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T B C B A N K

ANNUAL REPORT

2011

ANNUAL REPORT 2011

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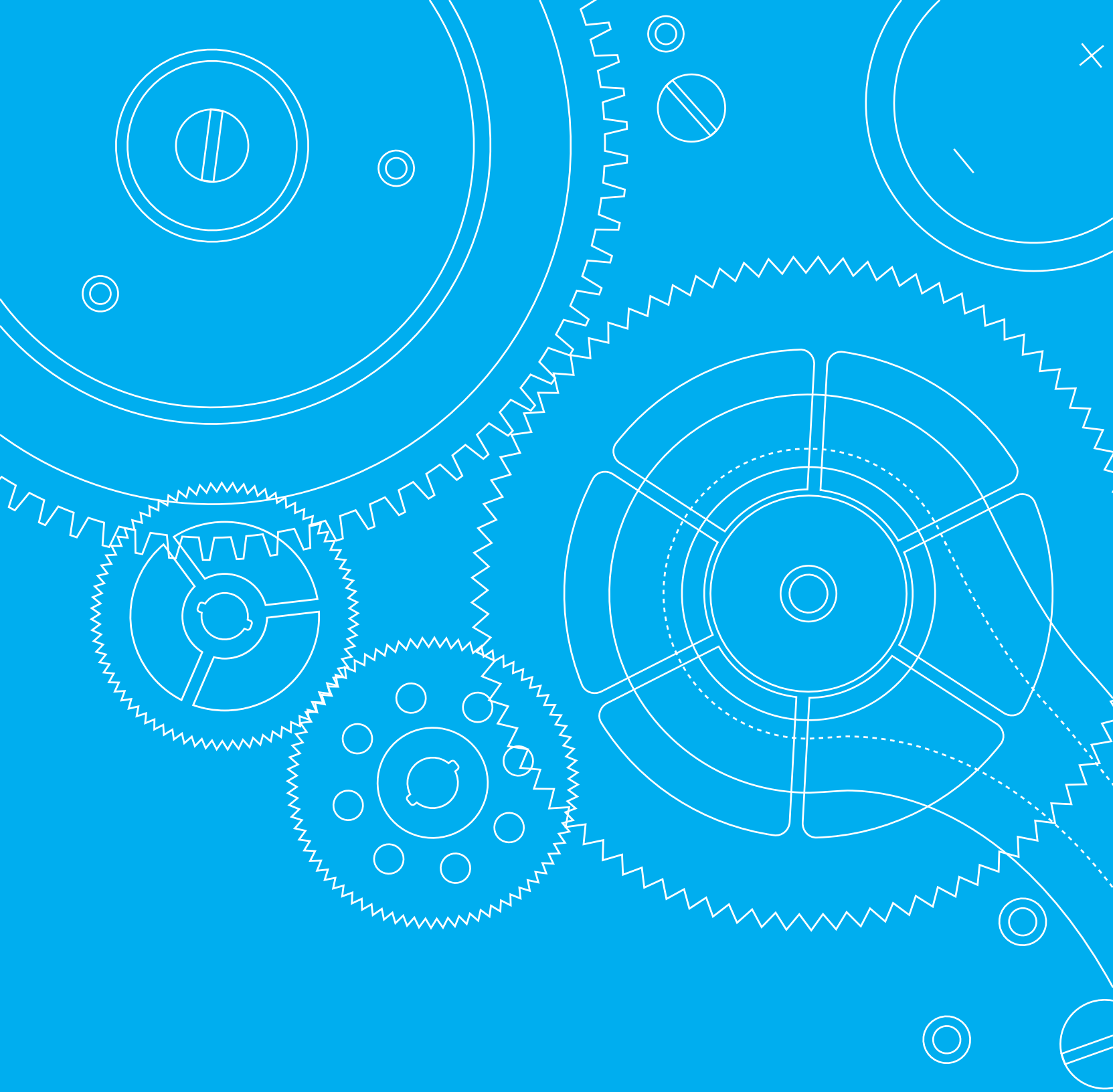
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ABOUT TBC GROUP

WHO WE ARE

**WE ARE A LEADING BANK IN GEORGIA,
OFFERING A BROAD RANGE OF PRODUCTS
THROUGH OUR EXTENSIVELY DEVELOPED
RETAIL, CORPORATE, SME AND MICRO BANKING
BUSINESS LINES, WITH A WIDE PRESENCE
WITHIN GEORGIA AND AN EXPANDING
NETWORK IN THE REGION.**

Established in 1992, we became one of the largest financial institutions and strongest Georgian brands within a decade. As TBC Bank celebrates its 20th anniversary this year, it continues to expand and achieve new milestones.

In 2011, we further increased profitability and experienced considerable growth. Total assets grew by 45.5%, increasing our market share to 25.4%. Similarly, total loans and total deposits grew by 40.0% and 46.4% respectively, increasing our market share of total loans to 26.1% and of total deposits to 29.2%. We have maintained and strengthened our position as the leading Georgian bank in retail deposits with 34.2% of the market share.

With the acquisition of Bank Constanta in May 2011, we acquired the expertise and resources to become a leading bank in the lucrative micro-finance segment. We continue to expand our presence throughout Georgia, creating opportunities and providing financial services for new communities and businesses to grow.

As at 31 December 2011, the Group had 78 branches and service-centres (including 30 branches of Bank Constanta), 234 ATMs (including 30 of Bank Constanta) and 1.666 point of sale (POS) terminals throughout Georgia. The Group has one of the largest networks of ATMs and POS terminals in Georgia and offers a broad range of efficient client banking operations, including call-centre, internet banking, mobile phone (including SMS) banking, TBC Pay-branded terminals (electronic payment terminals).

Prominent international financial institutions: European Bank for Reconstruction and Development (EBRD), International Financial Corporation (IFC), Deutsche Investitions-und Entwicklungsgesellschaft (DEG), Netherlands Development Finance Company (FMO) jointly hold the majority of TBC Bank's shares.

OUR MISSION:

**WE CREATE NEW OPPORTUNITIES FOR THE
SUCCESS OF PEOPLE AND BUSINESSES**

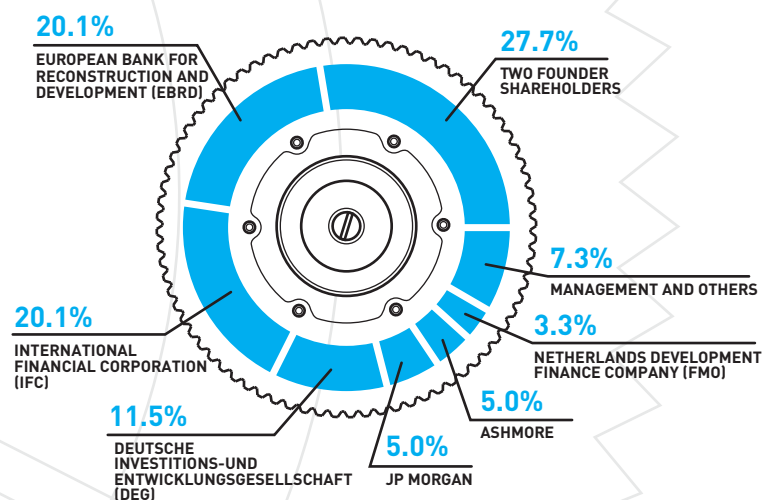
Our aspiration is to continue sustainable growth while remaining committed to our social and environmental responsibilities. We aim to become the finest financial institution in the region and, in turn, promote the international image of Georgia, and the Caucasus as a whole.

OUR VISION:

**THROUGH THE BEST EMPLOYEES, STRONG
BRANDING AND SUPERIOR CUSTOMER
EXPERIENCE PROVIDED VIA INNOVATIVE,
MULTICHANNEL FACILITIES WE WILL:**

- have the largest franchise of medium and high-income retail and SME business segments;
- be the core bank for large corporate businesses;
- be the leader in micro-finance business;
- be the leader in the non-resident deposits segment;
- be the bank of regional importance.

Shareholders



BUSINESS LINES

CORPORATE BANKING

Corporate banking is currently the largest business line for TBC Group. We have strong expertise in all industries and provide tailored financial solutions for our clients. The legal entity deposit and loan market in Georgia includes Corporate and SME customer's portfolios. In the past year, our corporate deposits grew by 85.5% and our corporate loans grew by 23.7%. TBC Bank has a 24.9% share of the legal entity deposit market and a 27.5% share of the loan market.

RETAIL BANKING

We are a leader in Georgia's retail banking market, with the largest market share in retail deposits of 34.2% and a 24.1% market share in retail loans. Our success in retail banking can largely be attributed to our strong brand name and our ongoing dedication to provide the best customer experience through our widespread branch network and advanced electronic channels. In 2011, we achieved significant growth in retail deposits and retail loans of 27.5% and 38.7% respectively.

SME BANKING

We provide effective financial solutions and a broad range of products for our SME clients. The SME sector has huge growth potential and we view it as key for Georgia's future economic development. In 2011, we achieved a loan portfolio growth of 53.5% and a deposit portfolio growth of 46.5%.*

MICRO-BANKING – CONSTANTA

In May 2011, we acquired Bank Constanta, one of the leading players in the micro-finance sector with a countrywide network of branches and a steadily growing client base. During the past year the Bank Constanta portfolio grew by 72.1%. The micro-finance sector offers high growth potential and attractive profitability; both are extremely important to us given the increased competition in the Georgian banking sector.

** NBG does not provide market data comparison for SME segment, hence it is impossible to calculate SME market shares.*

SUBSIDIARIES

TBC KREDIT

In 2007, we acquired a 75.0% equity interest in TBC Kredit, formerly SOA Kredit – a rapidly growing non-banking credit organization which has been operating in Azerbaijan's MSME market since 1999. TBC Kredit has extensive experience in dealing with MSME finance, as well as consumer loans and mortgage loans. It has become one of the key MSME lenders in Azerbaijan with a total loan portfolio of USD 27.6 million as of 31 December 2011. In 2011, micro and SME lending accounted for 44.1% of TBC Kredit's loan portfolio, while consumer and mortgage loans accounted for 30.8% and 25.1% respectively. TBC Kredit plans to obtain a full banking license within the next 2 years, either directly or through the acquisition of a small bank in Azerbaijan.

TBC INVEST

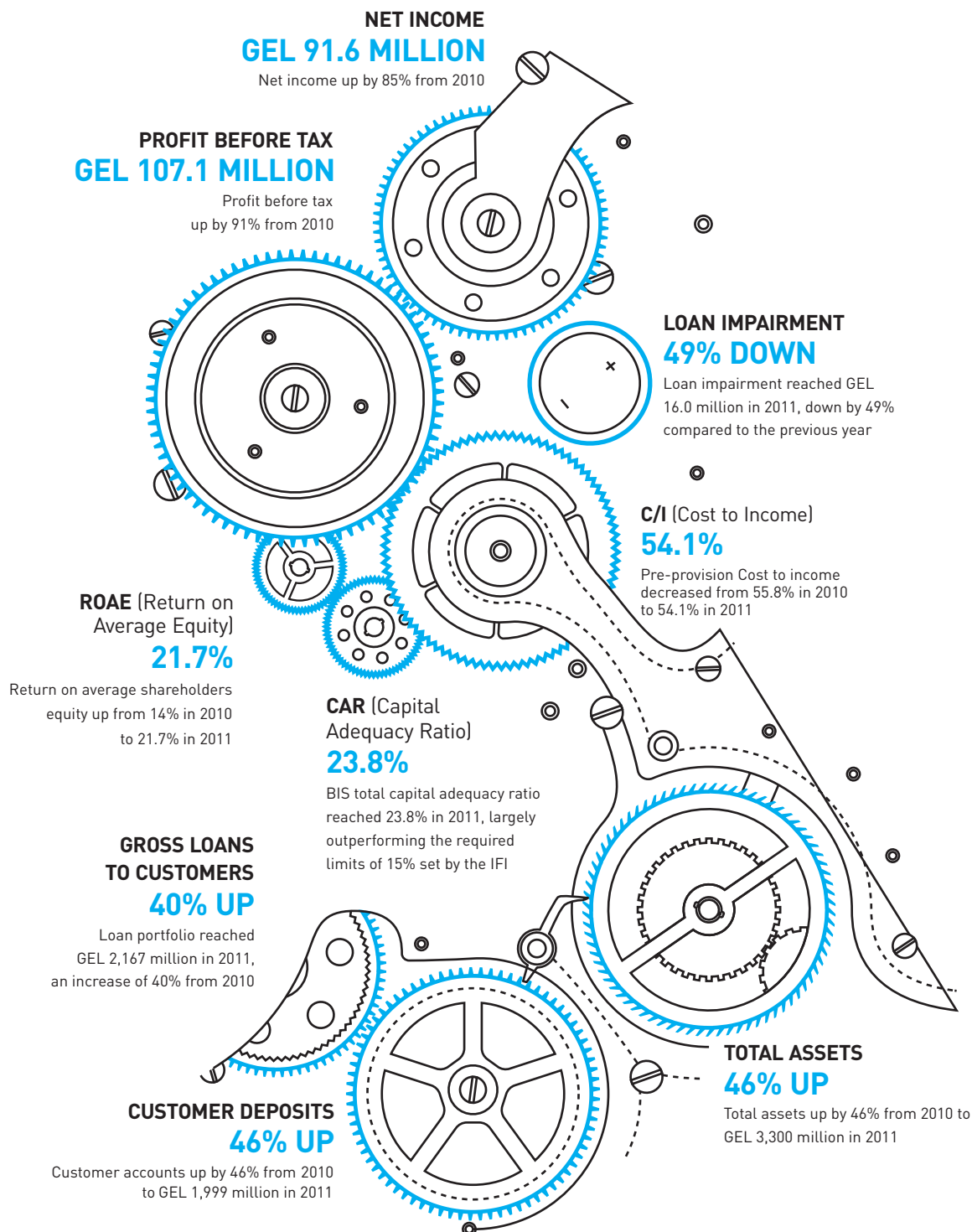
TBC Invest is a fully owned subsidiary of TBC Bank JSC, operating in Israel as an intermediary between potential clients and our bank. In 2011, c. 147 customers opened accounts through TBC Invest. Our mission is to attract foreign customers and increase total deposits. As part of our expansion plans for the future TBC Group is presently considering establishing similar subsidiaries in other countries.

