



BANK OF GEORGIA

BANKING BUSINESS PERFORMANCE AND PRIORITIES

BGEO Investor Day
9 November 2017
Tbilisi, Georgia

Speaker: **Kaha Kiknavelidze, CEO, JSC Bank of Georgia**

CONTENT

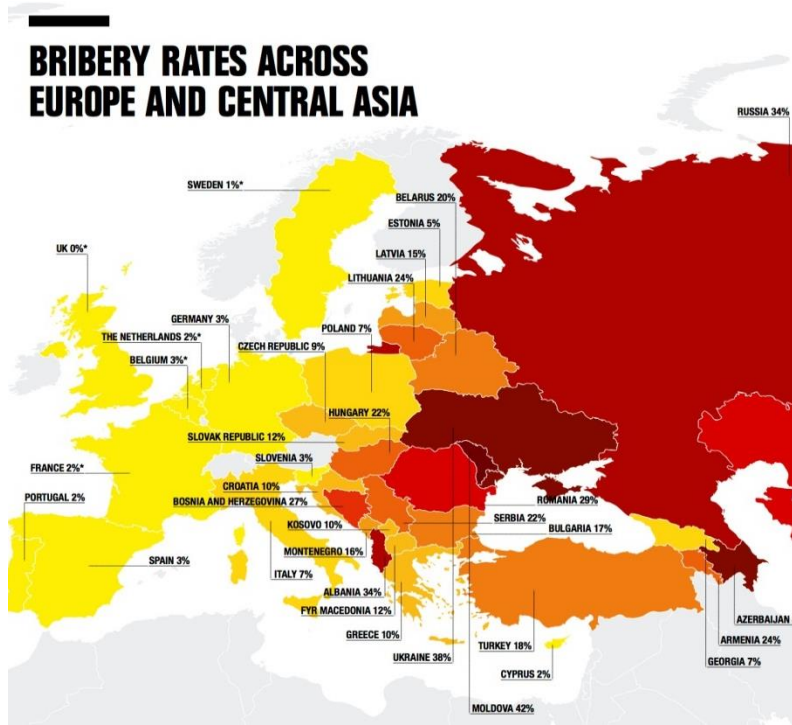


- **Macroeconomic overview**
- **Banking industry highlights**
- **Banking Business performance update – 3Q17 & 9M17**
- **Banking Business targets and priorities**
- **Q&A**

