



**BANK OF GEORGIA**  
**HOLDINGS PLC**

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## *Bank of Georgia Q1 2012 Earnings Call*

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May 2012

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# *Contents*

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- *Q1 2012 Results Discussion*
- *Aldagi BCI's Acquisition of Imedi L*

## *Strong earnings momentum maintained in Q1 2012*

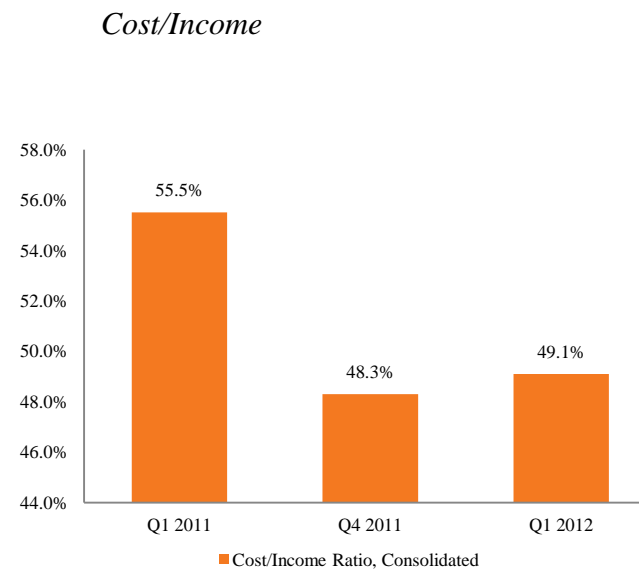
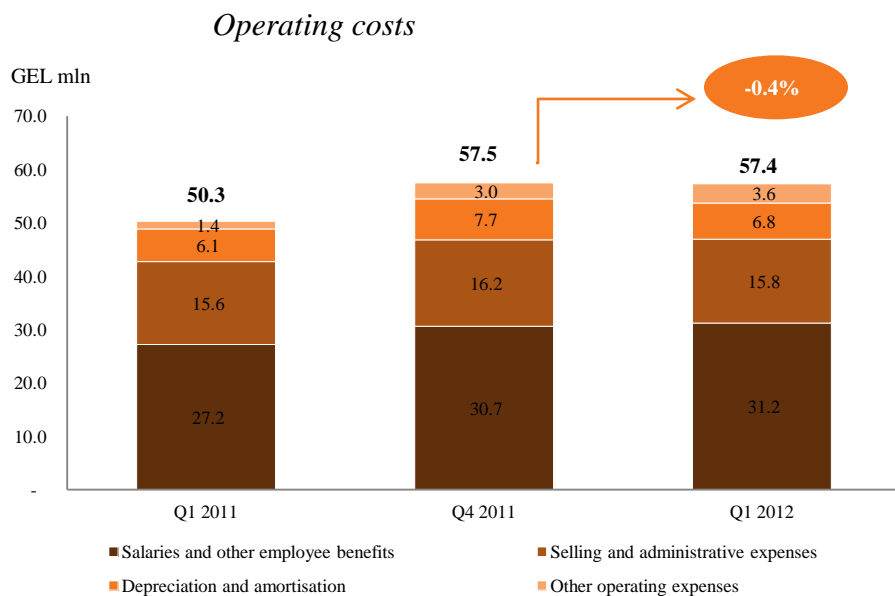
GEL millions, unless otherwise noted

	<u>Q1 2012</u>	<u>Q1 2011</u>	<u>Change Y-O-Y</u>	<u>Q4 2011</u>	<u>Change Q-O-Q</u>
Net interest income	61.2	56.9	7.5%	60.1	1.8%
Net fee and commission income	19.7	15.5	27.3%	22.1	-10.8%
Net insurance revenue	3.8	4.7	-18.7%	3.6	5.9%
Other operating non-interest income	32.2	13.6	NMF	33.4	-3.6%
Revenue	116.9	90.7	28.9%	119.1	-1.9%
Operating expenses	57.3	50.3	13.9%	57.5	-0.4%
Operating income before cost of credit risk	59.5	40.3	47.6%	61.6	-3.4%
Cost of credit risk	7.4	5.4	36.4%	8.8	-15.8%
Net operating income	52.1	34.9	49.3%	52.8	-1.3%
Net non-operating expenses, including goodwill impairment	4.4	0.1	NMF	9.7	-54.7%
Profit for the period from continuing operations	39.7	29.1	36.4%	37.3	6.4%
Profit for the period	39.8	16.9	135.5%	34.4%	15.7%
EPS (Basic)	1.25	1.0	26.8%	1.18	4.7%

- ☑ Revenue growth more than doubled expense growth
  - ☑ Interest income growth reflecting decline in cost of funds and decrease in abnormally high excess liquidity
  - ☑ Strong non-interest income growth
- ☑ Cost of risk has been maintained at 100 basis points, NPLs GEL 94.3 mln, 3.3% of gross loans
- ☑ Net-non operating expenses related to the costs associated with tender offer and premium listing costs

NMF means No Meaningful Figure

# Operating costs growing at half rate of revenues



- Operating costs continue to be well-controlled through improving efficiencies both at the bank and the subsidiaries
- Positive y-o-y operating leverage of 15%