TBC LEASING

In January 2004, TBC Leasing JSC was founded by TBC Bank and immediately began operations with an assets of GEL 0.5 million.

In 2005, EBRD purchased TBC Leasing's newly issued stock, accounting for 9.94% of its total shares. TBC Leasing is one of the leading companies in this sector, with a 63% market share. While SME enterprises are the main target, TBC Leasing offers a variety of leasing products tailored to company size, as well as to industry-specific requirements, thus providing flexibility and a high quality of service.

2011 PERFORMANCE HIGHLIGHTS



ABOUT GEORGIA

GEORGIAN ECONOMY AT A GLANCE

Georgia is located in the Caucasus region between the Black Sea and Caspian Sea. It has borders with the Black Sea, Turkey, Russia, Armenia and Azerbaijan. The population is 4.4 million.

Georgia has one of the fastest growing economies in Europe, with a real GDP growth of 6.3% in 2010 and 7.0% in 2011. According to the IMF, Georgia was among the top 5 fastest growing economies in Europe in 2011.

The GDP was USD 14.5 billion in 2011. Since its introduction in 1995, the country's currency, the Georgian Lari (GEL) has remained quite stable. As of December 2011, 1 USD equaled 1.67 GEL. Georgia has a low government debt as a percentage of its GDP (36.8%).

Georgia has a relatively strong and diversified economic structure with low taxes and one of the least bureaucratic environments.

The IFC/World Bank 2011 "Doing Business" report ranked Georgia as the No.1 "reformer" and the country took 12th position in "Ease of doing business".

By the end of 2011, Fitch and S&P upgraded Georgia's rating to BB-.

Georgia is currently involved in free trade agreement discussions with the EU and US.

GEORGIAN BANKING SECTOR

The Georgian Banking industry is one of the largest sectors in the country and is, arguably, the best in the region. It is comprised of 19 banks with USD 8 billion in total assets, USD 5 billion in total loans, USD 4 billion in total deposits and has a growth rate over 2 years of more than 20%.

There has been no state ownership of banks since 1995 and there are no restrictions on foreign ownership. The Georgian Banking sector is well capitalized, provisioned and reasonably well supervised.

It is generally a highly profitable sector delivering Return on Equity of 17.3% in 2011.

The loan/deposit ratio in Georgia is currently at 114.7% and the loan/GDP ratio stands at around 31.9%, which means that there is great potential for future growth.

BANK HISTORY

1992

The joint stock company TBC Bank was founded on December 17.

1993

In May, TBC Bank was granted a license to carry out international transactions.

1996

In June, Coopers and Lybrand conducted the first international audit of the bank.

1997

In February, another credit line was opened through a World Bank contribution of USD 1 million.

1998

TBC Bank received USD 5 million and DM 3 million in funds from the international financial institutions – International Financial Corporation (IFC), European Bank for Reconstruction and Development (EBRD) and Deutsche Investitions-und Entwicklungsgesellschaft (DEG).

1999

EBRD's Letter of Credit Support Project increased by USD 2 million. In addition, EBRD became a guarantor of TBC Bank for the first class banks.

2000

IFC and DEG became TBC Bank shareholders, each with a 10% share.

Thompson Financial BankWatch awarded TBC Bank with an international rating; TBC Bank was the first Georgian company to receive this award.

2001

In May, TBC Bank participated in the foundation of the Georgian Pension and Insurance Holding (GPI Holding).

2002

In March, according to various financial indicators, TBC Bank became the largest bank in Georgia.

The Financial Times named TBC Bank among the world's "Best Banks of the Year".

TBC Bank was awarded the Euromarket Forum-2002 premium.

2003

The Financial Times included TBC Bank in its list of "Best Banks of the Year" for the second consecutive year.

EBRD allocated a USD 6 million credit line, marking the first investment in the Georgian commercial sector following the Rose Revolution of November 2003.

2004

In January, the company TBC Leasing, founded by TBC Bank, began operations.

American magazine Global Finance named TBC Bank as one of the best banks worldwide operating on the foreign exchange market.

TBC Bank was included for the third year in succession in the Financial Times' annual list of "Best Banks of the Year".

2005

In February, TBC Bank opened its new Head Office in a unique historical building in Tbilisi constructed in the beginning of the 20th century. The Bank spent USD 6 million on renovating the building that is one of the city's architectural monuments.

The Financial Times included TBC Bank among the world's "Best Banks of the Year" for the fourth time.

Global Finance named TBC Bank one of the best banks worldwide operating on the foreign exchange market for the fourth time.

The international rating agency FitchRatings raised TBC Bank's long-term rating from "CCC+" to "B-" while its short-term rating improved from "C" to "B".

2006

Global Finance, in its annual bank rating "The Best Banks of Developing Markets of the World" praised TBC Bank as "the best bank in Georgia".

TBC Bank and the IFC concluded an agreement on the implementation of a technical assistance project whose goal was to increase TBC's share of the retail sales market.

FitchRatings revised its outlook for TBC Bank from "Stable" to "Positive".

The international organization Business Initiative Directions awarded TBC Bank with a Gold Star – an international quality distinction.

For the first time, credit rating agency, Moody's Investors Service gave TBC long-term credit ratings of B3 and Baa 3 for foreign currency and local currency respectively; this was the highest rating achieved by any Georgian bank.

2007

TBC Bank was awarded the most authoritative quality standard in the world – Certificate of Conformity with Requirements ISO 9001:2000.

Global Finance once again included TBC Bank in its rating "The Best Banks of Emerging Markets of the World", naming it "the best bank in Georgia".

FitchRatings increased the rating of TBC Bank by two levels, awarding it a "B+".

Moody's gave TBC Bank the following ratings for 2007: appraisal – stable; bank deposits in foreign currency – B3/NP; bank deposits in national currency – Ba1/NP; bank's financial stability – D-.

TBC Bank's assets exceeded USD 1 billion, representing an 80% increase in the Bank's assets over the previous nine months.

In autumn, TBC Bank expanded beyond Georgia's borders purchasing a 75% stake in Azerbaijan's SOA Kredit (TBC Kredit).

TBC Bank began introducing a completely new type of branch office for the local market, created in line with modern international standards.

2008

In 2008, TBC Bank opened 23 new branches, 3 service centers and installed 80 new ATMs across the country.

Over the year TBC Bank attracted a total of USD 206 million from foreign markets, including from the international financial institutions DEG, FMO, Merrill Lynch, Rose Mount, OTP Bank, Banco Internacional, EBRD, Overseas Private International Corporation (OPIC) and Citibank.

On August 13, in order to support the victims of the hostilities, TBC Bank established a charity organization – TBC Fund with an initial donation of GEL 5 million; it was the largest social investment by a Georgian company.

2009

EBRD, FMO, JP Morgan and Ashmore became shareholders of TBC Bank.

FitchRatings upgraded TBC Bank's rating from "B" to "B+".

Despite the crisis, during the year, TBC Bank raised USD 161 million from international finance institutions.

For a second time, TBC Bank was granted the international certificate of quality management systems ISO 9001:2008.

Deutsche Bank named TBC Bank as the best bank according to quality of currency transfers, awarding it the 2008 USD STP Excellence Award.

2010

TBC Bank launched SMART CLUB, customer loyalty program – the first of its kind in the local market.

EBRD named TBC Bank as the most active bank in trade finance.

FitchRatings confirmed TBC Bank's high standards, once again awarding it a B+, with a positive outlook.

The Banker, magazine of the Financial Times Group, named TBC Bank as the best bank of the year in Georgia, among the world's largest financial institutions.

2011

TBC Bank acquired 80% of the assets of Bank Constanta, an established bank in the micro-finance market, enabling TBC Bank to successfully penetrate the micro-finance market.

Moody's upgraded the TBC Bank long-term deposit rating in foreign currency by 2 notches – from B3 to B1 and assessed the bank's financial position as "Stable".

FitchRatings upgraded the viability rating of TBC Bank from B- to B+.

The Banker named TBC Bank as the best bank of the year in Georgia for the sixth time.

Deutsche Bank and COMMERZBANK named TBC Bank as the best bank in Georgia for its high quality currency transfers.

The largest European financial magazine Euromoney named TBC Bank "Favorite Bank 2011" and awarded it the title "Best bank in Georgia".

GROUP CHAIRMAN'S STATEMENT



Mamuka Khazaradze
Chairman of the
Supervisory Board

Before the 20th anniversary of TBC Bank, we are reviewing not only the year of 2011 for our Bank, but also how it has developed.

A period of 20 years is not really enough for a bank to consider itself an established institution. However, given all the events that have occurred during this period, TBC Bank has expanded steadily and we are proud to be able to claim that we have come through a truly historic period, successfully passing the tests of those times.

Political changes, recreating state institutions, economic and financial crises, international intervention, the rapidly changing competitive environment, a mental revolution of generations – all these characterize the last 20 years. TBC Bank faced up to, and managed all the challenges, emerging today as an established, stable and a very large financial institution!

According to the data for the year 2011, TBC Bank holds the largest share of Georgia's retail deposit market (34.2%), while our credit investment is 8.3% of gross domestic product. More than 400,000 individual clients and hundreds of thousands of business units are somehow connected to the bank within the framework of their activity, and up to 4,000 qualified staff are employed in highly-paid positions within the group.

The aforementioned data confirms the following – TBC Bank is a systemic financial institution in Georgia and such a status raises our responsibility even higher.

Consecutive strategies; innovative development; full consideration of up-to-date demands in financial services; a stable team of qualified staff and strengthening the status of corporate civilians with a strong sense of responsibility – all these still remain the basis for the bank's development and growth. With this kind of solid foundation, TBC Bank will be a creator and co-founder of new opportunities for both individuals and businesses including medium, as well as large companies.

We are ready to provide Georgian citizens with banking services both within the country and abroad. Modern technologies enable us to meet international standards for banking services, allowing everyone to have more convenient and efficient private business activities.

The yearly international recognitions of TBC Bank are well-known. However, it is worth pointing out that in 2011, TBC bank was once again repeatedly nominated as the best bank in Georgia by several international publications and financial institutions.

The corporate civilian status of TBC Bank will increase further. We have managed to develop the environment around the Bank into a new cultural centre – a base for innovative discoveries and a place for spiritual and academic perfection of the young: the place for demonstrating all pleasant innovations and acknowledgements.

TBC Bank has always tried to remain a helpful partner through its service, high standards and innovation, all of which have helped raise its status.

We have been a long time contributor to numerous business success stories and today we are proud to say that during the last 20 years we have helped facilitate the success of thousands of people.

On behalf of the Bank's shareholders I would like to make a promise to all our partners, together with the TBC Bank staff that this course will remain unchanged and many more new and pleasant surprises will await us in the anniversary year of 2012.

MEMBERS OF GOVERNING BODIES

SUPERVISORY BOARD



Mamuka Khazaradze
Chairman of the Supervisory Board

Mamuka Khazaradze is the founder and Chairman of Lisi Lake Development. Prior to that, he was the President and founding partner of Borjomi Beverages Co.N.V. He is also the founder and partner of the Georgian Reconstruction and Development Company (GRDC). Mamuka contributes to the foundation of the American Academy in Tbilisi, where he chairs the Supervisory Board.

Mamuka has chaired the Supervisory Board since the establishment of TBC Bank in 1992.



Badri Japaridze
Vice-Chairman of the Supervisory Board

Badri Japaridze is the chairman of the Supervisory Boards of TBC Kredit and TBC TV. He served as the Vice President of Borjomi Beverages Co.N.V in 1995-2005 where he still remains the member of the Management Board. He is also a member of the Board at Georgian Reconstruction and Development Company (GRDC), American Chamber of Commerce in Georgia, Geoplant, the Bank Constanta and TBC Leasing.

Badri Japaridze is the founder of JSC TBC Bank and holds the position of Vice-Chairman of the Supervisory Board of TBC Bank since its establishment.