ATTRACTIVE PLACE TO DO BUSINESS

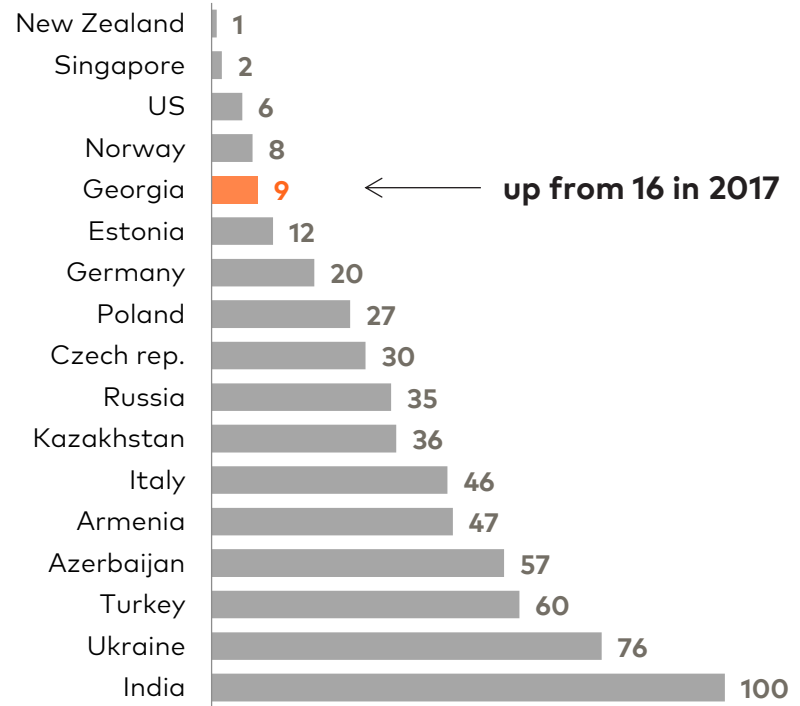


Global Corruption Barometer 2016



Source: Transparency International

Doing Business Ranking, 2018

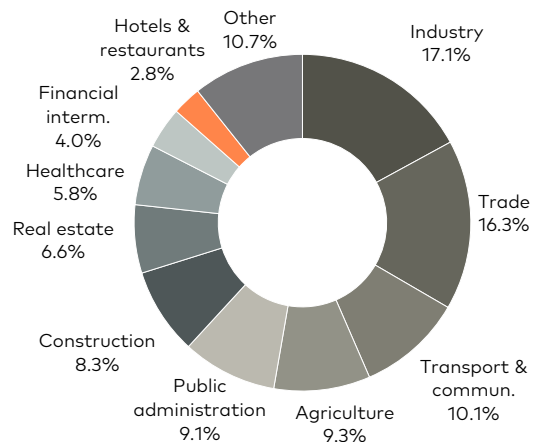


Source: The World Bank

DIVERSIFIED ECONOMY BY SECTORS AND REGIONS

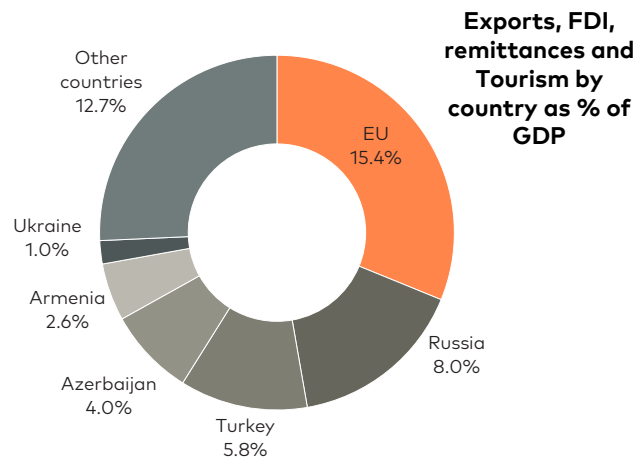


Diversified GDP structure, 2016



- Two largest sectors (trade and industry) accounting for just 33% of GDP

Diversified economic linkages, 2016



- EU accounts for one third of overall external earnings
- Deepening trade relations to new large markets (EU and China) are expected to broaden export base