## Balance Sheet highlights

GEL millions, unless otherwise noted

	<u>Q1 2012</u>	<u>Q1 2011</u>	<u>% Change Y-O-Y</u>	<u>Q4 2011</u>	<u>% Change Q-O-Q</u>
Net loans	2,713.8	2,241.9	21.0%	2,616.4	3.7%
Borrowed funds, of which	666.9	956.1	-30.3%	863.0	-22.7%
IFIs *	572.2	869.6		769.8	
Customer funds, of which	2,625.2	2,073.4	26.6%	2,735.2	-4.0%
Client deposits	2,442.0	1,976.9	23.5%	2,554.1	-4.4%
Liquid assets*	1,064.6	1,194.8	-10.9%	1,375.8	-22.6%
Liquid assets as percent of total assets	23.7%	29.5%	-19.6%	29.5%	-19.6%
Liquid assets as percent of total liabilities	30.1%	36.1%	-16.7%	35.7%	-15.8%
NBG liquidity ratio	36.0%	44.5%		37.8%	

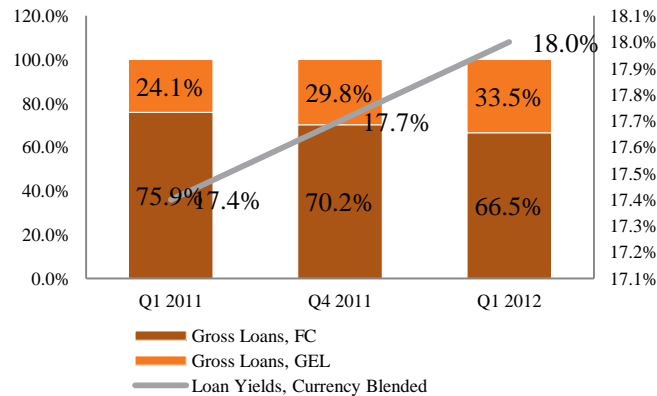
- ☒ Healthy loan book growth of 21% over twelve months, funded by deposits; reduction of excess liquidity
- ☒ Shift to deposit funding with 27% year-on-year growth of customer funds
  - ☒ 30% decline in borrowed funds as US\$56 mln Eurobonds repaid upon maturity in February 2012; the EBRD/IFC converted subordinated loans of US\$49.9 mln each
  - ☒ IFI's account for 85.8% of borrowed funds
- ☒ Strong liquidity maintained. NBG ratio above regulatory minimum of 30%
- ☒ Excellent funding position, with Net Loans to Customer Funds ratio at 103.4%, down 108.1% in Q1 2011

\* International Financial Institutions (e.g. the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC) etc)

\*\* Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities

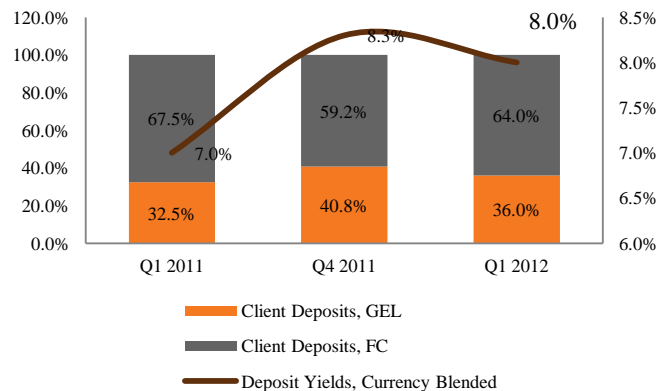
# Key performance metrics

## Loan yields

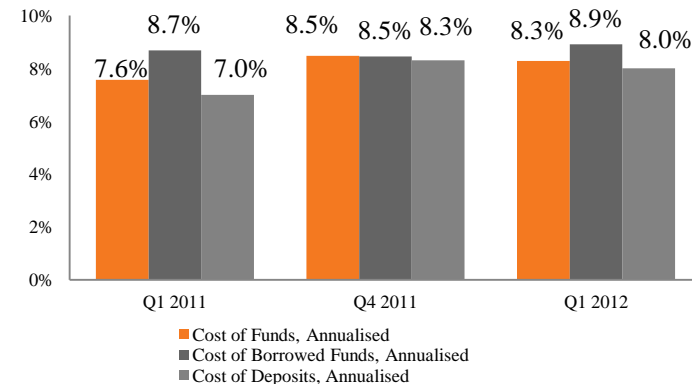


- Cost of deposits down q-o-q, reflecting the deposit rate cuts across the board in Q1 2012
- Cost of deposits growth y-o-y due to the growth of the share of the more costly GEL denominated client deposits in total client deposits from 32.5% at the end of Q1 2011 to 36.0% at the end of Q1 2012
- Cost of borrowed funds increase attributed to the conversion of the EBRD/IFC subordinated convertible into equity in February 2012
- Cost of funds down from 8.5% in Q4 2011 to 8.3% in Q1 2012