David Khazaradze

Vice-Chairman of the Supervisory Board

David Khazaradze is General Director of the cardiosurgery clinic Open Heart and Director of Wine Company Tiflisi Marani. Moreover, David was an assistant at the department of Skin and Venereal Diseases at Tbilisi State Medical University, General Director of Alma Plus and a member of the Tbilisi City Assembly.

Since 1998, David Khazaradze holds the position of Vice-Chairman of the Supervisory Board of TBC Bank.



Eric J. Rajendra

Member of the Supervisory Board

Eric J. Rajendra has extensive experience in the financial services industry where he has served global clients in North America, Europe, Latin America, and Asia/Pacific. For his role in financial services he was named in Consulting Magazine's global list of the Top 25 Most Influential Consultants. Eric has diverse managerial experience; he has served as an executive at Chemical Bank, Equitable Life, Wells Fargo Bank, and American Express. He is currently a senior advisor at the World Bank Group's International Finance Corporation where he has been working since 2005 as a Board director and Consulting Advisor for financial institutions in selected emerging markets. He also leads major strategic initiatives for the firm.

Eric J. Rajendra joined the Board in 2010.



Steffen Suhany

Member of the Supervisory Board

Member of the Supervisory Board Steffen Suhany is currently the Head of Equity/Mezzanine Asia & Europe at Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) in Cologne/Germany. He has held a number of high-level roles throughout his career in banking (Dresdner Bank, HSH Nordbank, Commerzbank) and Private Equity (CBG Commerz Beteiligungsgesellschaft) in Germany and abroad and served in boards of various international banks and corporations.

Steffen Suhany joined the Board in 2007.



Michael Hesketh

Member of the Supervisory Board

Michael Hesketh has been with European Bank for Reconstruction and Development since 1991 in a number of roles including Banking, Risk Management and Corporate Recovery. Michael is currently a Senior Banker within the Financial Institutions team focusing on bank investments in Central Asia and Caucasus region and in an advisory capacity on problematic transactions outside the region.

Michael Hesketh joined the Board in 2009.



Emil Groot

Member of the Supervisory Board

Emil Groot was employed at the Dutch Ministry of Foreign Affairs and worked several years for UNESCO and the International Labor Organization (ILO) in Mexico among others at the Polytechnic University teaching economics. Later he was an advisor to the Nicaraguan Investment Fund in Managua. At FMO he started in project finance in Latin America and then served as the manager of FMO's Small scale Enterprise Fund responsible for all of FMO's (SME) investments world-wide. Emile has extensive experience in the financial sector, and served as a Financial Sector Specialist, first in the Asia Department, then in the newly-created Financial Institutions Group. He now works at the Special Operations Department dealing with distressed assets in FMO's investment portfolio. Mr. Groot served as a Board member in several Banks and Private Equity Funds in emerging markets and is involved in the organization of external Corporate Governance courses.

Emil Groot joined the TBC Board in 2009 and is also a member of its Audit Committee.

MANAGEMENT BOARD



Vakhtang Butskhrikidze
Chief Executive Officer

Vakhtang Butskhrikidze became CEO of TBC Bank in 1995 and has dedicated his career to JSC TBC Bank's development since its early stages. He has extensive boardlevel experience and is currently a member of the Supervisory Board at the Association of Banks of Georgia and the Georgian Stock Exchange. Vakhtang is also the Chairman of the Financial Committee at the Business Association of Georgia.



Paata Gadzadze
First Deputy Chief Executive Officer

Paata Gadzadze has been the First Deputy CEO at JSC TBC Bank since 2001. He first joined TBC in 1994 as the Deputy CEO. Before joining TBC, Paata was an assistant to the Minister of State Property Management. He also served as the CEO of Georgian Pension and Insurance Holding (GPIH).



Giorgi Shagidze
Chief Financial Officer

Giorgi Shagidze joined TBC Bank as Chief Financial Officer (CFO) in September, 2010. Prior to TBC Bank, Giorgi worked across the financial service sector for most of his career. From 2001-2005, he was the CEO at Tbiluniversalbank and afterwards, was appointed as deputy CEO at the People's Bank of Georgia. After obtaining his MBA degree at Cambridge Business School in 2008, he joined Barclays Bank and held the position of Global Operation Executive for 2 years.



Vano Baliashvili
Chief Operating Officer

Vano Baliashvili joined TBC Bank in May 1999 as the Head of the Internal Audit Department. Later he was promoted to the Head of Financial Department. Currently he serves as a Deputy CEO and Chief Operating Officer (COO).



Nino Masurashvili

Deputy Chief Executive Officer -
Retail and SME Banking

Nino Masurashvili began her career as a financial analyst in the Financial Department at TbilComBank followed by the position of Head of the Financial Analysis and Forecasting Department at the same bank. In 2000, Nino joined TBC bank serving as manager in the Planning and Control Department and was later promoted to Head of the same department. Her next position was Head of the Sales Department. Since 2006, Nino has been serving as the Deputy CEO of Retail banking. Nino is also the member of Supervisory Board of TBC Kredit and the Bank Constanta.



Mariam Megvinetukhutsesi

Deputy Chief Executive Officer -
Corporate Banking

Mariam Megvinetukhutsesi was a State Advisor at the State Council of Georgia from 1994-96. She held a number of positions at the European Bank for Reconstruction and Development. Mariam joined TBC Bank in 2007 as the Director of Investment Banking. Currently she serves as the Deputy CEO at TBC Bank and is the head of Corporate Banking.



Tea Lortkipanidze

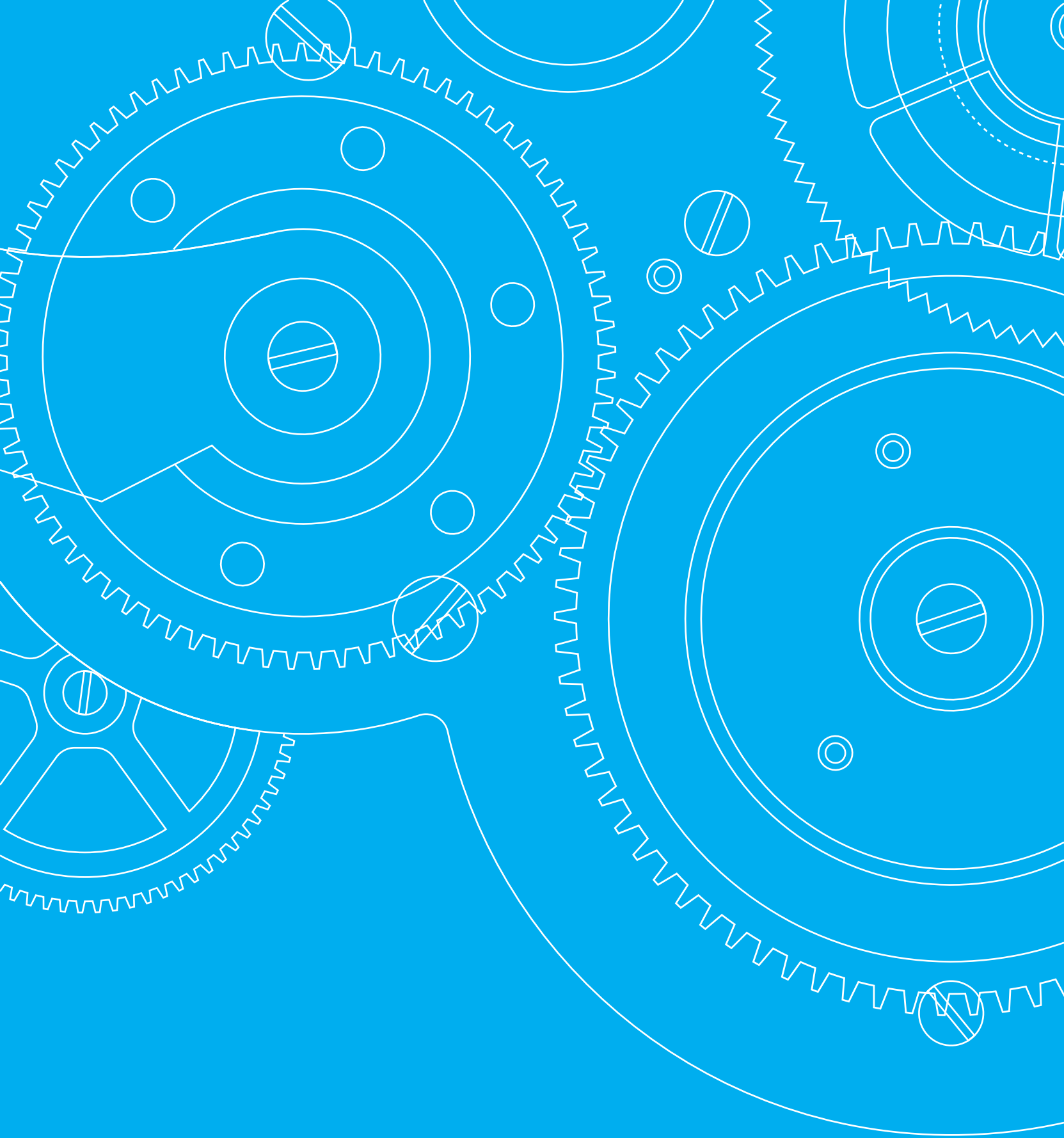
Chief Risk Officer

Tea Lortkipanidze joined TBC bank as a cashier in 1993. Later she was promoted to the Deputy Head of Credit Department and then Risk Management Director. Tea also served as the CEO at TBC Leasing. Her current position in TBC Bank is Deputy CEO/Risk Management Director.

MANAGEMENT BOARD

The management board carries out day-to-day management of the bank. The members of the management board are: the CEO, first deputy CEO, deputy CEOs (directors). The members are appointed and dismissed by the Supervisory Council.

The directors shall be appointed for the maximum term of 4 years. The scope of authority of a director is defined by a contract entered into with them upon appointment.



BUSINESS REVIEW

CHIEF EXECUTIVE'S REVIEW



According to the increase in the basic financial results, TBC Bank surpassed the general growth of Georgia's banking sector resulting in an increase in our share of the market. Improvements in the efficiency and profitability of TBC Bank have created suitable foundations for its future development. We had a breakthrough in terms of Cost to Income ratio, which decreased from 56% to 54% compared to 2010; a good indication of an extremely positive trend.

Vakhtang Butskhrikidze
Chief Executive Officer

All of the above was achieved against a background of the developing financial crisis in the West which complicated the conditions for finding financial resources from foreign markets.

Considering those circumstances, we needed to adapt our vision and strategy taking into account the external factors. We refocused on attracting local deposits, set and managed to achieve our rather ambitious goals in this area.

The deposit portfolio increased by GEL 634 million, or 46%, reaching GEL 2 billion by the end of the year, while the credit portfolio increased by GEL 619 million, or 40% to total GEL 2.17 billion. A 46% growth in assets was recorded during the year and by the year end, TBC Bank assets reached GEL 3.3 billion.

These figures have not remained unnoticed - EuroMoney, the largest European financial magazine, named TBC Bank as the best bank in Georgia, while the Financial Times magazine, The Banker, in its annual worldwide rankings of banks, named TBC bank the best bank of the year.

Fitch, an international ratings agency, upgraded viability rating of TBC Bank from B to B+. In addition TBC Bank was awarded the title of the best bank of Georgia for 2011 by Deutsche Bank as well as Commerzbank.

This recognition is significant and I am pleased that in recent years, these institutions have given TBC Bank similar ratings several times running, clearly indicating the dynamics of the successful development of our bank.

I would like to point out a very successful move by TBC Bank – the acquisition of 80% of Bank Constanta equity share . This was a strategically important decision for us as it enabled TBC Bank to enter the micro-credit segment – an interesting and promising area.

A distinguished institution, Bank Constanta has been operating successfully throughout Georgia, including the regions, and is one of the leading banks in the market of small business lending. It has a long tradition and significant experience in agricultural credits.

Up until now, TBC Bank has mostly operated in the corporate, medium size enterprise and retail sector; however, with its entry into the micro-finance market via Bank Constanta it is able to increase its financing to individuals in regions where it previously had no representation.

As a result of the Bank Constanta transaction, the assets increased by 77% and the credit portfolio by 71%.

2011 can also be viewed as a successful year for TBC Bank's other subsidiary companies:

TBC Leasing increased its market share by 18.7%; TBC Kredit, operating in Azerbaijan, increased its assets by 34% and its credit portfolio by 32%; while TBC Invest, founded by our bank in Israel increased its deposit portfolio by USD 15 m.

It is very important for us that TBC Bank holds the biggest share on the market of individual deposits. Last year we further strengthened our position and our market share exceeded 34%.

TBC Bank opened 5 new branches in 2011, increasing its ATM network and introduced the TBC Prime Card – a new and unique type of a credit card. In addition, as part of the bank's Smart Club loyalty program, TBC Bank gave its Smart Club members smart points worth a total of GEL 1.3 m.