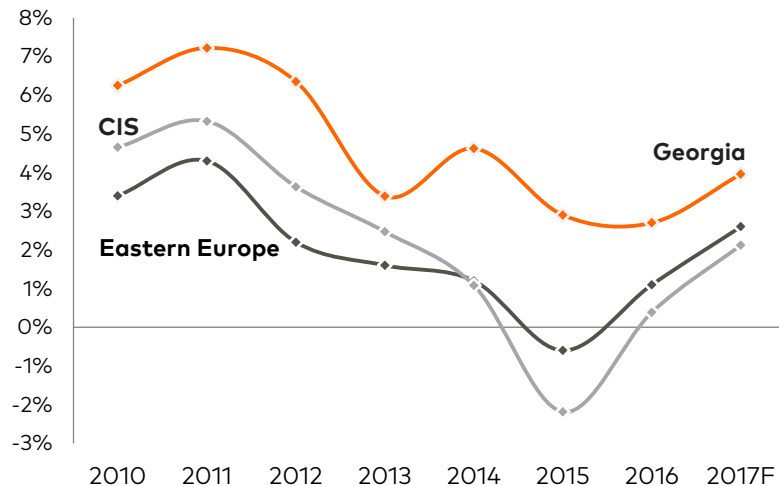
Source: GeoStat

Source: GeoStat, GNTA, NBG, G&T calculations

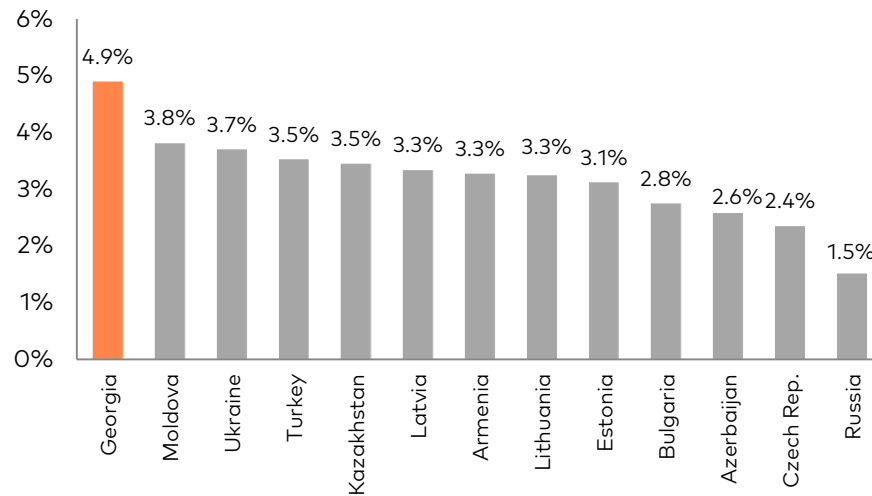
HIGHER BASELINE GROWTH OF THE ECONOMY



Historical GDP Growth, Georgia vs. Region



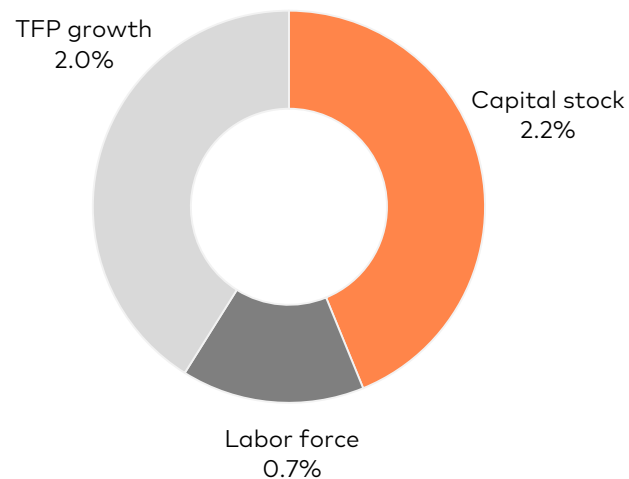
IMF's GDP growth projections, 2018-22 average



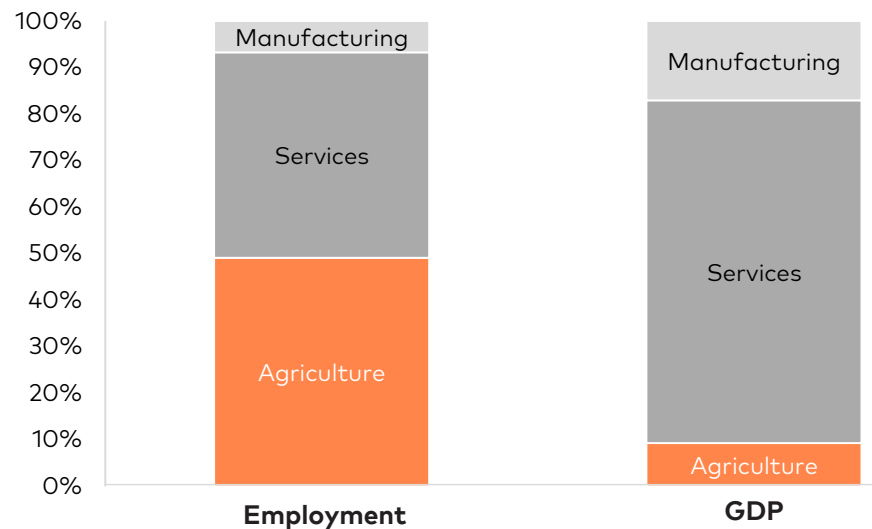
POTENTIAL FOR CONTINUED PRODUCTIVITY IMPROVEMENT