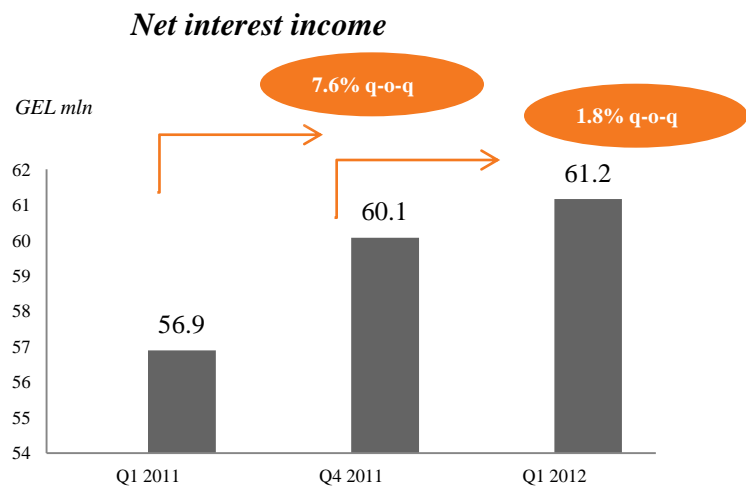
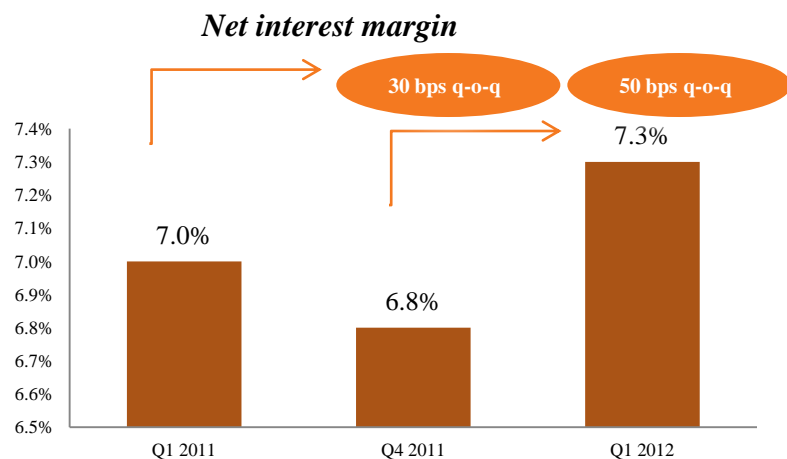
## Client deposit yields



## Cost of funds, borrowed funds, deposits



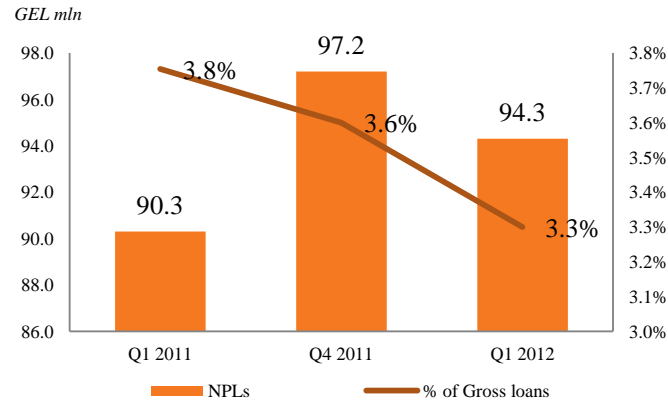
## Improving the net interest margin



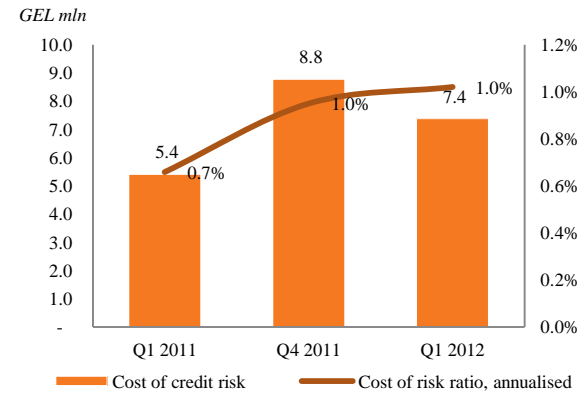
- Deposit rate cuts, aimed at improving cost of deposits resulted in the decline in the client deposits q-o-q
- Costly GEL corporate client deposits starting to decline in the beginning of March 2012
- GEL denominated CB client deposits share in total CB deposits at 55.3% by 31 March 2012, down from 61.6% as of 31 December 2012, and 46.9% as of 31 March 2011
- Interest rate cuts across the board, slowdown of corporate deposit growth rate and improvements in loan yields resulted in 50 basis point improvement in NIM quarter-on-quarter.