I would like to mention our social responsibility, a traditional value of our brand. Within the framework of CSR projects, this year TBC Bank donated over GEL 1 million. In 2011 the priorities of our corporate social responsibility programs were the restoration of historical monuments, supporting tourism development in Georgia's mountainous regions, supporting internally displaced people, culture and arts...

This year TBC Bank will turn twenty. Celebrating our twentieth anniversary will make it a very special year for us and we will offer new products to our customers on a monthly basis. However the most important thing will be a grand project named "20/12"; dedicated to the anniversary, this project will serve the development of different fields of art in Georgia.

STRATEGY

The Group's overall strategy is to retain and further strengthen its position as a leading Georgian universal financial group by increasing its market share in each of its corporate, retail, SME and micro-finance businesses, as well as by identifying new business opportunities. In 2011, The Management developed the following strategic objectives, which are currently being implemented:

MAINTAIN AND FURTHER STRENGTHEN THE MARKET SHARE OF ITS RETAIL AND SME SEGMENTS

The Group aims to continue to strengthen its retail and SME segments. The Group plans to continue to provide high quality products and services to its retail and SME customers and to maintain and further solidify its status as the leading brand in the retail segment. Management believes that there is significant growth potential in the retail and SME business segments in the under-banked Georgian market and plans to leverage the Group's strong reputation increase its range of new products and retain its strong levels of service quality in order to capture this growth.

BE A CORE BANK FOR LARGE CORPORATE BUSINESSES

The Management considers the Group's large corporate client base to be of core importance and, accordingly, intends to continue to focus on its corporate segment. The Management believes that its innovative services and individual client approach, as well as its established reputation as being one of the most trusted business partners in Georgia, will facilitate rapid growth and will sustain and expand its existing corporate client base.

BE THE LEADER IN MICRO-FINANCE BANKING BUSINESS AND EXPAND INTO UNDER-BANKED RURAL AREAS

With the acquisition of Bank Constanta in May 2011, the Group entered the micro-finance market, which is considered to be lucrative. The Management believes that this segment offers particularly high growth potential with an attractive spread. Through Bank Constanta, the Group has acquired significant expertise and resources in the micro-finance sector, together with additional branches, which complement the Group's network, particularly in rural areas where the Group previously had no presence. The 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-finance lending.

DEVELOP ITS AZERBAIJANI PRESENCE

Following its expansion into Azerbaijan with the acquisition of TBC Kredit in 2007, and TBC Kredit's recent strong growth of 32% in total loans and advances to customers in 2011, the Management intends to continue focusing on developing its presence in the underpenetrated Azerbaijani banking market and plans to obtain a full banking license within the next 2 years, either directly or through the acquisition of a small bank in Azerbaijan.

In order to support our long term strategic goals, the Group's Management introduced several strategic initiatives:

In 2011, the Group launched a large-scale project of implementing "The Best Multichannel Service/Sales Model in the Region". The new multichannel service will include advanced internet and mobile banking, a call centre, ATMs, cash-in terminals and will be the best in the region (including Turkey) in terms of both functionality and design.

In addition, in 2012, the Group plans to launch several other strategic initiatives with the aim to increase branch operational efficiency, further strengthen risk management policies and procedures and improve human resources management systems.

BUSINESS LINES

RETAIL BANKING

Retail segment is the largest segment of the Group in terms of share in total customer deposits portfolio of 54.3% and is the second largest segment in terms of share in total loans and advances to customers' portfolio holding 37.4%. As at 31 December 2011, retail segment had c. 645 thousand customer deposit accounts, c. 100 thousand credit cards, c. 6 thousand outstanding mortgages and more than 125 thousand other types of loans.

Retail segment offers diversified product range to its retail clients such as: consumer loans, mortgage loans, credit cards, instalment loans and other various types of loan products. The Group's total loans stood at GEL 809.8 million as at 31 December 2011, having increased by GEL 225.9 million, or 38.7%, from GEL 583.9 million as at 31 December 2010. Increase in retail loan portfolio had direct impact on retail loan market share which as of 31 December 2011 reached 24.1%.

The Group also offers its retail clients deposit products which are specifically designed for customers' specific needs such as child deposits, term plus, my safe, golden deposit, bonus deposit - my goal and other types of deposit products. As at 31 December 2011, the Group's total retail deposits amounted to GEL 1,086.2 million, having increased by GEL 234.2 or 27.5% from GEL 852.0 million as at 31 December 2010. Increase in retail deposit portfolio directly reflected on the growth of retail deposit market share where the Bank outperformed the market growth and further strengthened its position as the leader in retail deposits by reaching 34.2% of the market share as of 31 December 2011.

The growth of retail deposits portfolio was due to the innovative marketing campaigns of TBC Bank which were implemented throughout the year.

Innovative Marketing Campaigns

In 2011, TBC Bank embarked on a campaign to attract local deposits. A number of efficient appealing offers were planned and implemented resulting in a significant increase in the retail deposit portfolio and strengthening the Bank's position as a leader in the market.

During the first half of the year TBC Bank launched a unique campaign for the local market called "Find \$10,000" – the first Georgian reality contest involving tens of thousands of people. The competition gave every participant the chance to find and win USD 10,000 that had previously been buried in the ground by a character from the advertising campaign. With the competitors spread all over Tbilisi, the contest became widely known among the Georgian public.

In addition, the marketing campaign was widely recognized at prestigious international advertising festivals: Eurobest Advertising Festival, Popok and Eurobest 2011, winning silver and gold awards.

In the second half of the year TBC Bank continued the campaign, offering its depositors a new competition “Win \$20,000”, this time as a quiz on the Internet rather than outside in the open air. As a result of the campaign the retail deposit portfolio topped GEL 1 billion, unprecedented for the Georgian market. The winner was a young depositor, who was ceremoniously awarded the prize.

New products

TBC PrimeCard – In 2011, TBC Bank introduced TBC PrimeCard, a new and unique credit card. With many advantages, it is completely different from other existing cards:

- Tailored design: card-holders can design their own card according to their own taste and ideas, or through the versatile design gallery offered by TBC Bank.
- The longest interest-free period: TBC PrimeCard is unique as it offers a 0% interest rate for up to 3 months following approval. Following this, the cardholder can still enjoy an additional 55-day interest-free period, if the amounts withdrawn are paid in full. This is the first time such terms have been offered in the Georgian banking market.
- Choosing a tariff: customers are able to choose the tariff that most suits their needs – either ‘Prime Shop’ – if they prefer to pay by card, or ‘Prime Cash’ – if their preference to use cash.

TBC PrimeCard also offers its customers a number of extra benefits: Smart Club membership; discounts at many partner merchants and 5-15% cashback for using the PrimeCard.

Mortgage loan line - last year TBC Bank offered its customers a new product – mortgage loan line. This unique type of secured loan can be used for any purpose and offers the following special features:

- The loan amount is valid for up to one year after approval and can be used in stages or as a lump sum;
- During the first year, the customer can opt to make interest-only repayments;
- The customer is able to re-withdraw any paid-off sum;
- The customer can repay the loan in advance without any commission charges during the first year.

iC@rd - In 2011, TBC Bank created the iC@rd for those who frequently shop online and need a fully flexible, secure and cheap payment card.

The iC@rd is specifically designed for internet shopping and online payments. The annual commission charge for the card is lower than for the usual classic card, and in addition, offers student cardholders a 50% discount.

CORPORATE BANKING

Corporate segment is the largest segment of the Group by loan portfolio, holding 46.3% share in total portfolio and is the second largest segment in terms of share in total customers' deposits portfolio holding 35.0% of total portfolio. As of 31 December 2011, corporate segment had c. 1.8 thousand clients, c. 4.4 thousand customer deposit accounts and c. 600 outstanding loans.

Corporate segment offers diversified product range to its clients including, balance sheet finance, trade finance, overdrafts, short- to medium- term loans to finance working capital, medium-to long-term project finance loans, syndicated loans and energocredit loans, as well as other tailored financing packages.

The Group has continued to increase its lending to the corporate segment, which amounted to GEL 1,003.8 million as at 31 December 2011, reflecting an increase of GEL 192.3 million, or 23.7%, from GEL 811.6 million as at 31 December 2010. According to data published by the NBG, as of 31 December 2011, TBC Bank's corporate loan market share stood at 27.5%.

The Group 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, My Safe and Golden Deposit.

As at 31 December 2011, the Group's total corporate deposits amounted to GEL 699.6 million, compared to GEL 377.1 million as at 31 December 2010. As of 31 December 2011, TBC Bank's Corporate deposit market share stood at 24.9%.

TBC Bank expects a further increase in lending in the corporate segment in 2012. In addition the bank also plans to explore new opportunities in the healthcare, agriculture, food, energy and consumer services sectors.

SME BANKING

SME segment is the third largest segment of the Group holding 10.8% and 10.0% shares in total loans and advances to customers and customer deposits portfolios, respectively. SME segment offers various types of loan and deposit products and services to its clients including trade finance and FX operation services. As at 31 December 2011, SME segment had c. 29 thousand clients, c. 47 thousand customer deposit accounts and c. 1.5 thousand outstanding loans.

The Group offers a wide variety of loans to its SME clients, including 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. All these loan products are tailored specifically to SME businesses in order to meet the expectations of customers in this segment. As at 31 December 2011, loans and advances to SME customers amounted to GEL 234.8 million, reflecting an increase of GEL 81.9 million, or 53.5%, from GEL 152.9 million as at 31 December 2010.

Similar to its corporate businesses, the Group offers a range of current and savings accounts and term deposits to its SME customers, as well as deposits with specifically tailored terms. Deposit products include Term Plus, My Safe and Golden Deposit. As at 31 December 2011, the Group's total SME deposits amounted to GEL 199.7 million, compared to GEL 136.3 million as at 31 December 2010.

Intense efforts were made to raise the quality of our services and the level of client satisfaction. Every small and medium company is now allocated its own personal manager as a contact person in the bank who is on hand to offer assistance with any issues and make recommendations regarding the bank's current products.

It is equally important to refine distance service channels particularly since there has been a considerable increase in the proportion of transactions conducted using internet banking – from 65% to 75% of all transactions.

MICRO-BANKING – CONSTANTA

Since the acquisition of Bank Constanta in May 2011, the Group classifies its micro-finance customers as all customers of Bank Constanta. Micro segment is the smallest segment of the Group, holding 5.5% share in total loans and advances to customers' portfolio and 0.7% in total customer deposits portfolio. As at 31 December 2011, Micro segment had c. 28 thousand customer deposit accounts and c. 32 thousand outstanding loans.

Through Bank Constanta, the Group offers specifically designed short- to medium- term loans to its micro-finance clients, and has a diversified loan product range, including loans for various specific purposes, such as increasing working capital, purchasing fixed assets and expanding borrowers' businesses. Bank Constanta has continued to increase its micro loan portfolio and as at 31 December 2011 loans and advances to micro-finance customers amounted to GEL 118.9 million, having increased by GEL 49.8 million, or 72.1%, from GEL 69.1 million as at 31 December 2010.

The Group offers different types of current and savings accounts and term deposits to its micro-finance clients. The Group also offers special types of deposit to its micro-finance clients, including on-call deposits, cumulative deposits and a deposit product tailored for children. As at 31 December 2011, the Group's total micro deposits amounted to GEL 14 million.

In addition, during the second half of 2011, the Bank introduced plastic cards and installed ATMs in existing branches. As for the Bank's network of branches, 9 new ones were opened in various regions of the country, while 3 existing branches were renovated. There are now more than 30 branches across the country. Equally important was the re-branding implemented in 2011 giving the Bank a new image in the market with its new logo and colour.

TBC KREDIT

TBC Kredit is operating successfully in the credit market in Azerbaijan. The company has a broad experience of funding small and medium enterprises and consumer or mortgage loans. Shareholders of TBC Kredit are TBC bank (75%) and ShoreBank International, USA (25%).

In 2011, the company continued to work intensively to increase the credit portfolio, which, by the end of the year reached USD 27.6 million. The improvement in sales for the year was due to raising awareness through increased publicity and offering attractive terms and conditions for mortgage and consumer loans.

For 2012 TBC Kredit aims to increase total credit portfolio up to USD 40 million.

TBC LEASING

Founded in January 2004 by TBC Bank, TBC Leasing JSC immediately began operations. Starting with assets of GEL 0,5 million, by 2008 the figure had increased to GEL 33.6 million.

In 2005, EBRD secured a presence in the company's equity by purchasing newly issued stock, comprising 10% of the total shares.

With recent figures indicating approximately 63% of the market share, TBC Leasing remains one of the leading companies in the field.

The company targets SME enterprises – offering a wide variety of leasing products tailored to company size as well as to industry specific requirements, thus providing flexibility and a high quality of service.

2011 has seen positive trends in terms of portfolio quality improvement as well as new business development. Total assets in 2011 reached GEL 31 million compared with GEL 18.4 million in 2010. In addition, major changes to the laws on leasing became effective November 1, 2011. The changes which significantly improve civil regulations as well as the taxation of lease operations will facilitate new growth opportunities for the whole industry.