Contribution to growth, 2006-16



Employment and GDP by sector, 2016



Source: GeoStat, G&T calculations

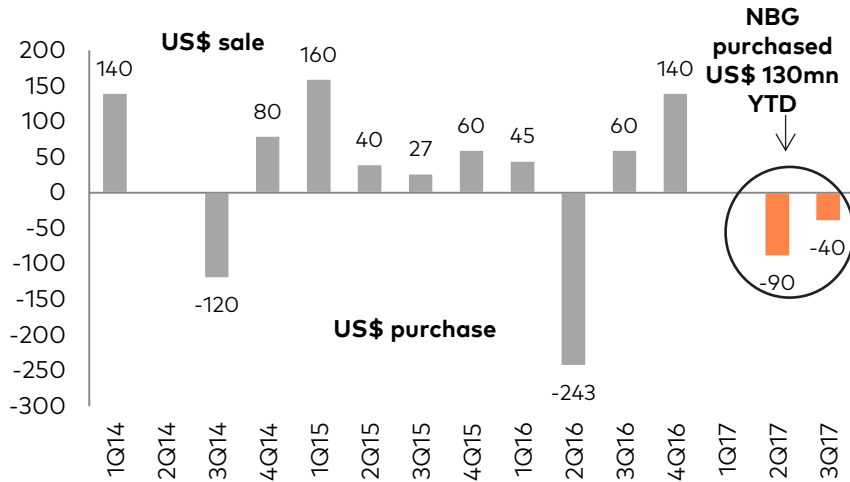
Note: Total Factor Productivity (TFP) determines how efficiently and intensely the inputs (capital, labor) are utilized in production