# Further improvement in asset quality

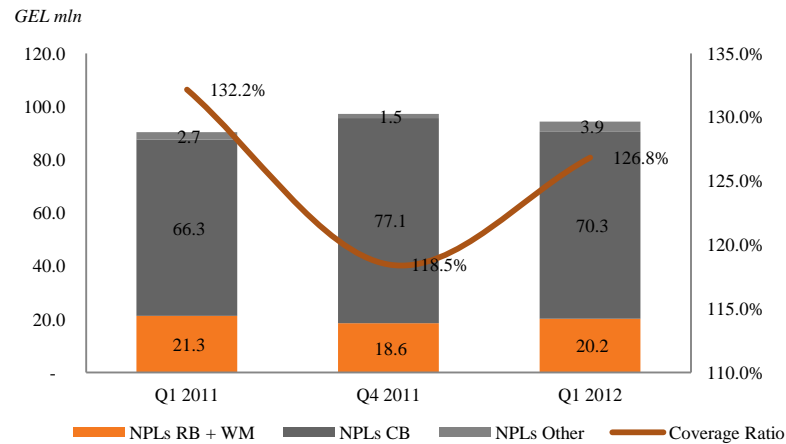
Consolidated NPLs



Consolidated cost of credit risk & cost of risk ratio



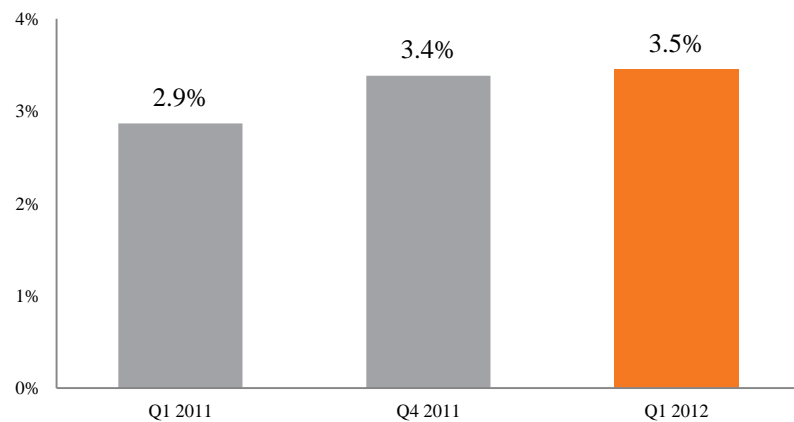
Consolidated NPL composition & coverage ratio