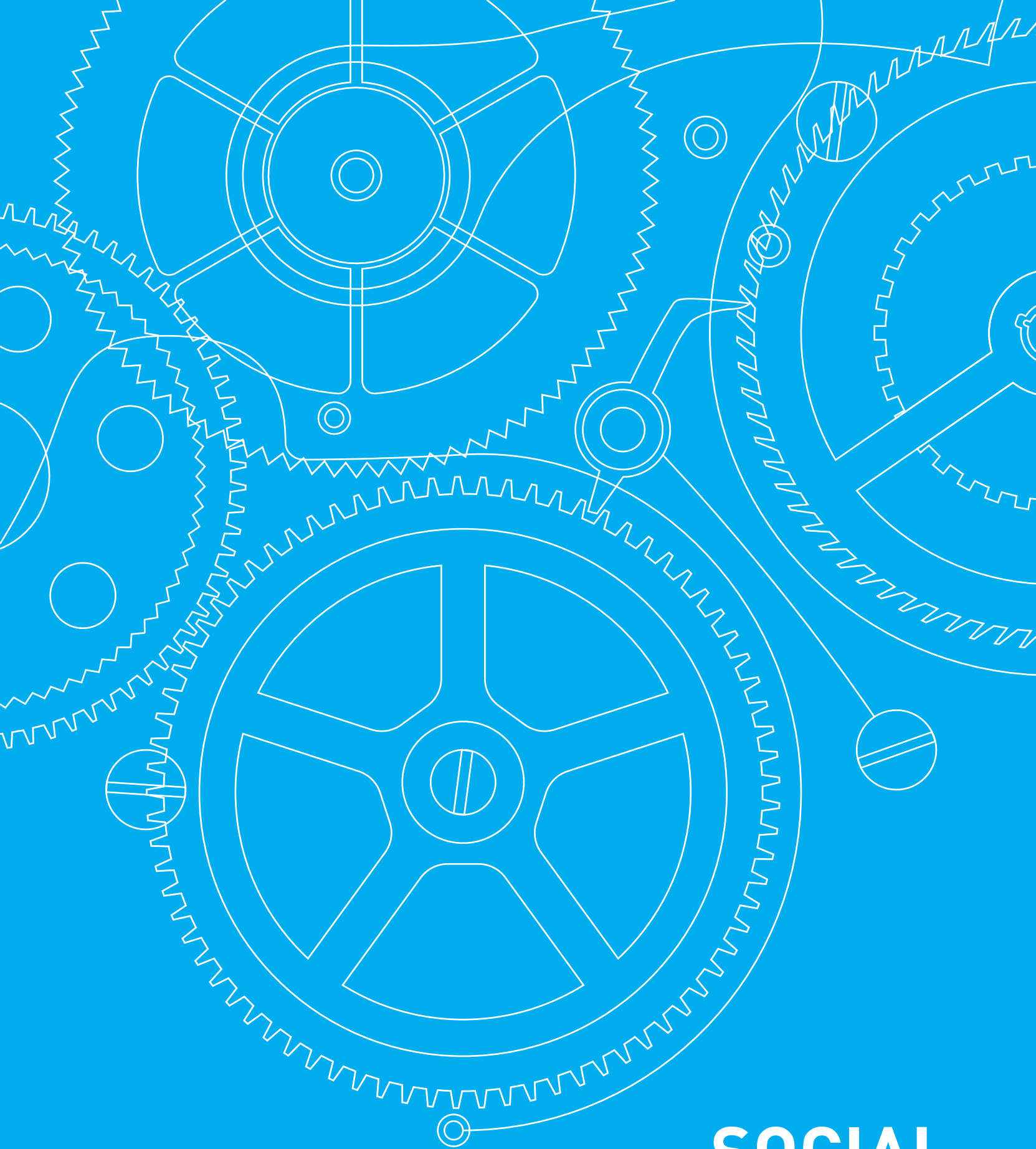
TBC INVEST

TBC Bank recently established its Wealth Management department specifically to work directly with non-resident customers. The department currently attracts customers through direct sales and through TBC Invest – our representative office in Israel.

TBC Invest Georgia Ltd. is the wholly owned subsidiary of TBC Bank in Israel. Incorporated on January 11, 2011, the main purpose of TBC Invest is to attract new customers from Israel and assist them with account opening and other issues.

Opening a representative office in Israel was a pilot project for the bank and has since proven successful. Despite a number of initial obstacles such as a low local awareness of TBC bank, we managed to overcome the barrier. Now we are proud to report that our customers are very satisfied with products and services of TBC Bank and that they feel it is safe to invest money in Georgia, in particular with TBC Bank.

As of December 31, 2011, TBC Bank had attracted over USD 15 million and about 150 non-resident customers, both individuals and legal entities.



SOCIAL RESPONSIBILITY

SOCIAL RESPONSIBILITY

We firmly believe that it is our moral and ethical responsibility to support the communities in which we do business and to contribute to the overall well-being of people throughout our nation. TBC Bank initiates and finances a broad range of cultural and social projects. Our goals over the past year were to help preserve Georgian history, promote national values, create opportunities in arts and culture, and foster a brighter future for Georgian refugees. The majority of TBC Bank's corporate social responsibility initiatives require long-term financial commitments from us. We are dedicated to bringing about change that will benefit society in the long term as well as the short term.

In 2011, we spent a total of GEL 1,030 million on the following projects:

- Restoring historical and architectural monuments;
- Assisting in the development of tourism in mountainous regions of Georgia;
- Promoting arts and culture;
- Supporting Georgian refugees (TBC Fund).

RESTORING HISTORICAL AND ARCHITECTURAL MONUMENTS

TBC bank financed the restoration of the Poti Cathedral, a neo-byzantine architectural construct modeled after the Hagia Sofia.

We financially support the Poka and Gudarekhi monasteries annually, improving the living conditions for the nuns and the priests. Both of these monasteries were built in the 11th century and are important to Georgia's Christian heritage.

TBC Bank also financed the construction of St. Nicolas church in Lagodekhi, as well as the David the Builder Cathedral in the Khoni-Samtredia eparchy.

ASSISTING IN THE DEVELOPMENT OF TOURISM IN MOUNTAINOUS REGIONS OF GEORGIA

In 2011, TBC Bank took a number of steps to help increase tourism in Khevsureti, a stunning remote mountainous region in Georgia. We renovated one of the fortress towers in Shatili, the main village of Khevsureti. The Shatili fortress dates back to the thirteenth century and is visually one of the most unique buildings. We aim to make Khevsureti more accessible to tourists by creating a modern tourist infrastructure.

We have also funded a summer camp, Zeta, for tourists who are interested in exploring Georgia's mountainous regions. Zeta conducts a number of tours to Khevsureti, as well as Khazbegi. Currently, we are working to promote horseback riding tours in the mountains.

ARTS AND CULTURE

The annual Saba literary competition and award ceremony was founded by TBC Bank 9 years ago and has become the most prominent literary event in Georgia. Over the course of the past 9 years, 74 Georgian writers have been bestowed the prestigious Saba award along with considerable cash prizes from TBC Bank for works in a wide range of literary categories including poetry, prose, play writing, novels, essays and documentary prose, translations and literary criticism.

The TBC Gallery is one of the most active and distinguished cultural centers in Tbilisi. It was founded in 2005 and is located in TBC Bank's head office. In 2011, TBC Gallery hosted approximately 100 events including painting and photo exhibitions, book, film and musical CD presentations, concerts and various soirees. Thousands of people attend TBC Gallery's events every year.

In the past year, we had world-class classical and jazz musicians conduct a concert every month for TBC Bank's VIP guests. TBC Gallery was used as a chamber music hall for these performances.

Over the past two years, we have also expanded TBC gallery by opening similar venues in Signagi and Batumi, creating new opportunities for artists to promote their work.

In 2011, TBC Bank financed several grand music events in Georgia, most notably, the 11th Tbilisi International Jazz Festival. Renowned musicians come to Tbilisi from all over the world to perform at this Festival annually.

We also funded the Competition for Young Musicians for the fifth consecutive year. The Tbilisi State Conservatory and the Georgian Fund of Music Competitions organize this event to support talented young musicians and also generally promote classical music.

TBC Bank's support for the arts and culture distinguishes us from competing Banks, as well as from all other Georgian companies.

TBC FUND

In August of 2008, TBC Bank founded the TBC Fund to help victims of the 2008 war in Georgia. We established the TBC Fund with GEL 5 million and, shortly after, raised an additional GEL 3 million for its programs. Our aim is to improve healthcare for the refugee population and provide opportunities for the young generations of IDPs to pursue their artistic talents, be actively engaged in sports and, most importantly, to receive good education.

[TBC fund is the most large-scale social project implemented by the Georgian private sector in recent history.](#)

In 2011, we dedicated much of our efforts to improving the Tserovani School for refugees, a school built by TBC Fund in 2009 that provides 2,000 refugee children with educational opportunities. The Tserovani School for refugees is equipped with a contemporary infrastructure, modern laboratories, gym and brand new computers.

In the past year, TBC Fund launched the Integrated Teaching Program in Tserovani middle school. This program aims to enhance students' proficiency of the English language and knowledge of Art History. It is academically run and partially taught by professors from TSU (Tbilisi State University).

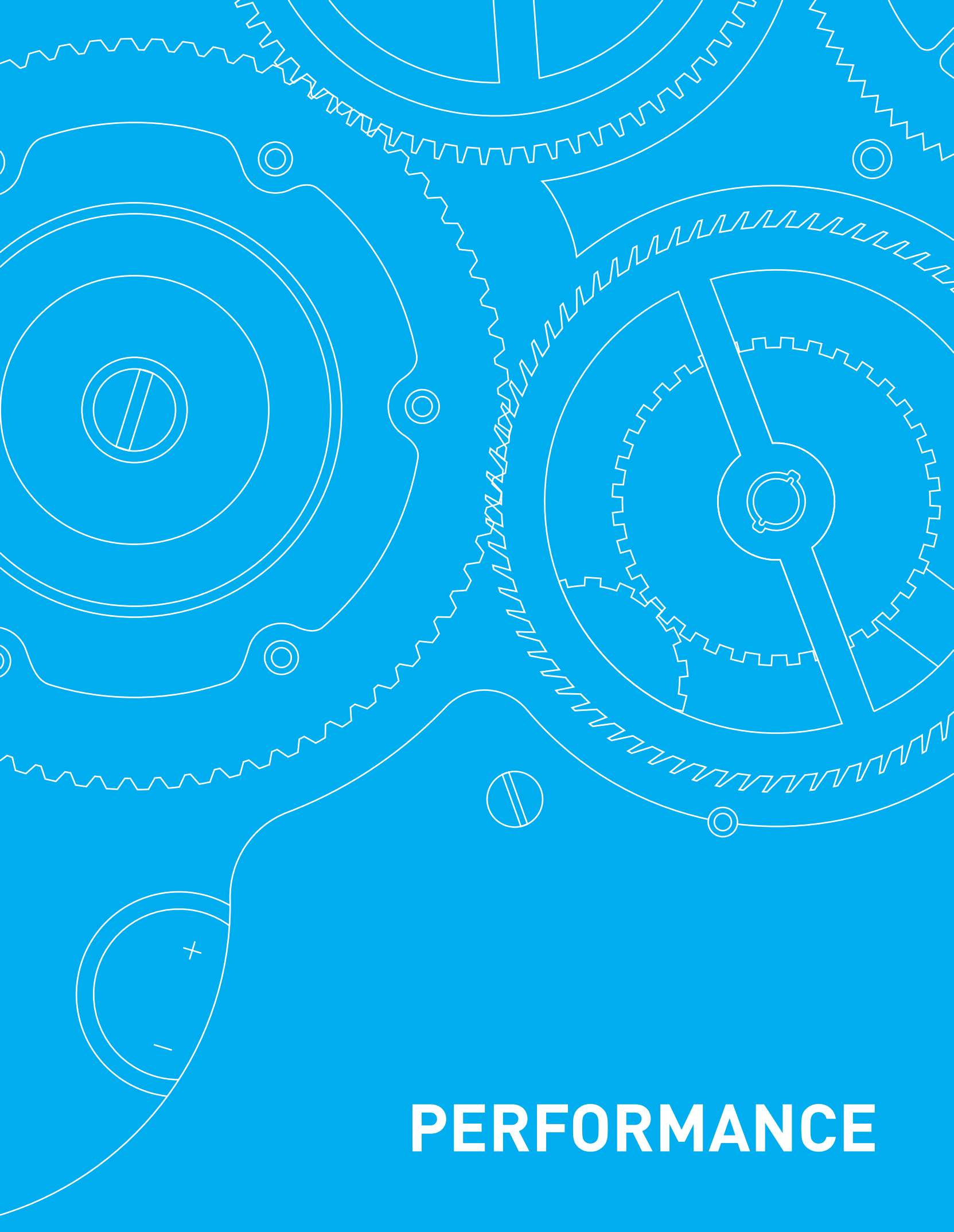
With the support of the Tbilisi State Conservatory, we also implemented the Wind Orchestra for Young IDPs program, offering young students opportunities in musical education. TBC Fund has purchased every kind of musical instrument for the Tserovani School students and we have fully financed musical courses that have been created and will be directed by professors from the Tbilisi State Conservatory.