Source: GeoStat

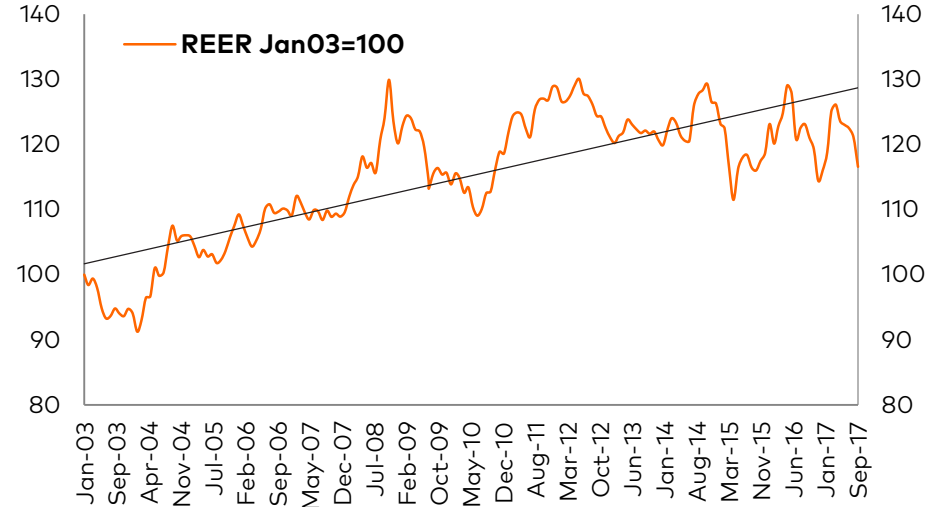
LARI'S FLEXIBLE EXCHANGE RATE REGIME



Limited and efficient FX interventions



Exchange rate remains competitive



Source: NBG

CONTENT

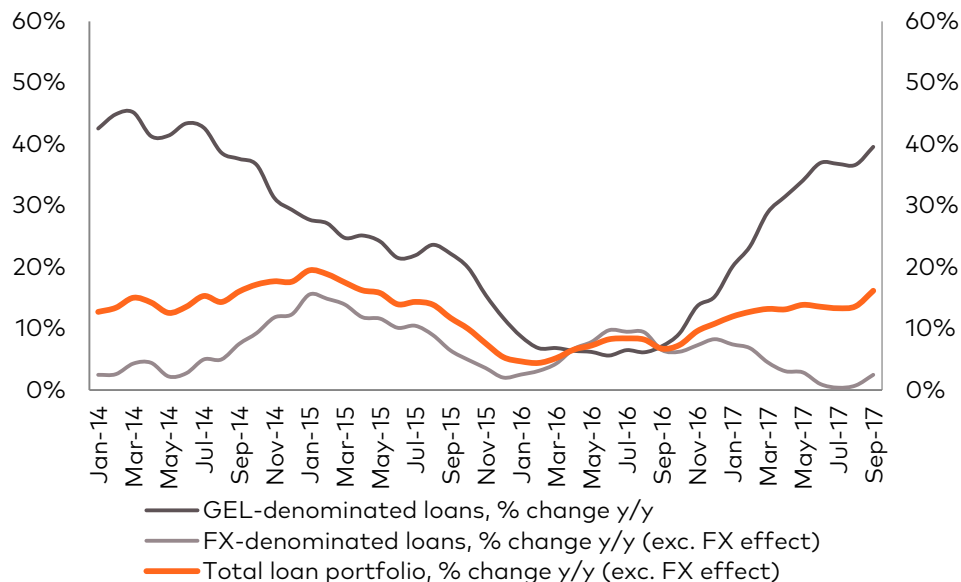


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ROOM FOR FURTHER CREDIT GROWTH



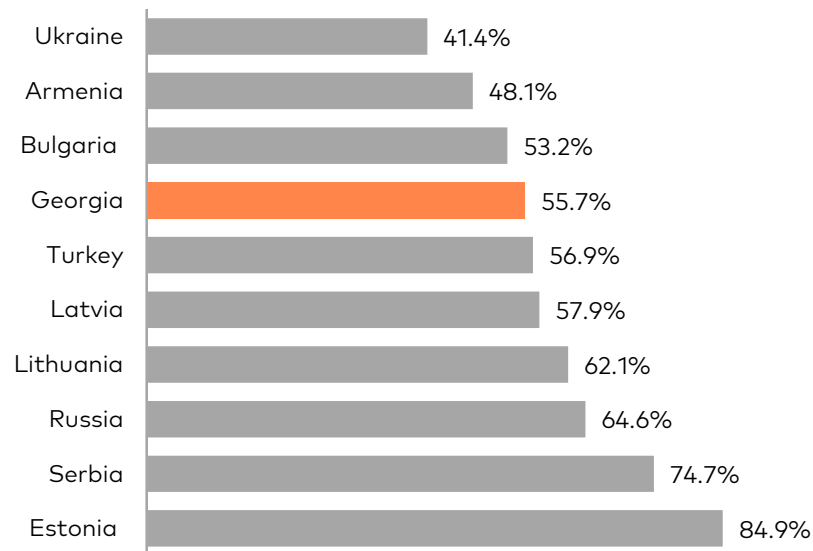
Banking sector loan portfolio growth



- Loan portfolio increased 16.0% y/y excluding FX effect in Sep-17

Source: NBG

Banking Penetration (Sector Loans to GDP)