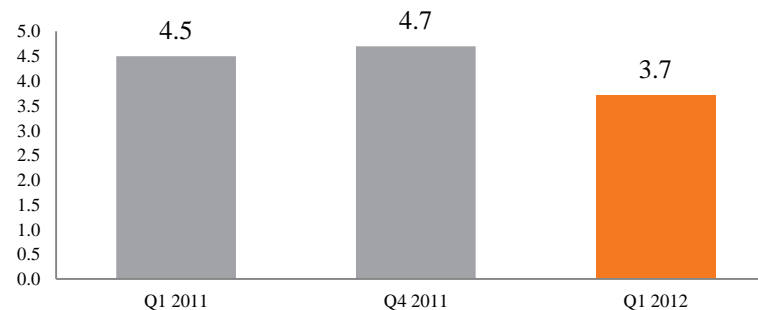


## On the back of decreased leverage strong profitability maintained

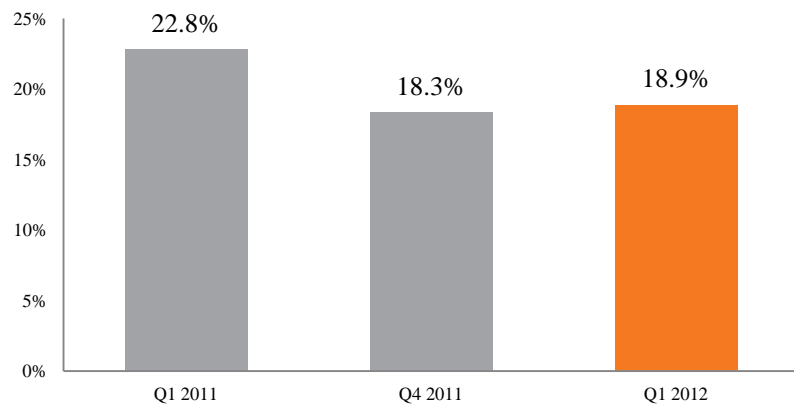
### Return on Average Assets



### Leverage

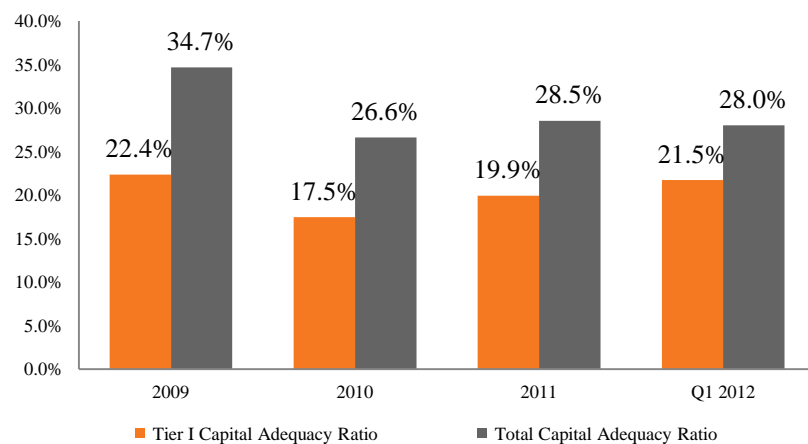


### Return on Average Equity

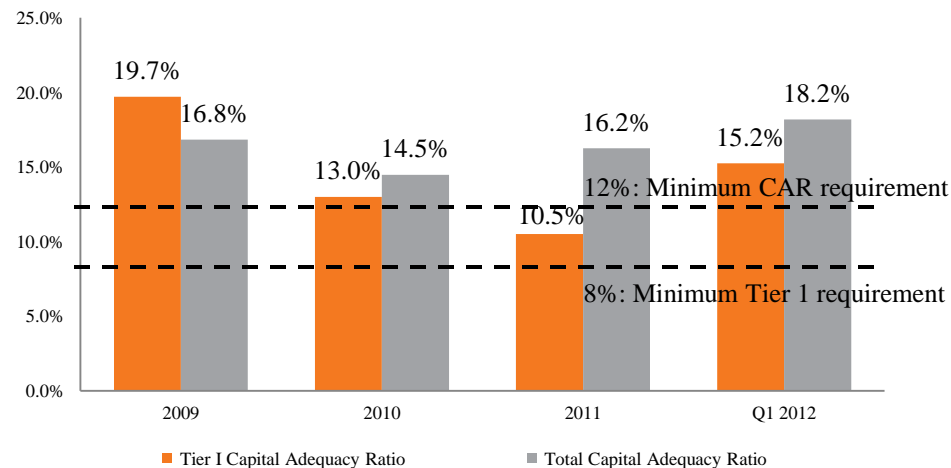


# Excellent capital adequacy position

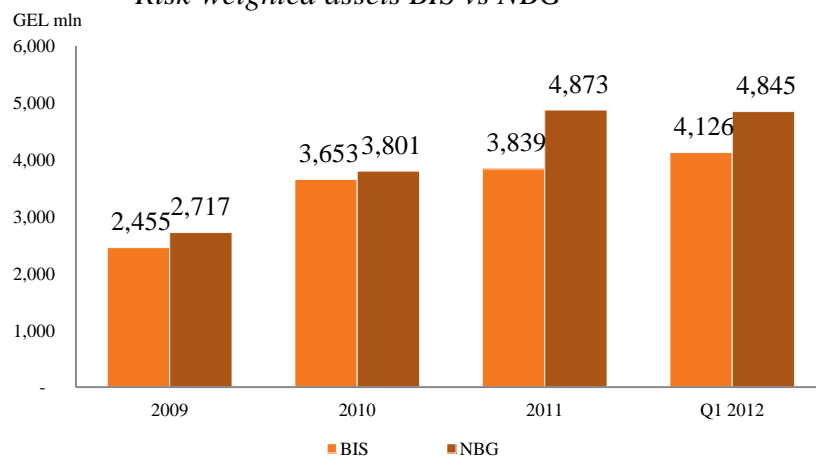
BIS capital adequacy ratios, Consolidated



NBG capital adequacy ratios, Standalone



Risk-weighted assets BIS vs NBG



NBG Tier I Capital and Total Capital

GEL mln	Q1 2012	Q1 2011	Q4 2011	% Change Y-O-Y	% Change Q-O-Q
<b>NBG Capital Adequacy</b>					
Tier 1 Capital (Core)	738.5	530.3	512.2	39.2%	44.2%
Tier 2 Capital (Supplementary)	333.7	316.2	463.8	5.5%	-28.1%
Less: Deductions	(191.3)	(192.9)	(184.3)	-0.9%	3.8%
<b>Total Capital</b>	<b>880.9</b>	<b>653.6</b>	<b>791.7</b>	<b>34.8%</b>	<b>11.3%</b>
<b>Risk-weighted assets</b>	<b>4,845.2</b>	<b>4,191.7</b>	<b>4,872.9</b>	<b>15.6%</b>	<b>-0.6%</b>
Tier 1 Capital ratio	15.2%	12.7%	10.5%	20.5%	45.0%
Total Capital ratio	18.2%	15.6%	16.2%	16.6%	11.9%

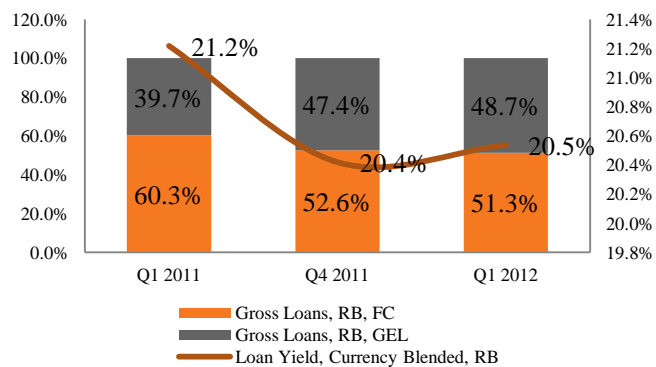
## Retail Banking: Strong growth of revenue; loans and deposits, despite rate cuts

GEL millions, unless otherwise noted

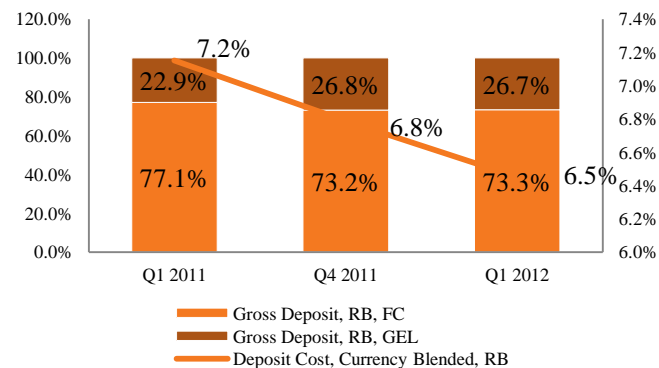
For the three months ended, 31 March 2012

	Q1 2012	Q1 2011	% Change Y-O-Y	Q4 2011	% Change Q-O-Q
Net interest income	39.0	31.4	24.1%	38.0	2.5%
Net fees and commission income	11.7	9.7	20.2%	13.9	-15.6%
Net gains from foreign currencies	3.0	2.0	50.0%	2.7	10.3%
Other operating non-interest income	1.0	0.6	51.6%	1.8	-44.8%
Operating income from other segments	0.3	0.3	-18.1%	0.4	-20.4%
<b>Revenue</b>	<b>54.9</b>	<b>44.1</b>	<b>24.4%</b>	<b>56.7</b>	<b>-3.2%</b>
Other operating non-interest expenses	26.4	24.3	8.6%	28.5	-7.3%
Operating income before cost of credit risk	28.5	19.8	43.9%	28.2	1.0%
Cost of credit risk	4.7	-4.4	NMF	1.7	172.7%
<b>Profit for the period from continuing operations</b>	<b>22.1</b>	<b>23.0</b>	<b>-4.1%</b>	<b>29.3</b>	<b>-24.6%</b>
Net loans, standalone	1,225.0	969.6	26.3%	1,221.4	0.3%
Client deposits, standalone	713.3	609.5	17.0%	707.1	0.9%
<i>Loan yield</i>	20.5%	21.1%		20.4%	
<i>Cost of deposits</i>	6.5%	7.2%		6.8%	