We are aspiring to engage young IDPs in sports activities and generally popularize physical health through the Healthy Generation in Tserovani project. So far, we have built one of Georgia's largest and best karate centers in Tserovani. One child has gone on to win a gold medal and two others have received silver medals in their respective age groups at the European Karate Championships.

TBC Fund has offered Psychosocial support for, predominantly young refugees who are suffering from war traumas. We help by providing the assistance of medical specialists who treat psychological problems with various types of therapy.

This year, we have committed to providing 2 severely injured children with full medical care until they reach the age of maturity.

We have also helped provide job opportunities for graduates of the Tserovani School by negotiating with large Georgian construction companies, car repair shops, beauty saloons and food production companies to offer IDPs internships. We paid graduates while they interned and also financed external monitoring of these programs to make sure that they were productive. Most interns were employed full time by these companies.



PERFORMANCE

PERFORMANCE

FINANCIAL REVIEW

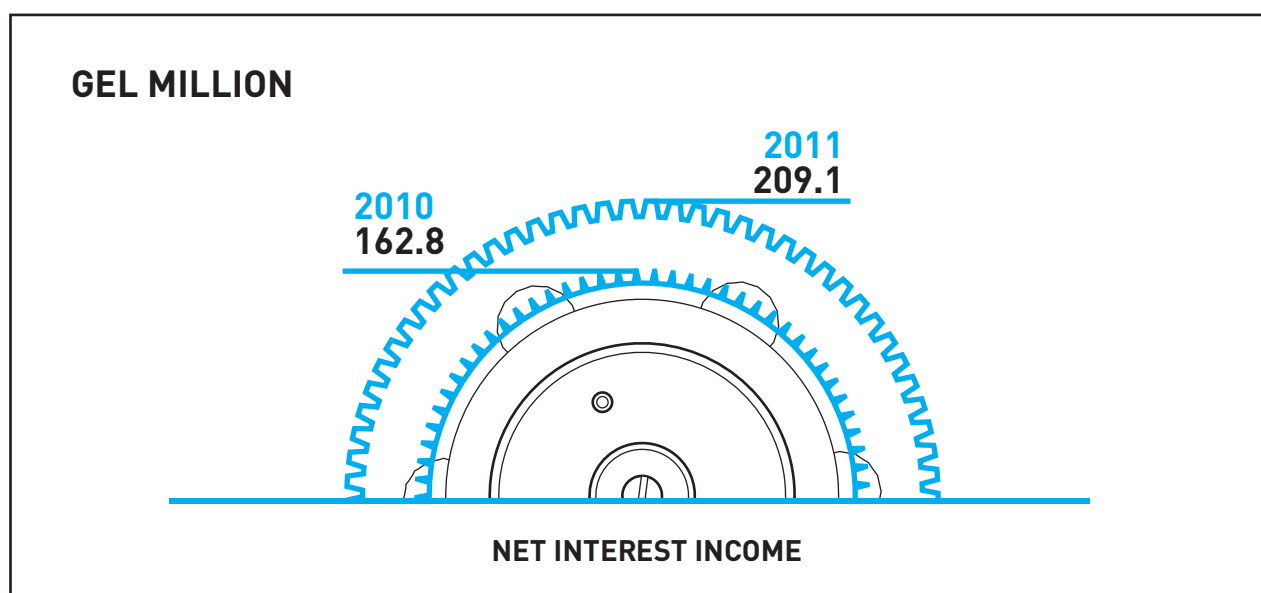
The Group delivered a net income of GEL 91.6 million in 2011 having increased by GEL 42.2 million or 85% from GEL 49.4 million as of 31 December 2010.

Net interest income

The Group's net interest income reached GEL 209.1 million as of 31 December 2011 up by GEL 46.3 million, or 28%, from GEL 162.8 million for the corresponding period in 2010 and resulting from the larger increase in interest income of GEL 88.4 million than in interest expense of GEL 42.1 million.

The growth in net interest income was primarily due to the large increase in interest income which grew by GEL 88.4 million or 33% during 2011. This was mainly driven by the growth in interest income from loans and advances to customers, which in turn increased by GEL 76.2 million or 31% Y-o-Y to GEL 323.5 million as of 31 December 2011. The increase of GEL 76.2 million in interest income from loans and advances to customers was largely due to the significant raise in the loans and advances to customers' portfolio.

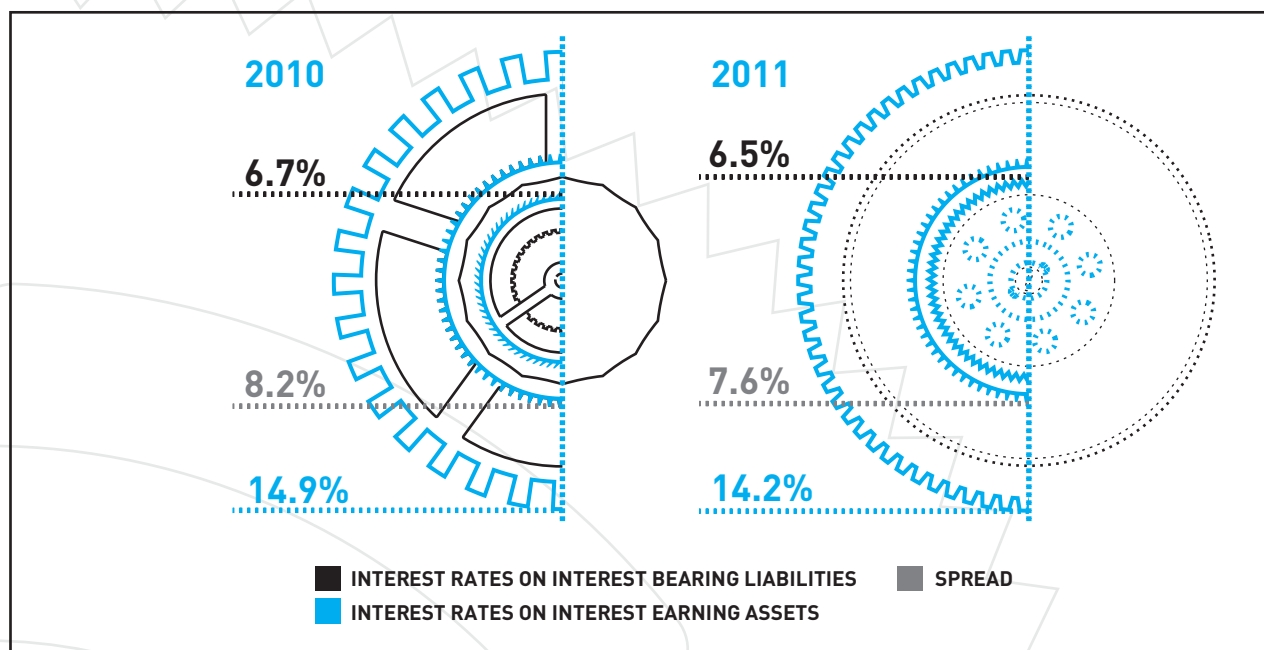
Similarly, in 2011, there was an increase in interest expenses which grew by GEL 42.1 million or 39% Y-o-Y to GEL 151.1 million as of December 2011. This GEL 42.1 million increase was primarily driven by the interest expense on customer deposits which grew by GEL 27.9 million or 36% to GEL 105.4 million as of December 2011. The increase in interest expense on customer deposits was primarily as a result of the larger customer deposit portfolio. Interest expense on borrowed funds also grew by GEL 14.1 million Y-o-Y and was due to the increase in borrowed funds by GEL 236.9 million Y-o-Y.



Interest rates and spread

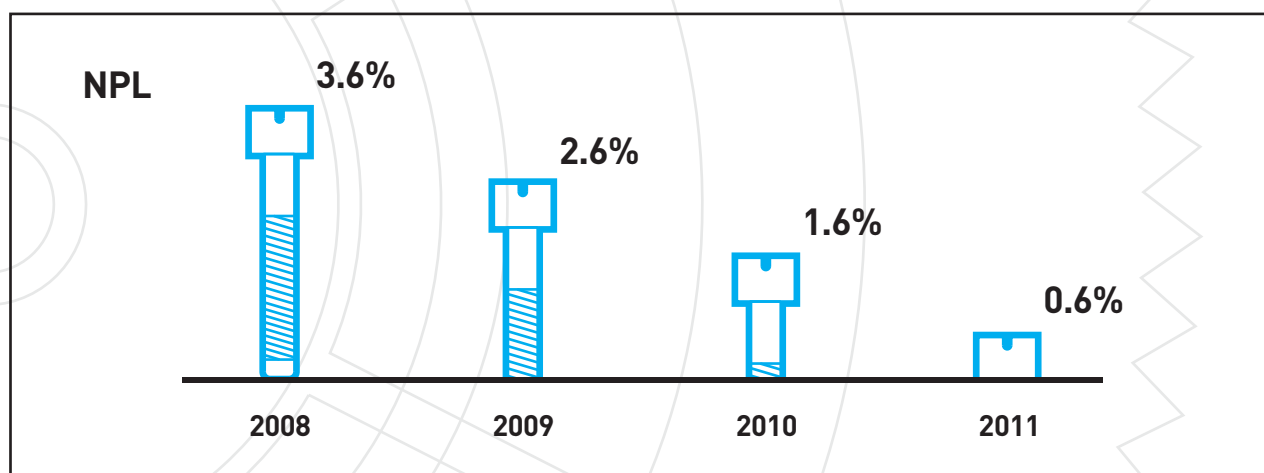
While the Group's average interest rate on interest earning assets in 2011 was down slightly, it remained at an attractive level of 14.2% compared to 14.9% in 2010. The average interest rate on interest bearing liabilities also decreased and reached 6.5% in 2011 compared to 6.7% in 2010.

Consequently, Spread experienced a slight decline to 7.6% in 2011 compared to 8.2% in 2010 and was in line with the market trend which also experienced decline due to the increased competition on the market.



Provision for loan impairment

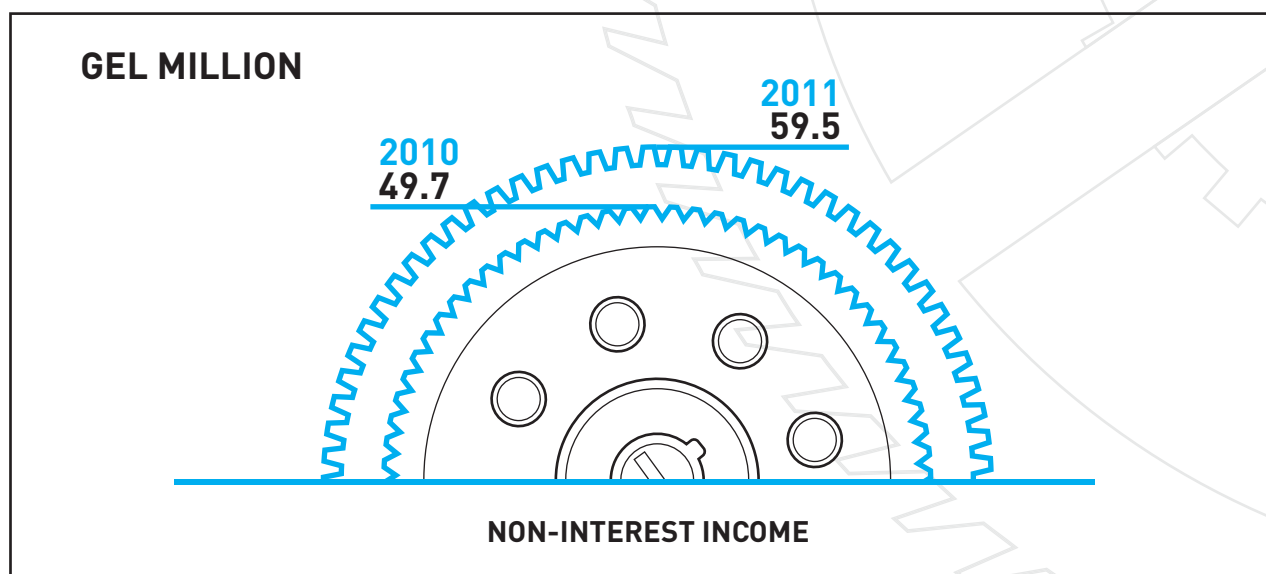
The Group's provision for loan impairment was GEL 16.0 million as of December 2011 down GEL 15.3 million or 49% from GEL 31.3 million as of December 2010. This decrease was reflected in the improved NPL ratio (PAR 90) which fell from 1.6% in 2010 to 0.6% in 2011.



Non-interest income

The Group's non-interest income was GEL 59.5 million as of 31 December 2011 an increase of GEL 9.8 million or 20% from GEL 49.7 million for the corresponding period in 2010.

This GEL 9.8 million increase was mainly due to the higher net fee and commission income which as of the YE 2011 reached GEL 28.7 million up by GEL 9.7 million or 51% Y-o-Y. The Group's income from FX operations also increased by GEL 3.7 million Y-o-Y to GEL 25.8 million and was due to the increased volume of FX transactions which was the consequence of increased scale of the business.