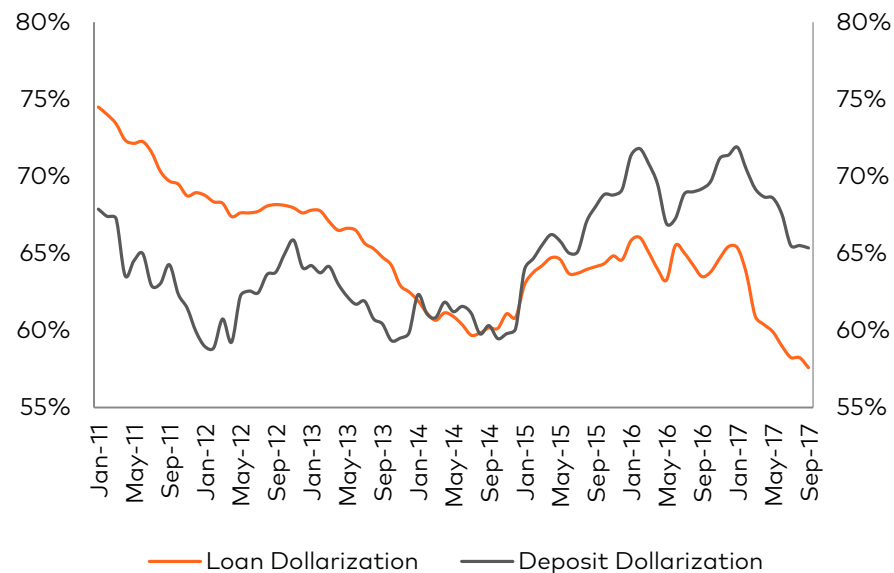


Source: Central Banks, IMF, as of 31 Dec 2016

PRUDENTLY MANAGED BANKING SECTOR

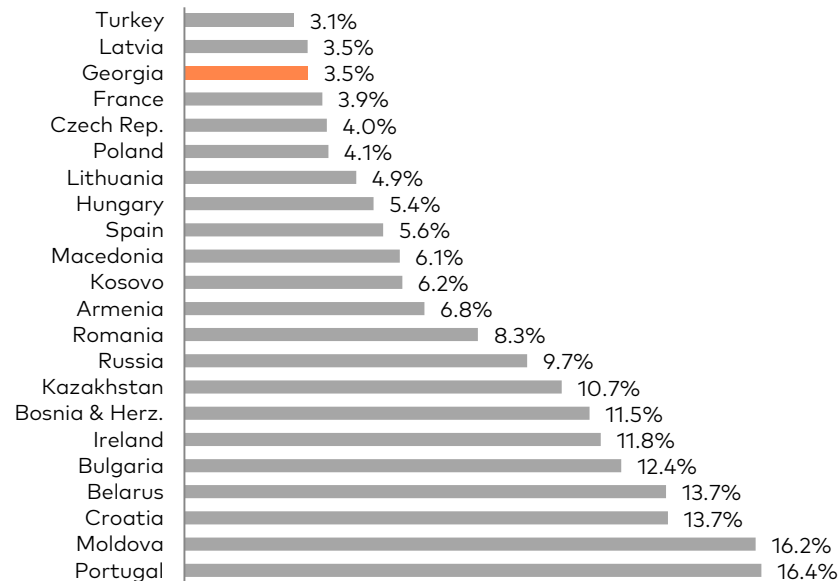


Gradual de-dollarisation with NBG's 10-point plan



Source: NBG

One of the lowest levels of NPLs worldwide (latest 2017 data)



Source: IMF

REGULATORY CHANGES (1/2)



	DESCRIPTION	IMPACT
1 Liquidity Coverage Ratio (LCR)	<ul style="list-style-type: none">- Effective from 1 September 2017- Total LCR \geq100%, LC \geq75%, FC \geq100%	<ul style="list-style-type: none">- No material impact expected
2 Basel III Macroprudential Tools	<ul style="list-style-type: none">- Effective from 10 August 2017- Caps on PTI and LTV ratios introduced	<ul style="list-style-type: none">- RWA increase in 2018: ~GEL 77mln- Tier I capital: ~7bps increase
3 Deposit Insurance Scheme	<ul style="list-style-type: none">- Effective from 1 January 2018- Insured deposits - up to GEL 5,000	<ul style="list-style-type: none">- Additional insurance expense in 2018: ~GEL 4mln- Cost of funds increase: ~4bps
4 Larisation Initiatives	<ul style="list-style-type: none">- Effective 15 January 2017- Ban on FC lending - loans up to GEL100,000	<ul style="list-style-type: none">- Local currency denominated loans up to 39% in Sep-17 from 30% a year ago



UPCOMING CHANGES IN CAPITAL ADEQUACY REQUIREMENTS

National Bank of Georgia is developing new capital adequacy requirements.