### Retail Banking Loan Yields



### Retail Banking Deposit Costs



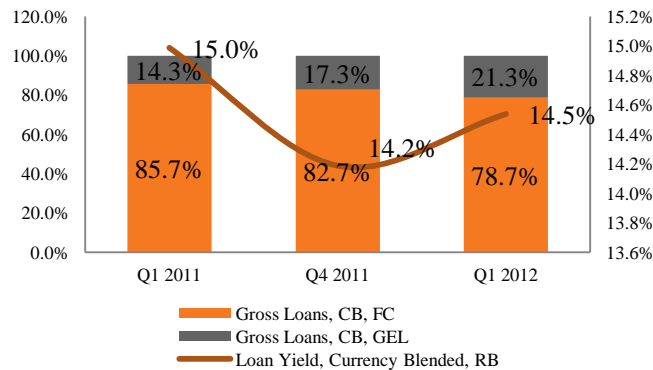
## Corporate Banking: Deposit rate cuts not yet reflected in Q1 CB cost of deposits

GEL millions, unless otherwise noted

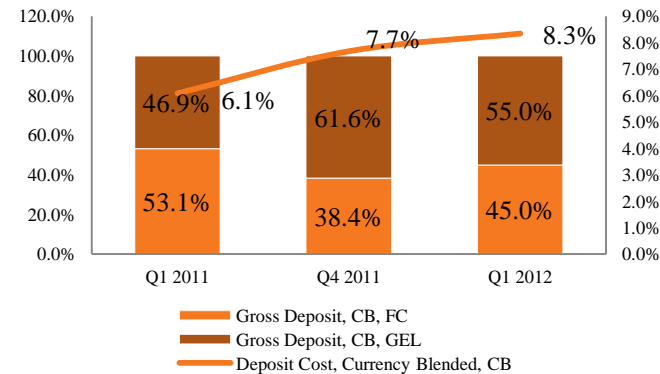
For the three months ended, 31 March 2012

	Q1 2012	Q1 2011	% Change Y-O-Y	Q4 2011	% Change Q-O-Q
Net interest income	17.8	20.7	-14.0%	16.7	6.5%
Net fees and commission income	7.1	4.6	54.5%	6.1	15.6%
Net gains from foreign currencies	8.4	4.8	73.1%	8.3	0.5%
Other operating non-interest income	1.2	0.6	88.9%	1.1	2.6%
Operating income from other segments	2.8	2.1	34.8%	-0.6	NMF
<b>Revenue</b>	<b>37.2</b>	<b>32.8</b>	<b>13.4%</b>	<b>31.7</b>	<b>17.5%</b>
Other operating non-interest expenses	11.2	11.9	-5.9%	14.5	-22.6%
Operating income before cost of credit risk	26.0	20.9	24.5%	17.2	51.3%
Cost of credit risk	1.1	10.2	-88.8%	7.8	-85.4%
<b>Profit for the period from continuing operations</b>	<b>21.2</b>	<b>10.0</b>	<b>111.2%</b>	<b>12.9</b>	<b>64.3%</b>
Net loans, standalone	1,454.9	1,209.5	20.3%	1,378.1	5.6%
Client deposits, standalone	1,247.0	1,066.2	17.0%	1,384.0	-9.9%
<i>Loan yield</i>	<i>14.5%</i>	<i>15.0%</i>		<i>14.2%</i>	
<i>Cost of deposits</i>	<i>8.3%</i>	<i>6.1%</i>		<i>7.7%</i>	