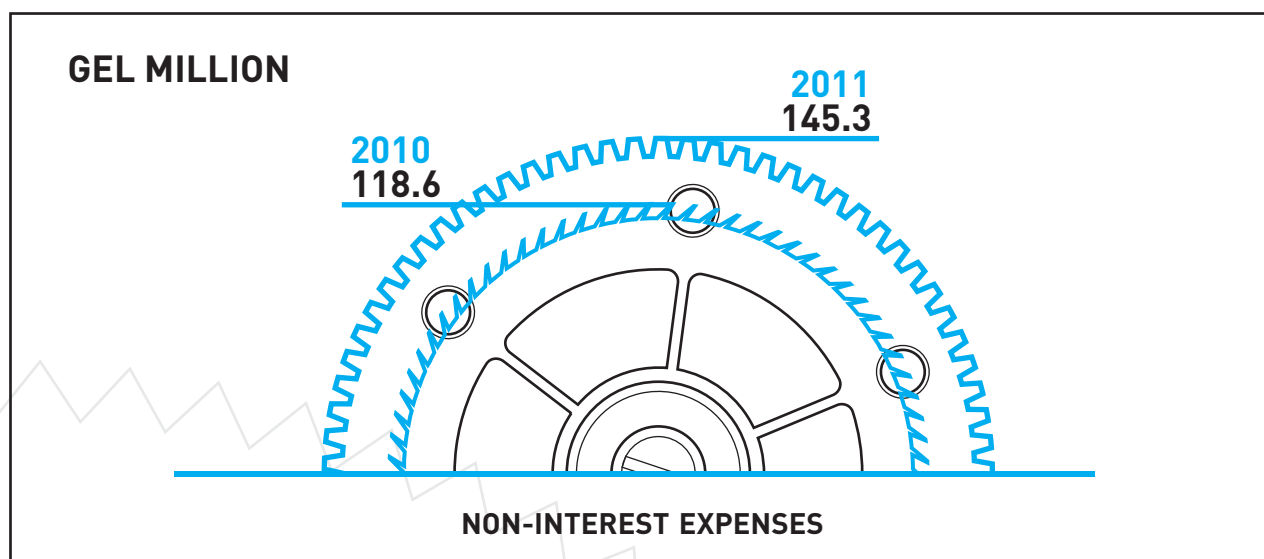


Non-interest expenses

The Group's non-interest expenses including staff and administrative expenses were GEL 145.3 million as of 31 December 2011 having grown by GEL 26.7 million or 22% from GEL 118.6 million as of December 2010.

The increase of GEL 26.7 million was mainly attributable to higher staff cost which was up by GEL 21.3 million or 37% Y-o-Y to GEL 78.4 million as of 31 December 2011 and was driven by the higher staff number as well as higher salaries and bonuses which were in line with the business growth.

Administration expenses were also up by GEL 4.5 million or 9% Y-o-Y to GEL 51.7 million. This GEL 4.5 million growth was primarily due to the increased marketing costs by GEL 5.2 million, being the consequence of various marketing campaigns which the Group launched during the year and which directly reflected in the growth of loan and deposit portfolios.

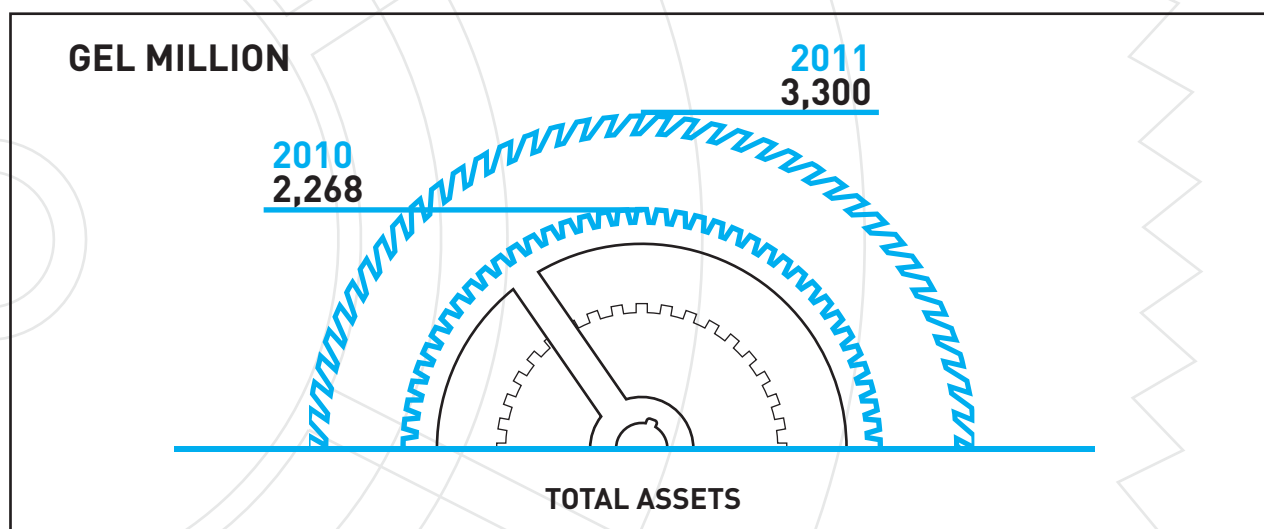


Assets

The Group's total assets reached GEL 3,300 million as of 31 December 2011 an increase of GEL 1,032 million or 46% from GEL 2,268 million as of 31 December 2010.

The impressive growth in total assets was mainly driven by the larger loan portfolio which as of 31 December 2011 stood at GEL 2,167 million, up by GEL 619.0 million or 40% from GEL 1,548 million as of 31 December 2010. In terms of business lines, during 2011, the retail segment had the highest growth of GEL 225.9 million, while the corporate segment grew by GEL 192.3 million and SME by GEL 81.9 million. In addition, the Group entered the Micro-finance sector following the acquisition of Bank Constanta in May 2011, through which it achieved a portfolio of GEL 118.9 million as of 31 December 2011.

Another major driver to the increased assets was the growth of Due from banks which grew by GEL 216.3 million and equaled GEL 291.0 million as of YE 2011. Cash and cash equivalents also increased by GEL 98.7 million to GEL 374.2 million as of YE 2011, resulting in the strong liquidity position of the Group.

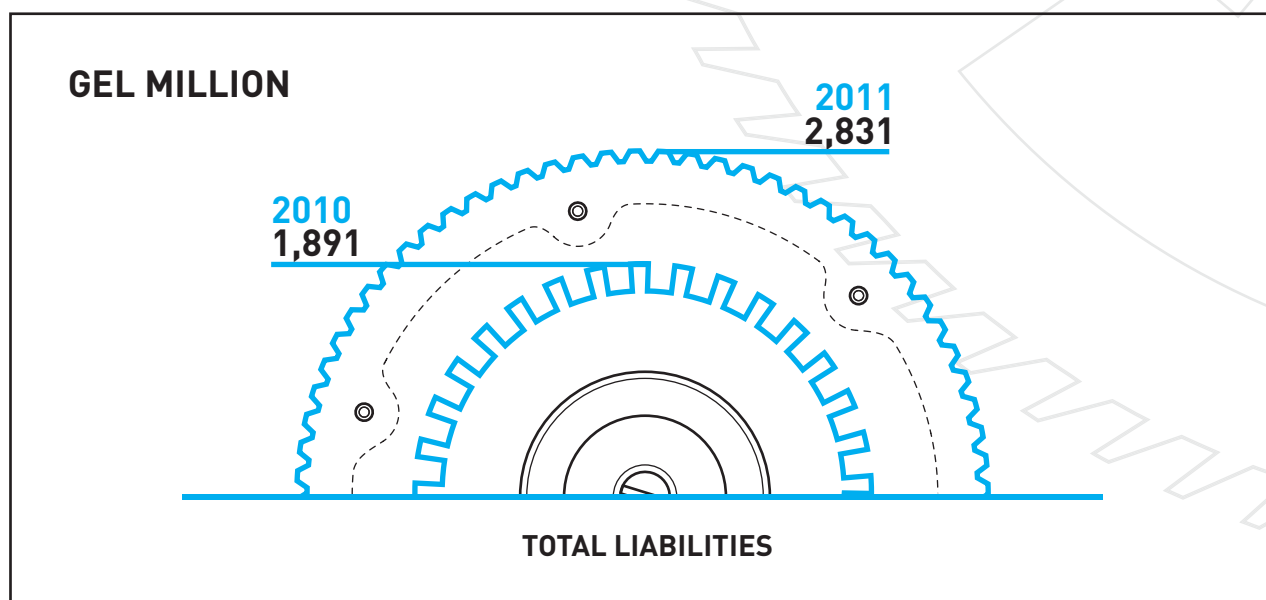


Liabilities

The Group's total liabilities equaled GEL 2,831 million as of 31 December 2011 an increase of GEL 940.7 million or 50% from GEL 1,891 million in 2010.

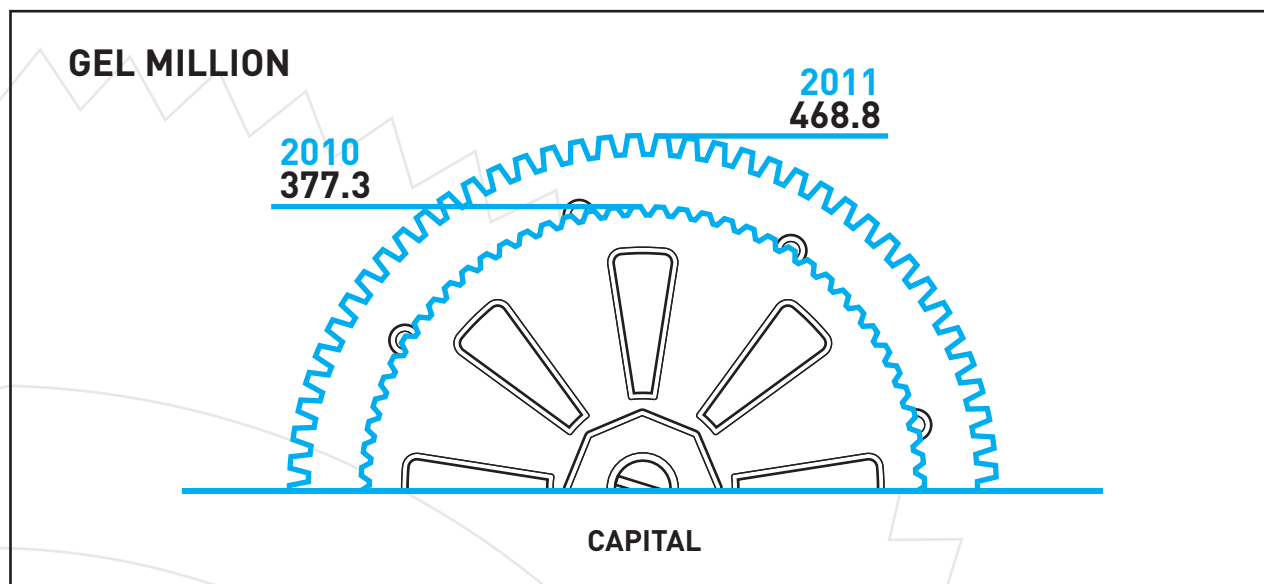
The growth of GEL 940.7 million was largely due to the higher customer deposits portfolio which in turn reached GEL 1,999 million as of 31 December 2011 and grew by GEL 633.9 million or 46% from GEL 1,365 million as of 31 December 2010. In terms of business lines, the corporate segment had the largest growth of GEL 322.5 million, while the retail segment grew by GEL 234.2 million, SME by GEL 63.4 million and for the Micro-finance segment through Bank Constanta we increased our portfolio by GEL 13.8 million during 2011.

Another major contributing factor to the increase in liabilities was an increase in borrowed funds, which grew by GEL 236.9 million or 84% reaching GEL 517.8 million as of 31 December 2011.



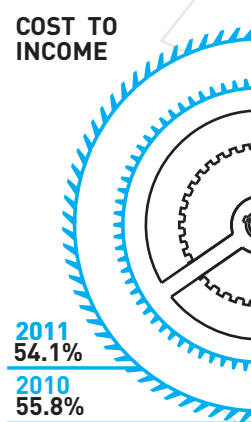
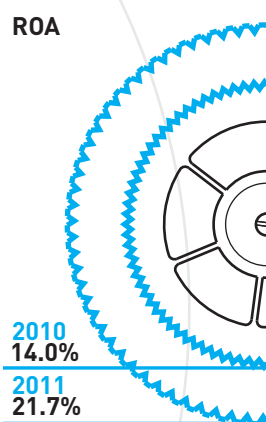
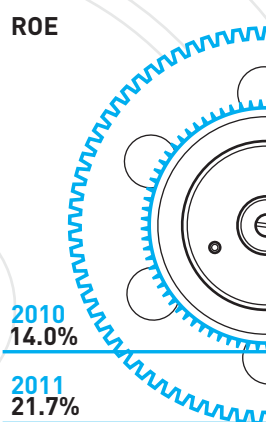
Capital

The Group's capital increased by GEL 91.5 million or 24% from GEL 377.3 million in 2010 and equaled GEL 468.8 million as of YE 2011. The increase in capital was largely attributable to the growth in retained earnings, which during 2011 grew by GEL 78.4 million or 64% compared to the corresponding period in 2010. The increased capital reflected in the Group's BIS Tier 1 and BIS total capital ratios which reached 17.9% and 23.8% respectively as of YE 2011.