Full details expected to be announced by the end of this year.

- Transition to Basel III standards;
- No increase in capital requirement expected for 2018;
- Currency induced credit risk ("CICR") buffer will be set instead of current additional 75% weighting of FX denominated loans;
- Systemic Capital Surcharge in line with EU's CRD IV/CRR regulation is expected to be phased in starting from 31-Dec-2018 through 31-Dec-2022;
- In addition NBG intends to introduce supervisory review and evaluation process for individual banks on a regular basis. The methodology is currently under discussion.

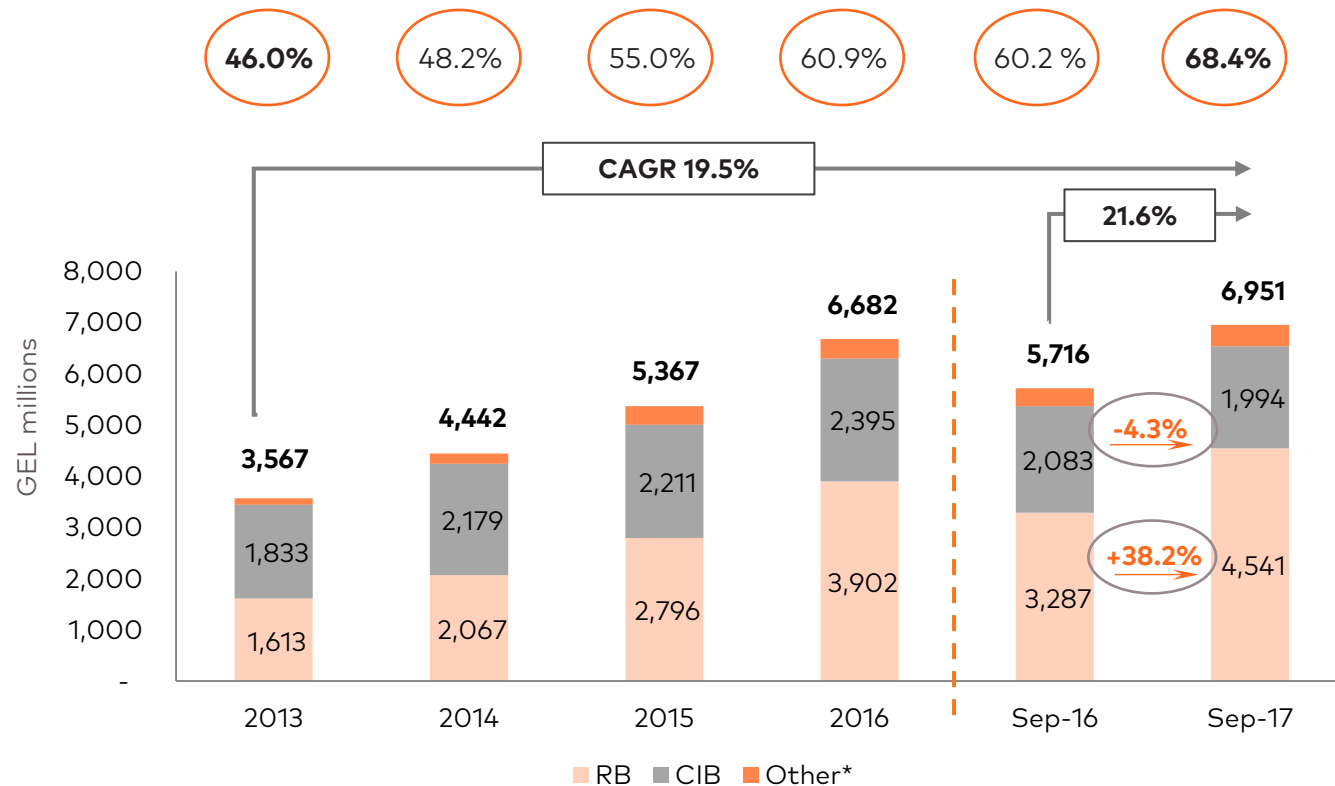
Transition to Basel III is not expected to affect our growth prospects or our ability to maintain dividends within the guided range