*Corporate Banking Loan Yields*



*Corporate Banking Deposit Costs*

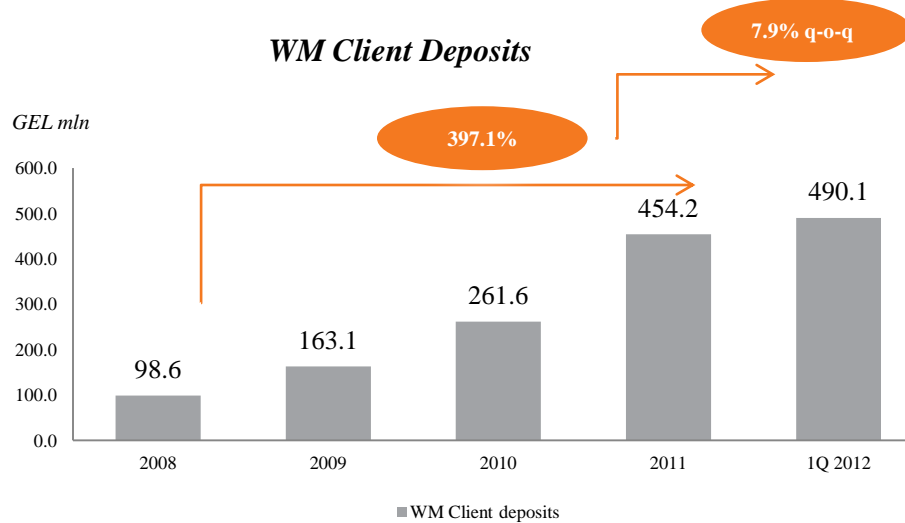


## Wealth Management: Impressive revenue and deposit growth, despite the rate cuts

GEL millions, unless otherwise noted

For the three months ended, 31 March 2012

	<u>Q1 2012</u>	<u>Q1 2011</u>	<u>% Change Y-O-Y</u>	<u>Q4 2011</u>	<u>% Change Q-O-Q</u>
Net interest income	2.9	1.7	77.4%	1.9	53.1%
Net fees and commission income	0.1	0.1	-15.2%	0.2	-36.7%
Net gains from foreign currencies	0.2	0.1	140.6%	0.5	-67.8%
Other operating non-interest income	0.0	0.0	NMF	0.1	-77.1%
<b>Revenue</b>	<b>3.2</b>	<b>1.9</b>	<b>74.3%</b>	<b>2.6</b>	<b>23.4%</b>
Other operating non-interest expenses	0.9	1.0	-14.7%	1.1	-16.2%
Operating income before cost of credit risk	2.3	0.8	188.9%	1.6	50.4%
Cost of credit risk	(0.0)	-	-	1.0	NMF
<b>Profit for the period from continuing operations</b>	<b>2.3</b>	<b>1.0</b>	<b>124.6%</b>	<b>0.6</b>	<b>299.7%</b>
Net loans, standalone	43.6	36.1	20.9%	35.8	22.0%
Client deposits, standalone	490.1	290.8	68.5%	454.2	7.9%
<i>Loan yield</i>	11.4%	12.7%		12.6%	
<i>Cost of deposits</i>	9.2%	9.8%		9.5%	



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# *Contents*

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## *Aldagi BCI's acquisition of Imedi L*

## *Aldagi BCI's acquisition of Imedi L – Strategic rationale*

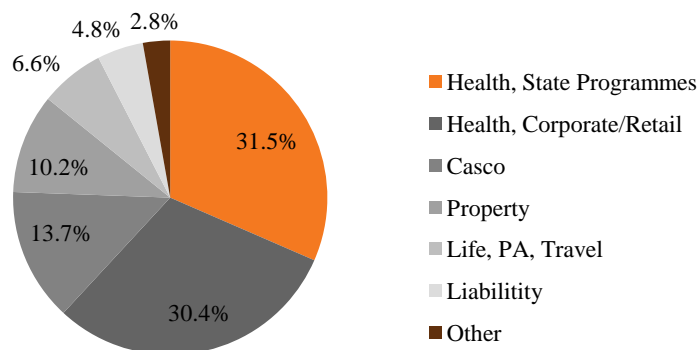
- Immediate doubling of Aldagi BCI's share (by gross premiums written) of the Georgian insurance market
- Substantial increase in the number of retail clients, from 200,000 to 420,000
- Significant net synergies
- Enlargement of Aldagi BCI's healthcare business in both western and eastern Georgia
- Further revenue and cost synergies available in the Healthcare business
- Aldagi BCI has an excellent track record in integrating Insurance and Healthcare companies in Georgia

## Revenue Breakdown

- After the acquisition of Imedi L share of revenue from government health contract to total revenue will increased from 20.2% to 31.5%

Product	Imedi L	%	Aldagi BCI	%	Combined	%
Health, State Programmes	23,379,982	45.1%	12,499,839	20.2%	35,879,821	31.5%
Health, Corporate/Retail	17,800,602	34.3%	16,757,170	27.0%	34,557,772	30.4%
Casco	2,072,401	4.0%	13,500,043	21.8%	15,572,444	13.7%
Property	3,472,566	6.7%	8,183,472	13.2%	11,656,038	10.2%
Life, PA, Travel	3,353,039	6.5%	4,202,130	6.8%	7,555,169	6.6%
Liability	1,054,797	2.0%	4,351,486	7.0%	5,406,283	4.8%
Other	691,419	1.3%	2,491,652	4.0%	3,183,071	2.8%
<b>Total</b>	<b>51,824,806</b>		<b>61,985,792</b>		<b>113,810,598</b>	

### Combined, Gross Revenue by Products 2011



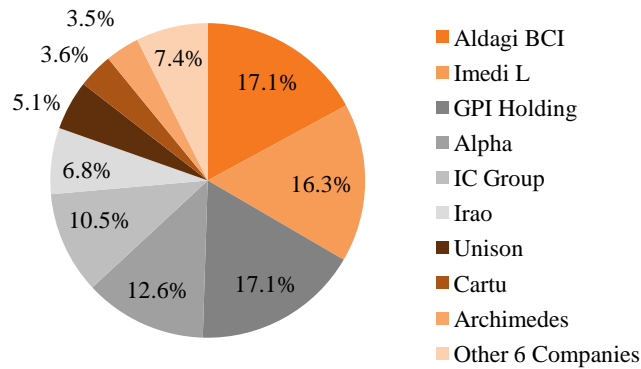
Source: National Bank of Georgia



# Market Shares

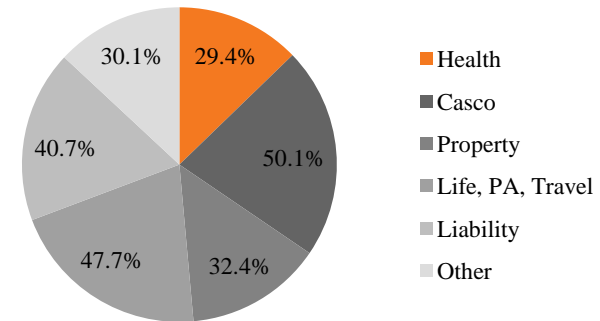
- Aldagi BCI and Imedi L will hold 33.4% market share in terms of Gross Premiums Written (GPW) and estimated 36% market share in terms of gross revenue
- The closest competitor, Vienna Insurance Group of companies (GPI Holding and Irao) will hold 23.9% market share

