective assumptions on the share price and middle management compensation, the Remuneration Committee recommended to the Board for approval and the Board approved the number of shares for the new compensation system for the middle management for the years 2015-2018. This also requires shareholders' approval. In the basic scenario, the share-based part of the one year middle management compensation is as follows:

Participant	Number of Shares
Number of new participants in the compensation system 84	84
Total Number of shares for the middle managers per year	103,795
Average per manager per year	1,236

Similarly to the senior management variable element, the actual grant of shares to middle management will vary depending on the level at which targets are met. Here too, the shares will be granted either in the form of nil-cost option or share grant subject to the Supervisory Board decision.

Number of Shares

Based on the information provided above, we calculate the number of share for each year as follows:

Group	2015		2016		2017		2018		Total	
	100% ach. max	140% ach. max	100% ach. max	140% ach. max	100% ach. max	140% ach. max	100% ach. max	140% ach. max	100% ach. max	140% ach. max
Top Management Fixed compensation 12%	76,297	76,297	76,297	76,297	76,297	76,297	76,297	76,297	305,187	305,187
Top Management Variable compensation 60%	381,484	534,077	381,484	534,077	381,484	534,077	381,484	534,077	1,525,934	2,136,308
Middle management	103,795	145,313	114,174	159,844	125,592	175,828	138,151	193,411	481,711	674,395
Total	561,575	755,686	571,954	770,217	583,372	786,202	595,931	803,785	2,312,832	3,115,890

Therefore, we are asking for approval for the total of 3,115,890 shares **for the years of 2015-2018.**

Total number of shares issued by TBC Bank is 49,530,808

Shares issued under the LTIP per year when KPIs are reached at 100% is approximately 1.13% of total shareholding based on 2015 YE total number of issued shares.

Shares issued under the LTIP per year when KPIs are reached at 140% is approximately 1.53% of total shareholding based on 2015 YE total number of issued shares.