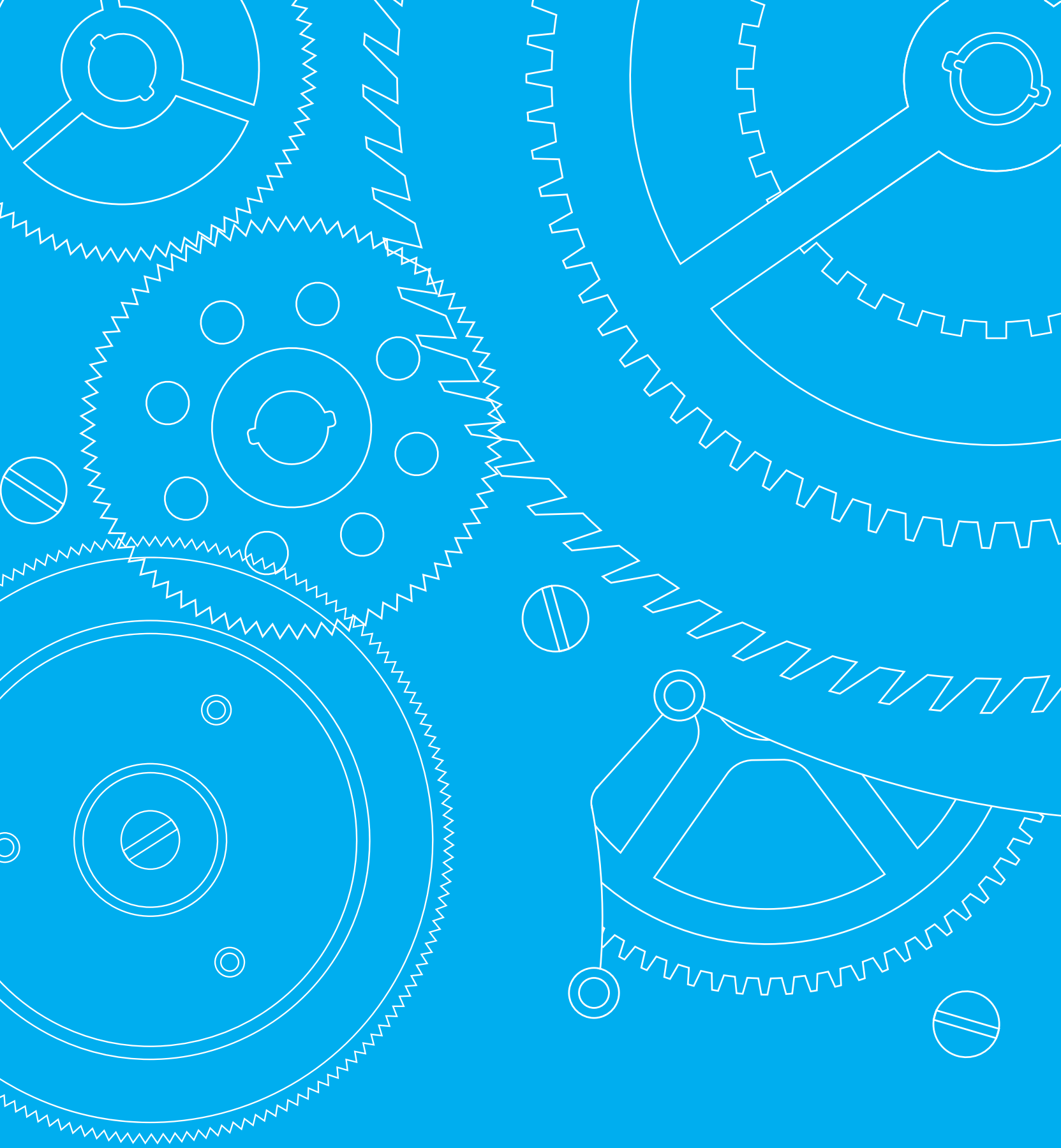


Profitability ratios

The Group's improved profitability was positively reflected in the profitability ratios. In other words, Return on Average Equity (ROaE) reached 21.7% as of 31 December 2011 compared to 14.0% in 2010. Similarly, Return on Average Assets ratio (ROaA) equaled 3.3% as of YE 2011 compared to 2.5% as of YE 2010.



The Group's efforts towards cost efficiency was reflected in the pre-provision Cost to income ratio which improved Y-o-Y and was 54.1% as of YE 2011, down by 1.7% from 55.8% for the corresponding period in 2010.



RISK MANAGEMENT AND GOVERNANCE

RISK MANAGEMENT

TBC BANK UNDERTOOK SIGNIFICANT STEPS FOR THE IMPROVEMENT OF THE RISK MANAGEMENT SYSTEM

The risk management strategy of the bank ensures that there are (i) an adequately defined risk appetite statement by setting appropriate risk limits according to various risk types, (ii) well-defined risk management policies and procedures, (iii) risk management bodies and an organizational structure with clearly defined roles and responsibilities, and (iv) an efficient management information system, enabling timely information flow to risk management bodies.

Risk management bodies such as the Board of Directors, credit committee, operational risk committee and ALCO are in place to regularly monitor risk levels within the bank and ensure that they are within acceptable limits.

In 2011, the Bank implemented a revised and updated credit policy in order to set clear guidelines for underwriting and credit portfolio management.

Borrower grading and industry grading systems were updated based on the developments in the various industries. The Bank introduced a comprehensive pricing model for business loans in order to effectively assess the profitability of both individual transactions and whole portfolios and thus price loans satisfactorily.

TBC Bank uses the Maturity Mismatch model that is based on BIS Principles (Principle 5) for sound liquidity management. The model includes appropriate stress tests, “What if” scenarios, as well as liquidity contingency plans. The Basel III Net Stable Funding Ratio was introduced for long term liquidity mismatch management purposes.

Significant developments were made in order to further improve operational risk management and enhance the information security management system. An external consulting company was contracted to conduct an information security audit, as well as penetration tests.

The plan is to hire a company from “Big Four” auditors for the Basel II implementation in 2012 so that the bank is in full compliance by the end of 2012 year. Additional developments and further enhancements will be introduced to current risk management system in order to ensure that it is in line with industry best practices. Basel II introduction would be an important milestone for the bank that will secure long term, sustainable development of the bank.

CORPORATE GOVERNANCE

Georgia has not adopted a code of corporate governance. However, TBC Bank is 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 was drafted with the guidance of IFC and is based on internationally recognised principles of good corporate governance. The Corporate Governance Code regulates, among other things, the following operations and activities of the Bank:

- the operations and structure of the Supervisory Board and the Management Board;
- the Bank’s risk management and control environment policies and operations;
- the protection of shareholder rights;
- the Bank’s relationship with its stakeholders.

The presence of world renowned international financial organizations such as IFC, DEG, EBRD and FMO as shareholders of the Bank promotes the implementation and maintenance of high corporate governance standards.

Pursuant to the laws of Georgia and the Charter, as well as the Corporate Governance Code, the General Meeting of Shareholders is the supreme governing body of the Bank, and makes decisions on the most important issues. The Supervisory Board of the Bank, which is responsible for the supervision of, and appointment of members to the Management Board is elected during the Shareholders’ General Meeting. The Management Board, which is an executive body, is responsible for the day-to-day operations of the Bank.

An assessment of the adequacy and effectiveness of the Bank’s system of internal controls is conducted by the Bank’s Internal Audit Department, which reports directly to the Supervisory Board, as well as by external auditors.

Supervisory Board

The Supervisory Board of the bank, consisting of seven members, supervises the activities of the bank. Members of the Supervisory Board are elected by the shareholders at the General Meeting for a term of four years.

The day-to-day business of the bank, executed by the Management Board, is based on the policies approved by the Supervisory Board.

Management Board

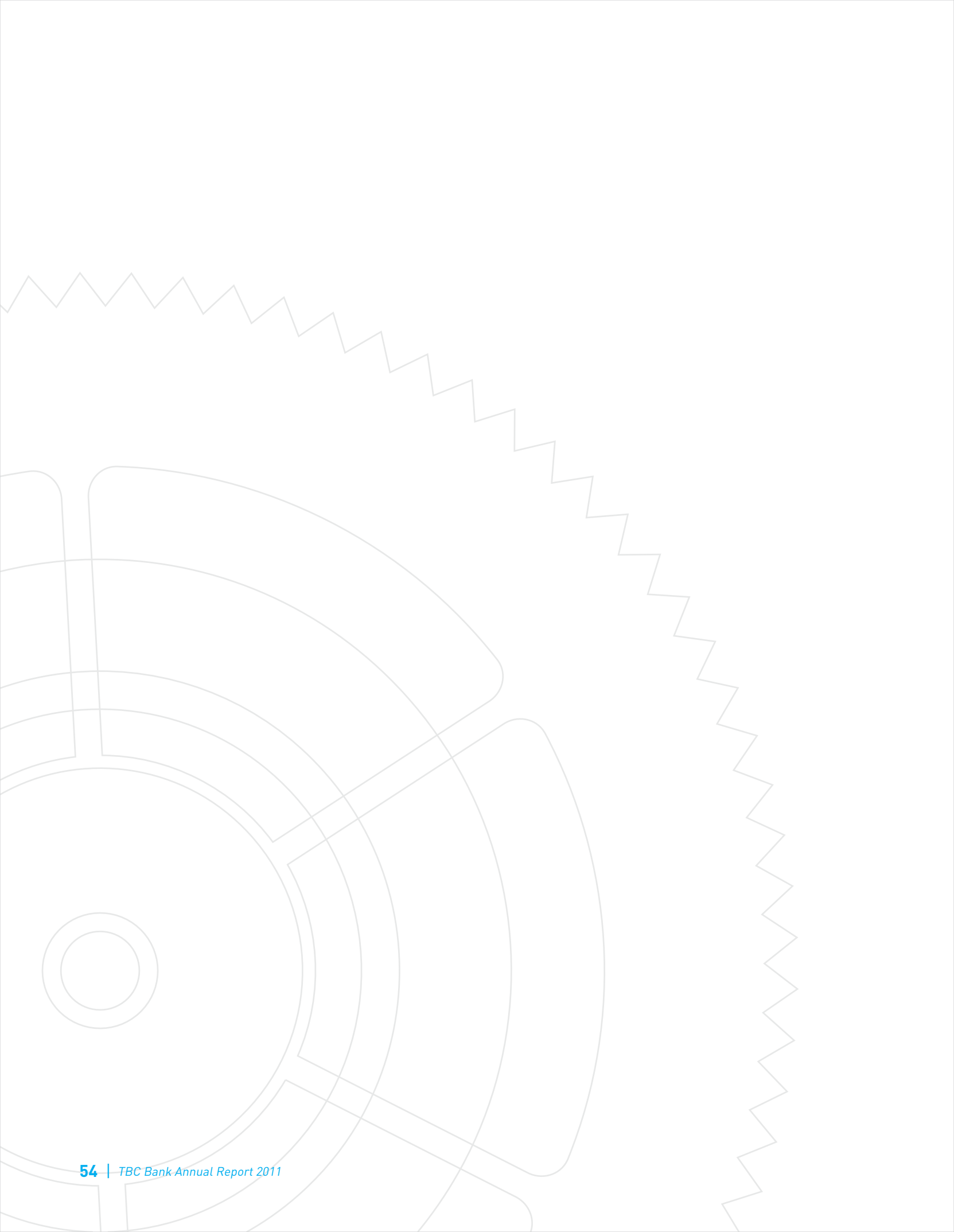
The Bank has an experienced management team with a proven track record in leading the Bank's operations. The Board of Directors carries out the day-to-day management of the Bank. The number of members on the Board of Directors at any time is determined by the Supervisory Board, but must not be less than 3. The directors are appointed for a maximum term of 4 years. The scope of authority of a director is defined by a contract entered into with the director upon appointment.


Audit Committee

According to the Law of Georgia on the Activities of Commercial Banks, Georgian banks are required to have an audit committee, mainly to facilitate the activities of the internal 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 the Bank's accounting policies, financial statements and disclosure practices; its compliance with the relevant laws and regulations, taxation obligations and relevant Codes of Conduct; the independence and performance of the internal and external auditors; and the Bank's system of internal controls and management of financial and non-financial risks. The Audit Committee reports directly to the Supervisory Board and meets on a quarterly basis.

Other Committees

The Bank's asset, liability and risk management functions are divided between the Management Board, the Credit Committee, the Operational Risk Management Committee and the Assets and Liabilities Management Committee (ALCO).





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