Market Shares by GPW, 9m 2011



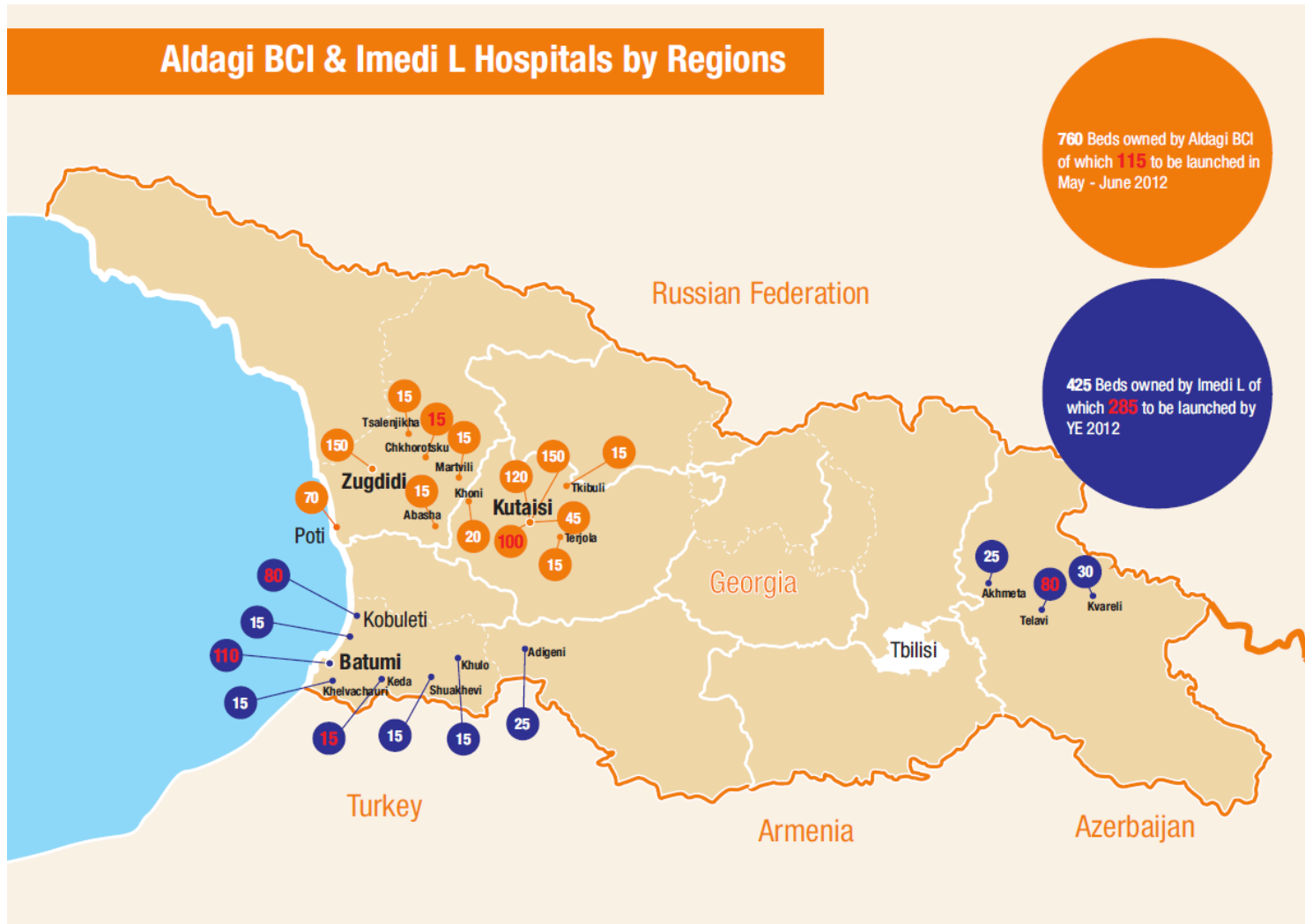
Source: National Bank of Georgia

Aldagi BCI and Imedi L – Market Shares by Products, 9m 2011



Source: National Bank of Georgia, Company Data

# Aldagi BCI and Imedi L Geographical Presence



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## *Forward-looking statements*

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The forward-looking statements contained in this presentation are based upon the current beliefs and expectations of JSC Bank of Georgia's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. Factors that could cause JSC Bank of Georgia's actual results to differ materially from those described in this presentation can be found in JSC Bank of Georgia's Annual Report for the year ended 31 December 2010 which has been filed with the UK's Financial Services Authority and is available on Bank of Georgia's website [www.bankofgeorgia.ge/ir](http://www.bankofgeorgia.ge/ir) and on the London Stock Exchange website ([www.londonstockexchange.com](http://www.londonstockexchange.com)). JSC Bank of Georgia does not undertake to update the forward-looking statements to reflect the impact of circumstances or events that may arise after the date of this presentation