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STRONG LOAN BOOK GROWTH

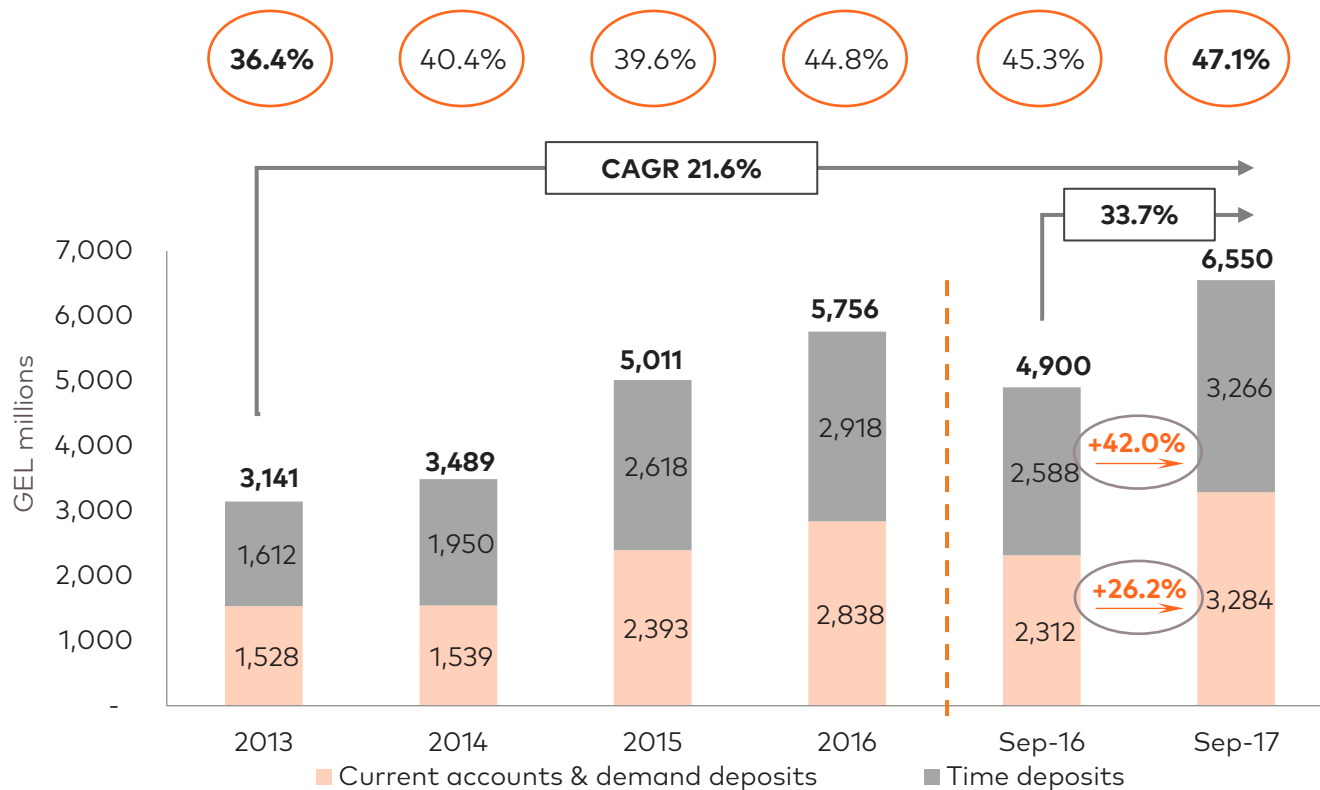


GROWING SHARE OF RB LOANS

RB LOAN BOOK'S SHARE TARGET OF 65% ACHIEVED

*Other mainly includes BNB, GLC and Banking Business eliminations

...AND DEPOSIT GENERATION

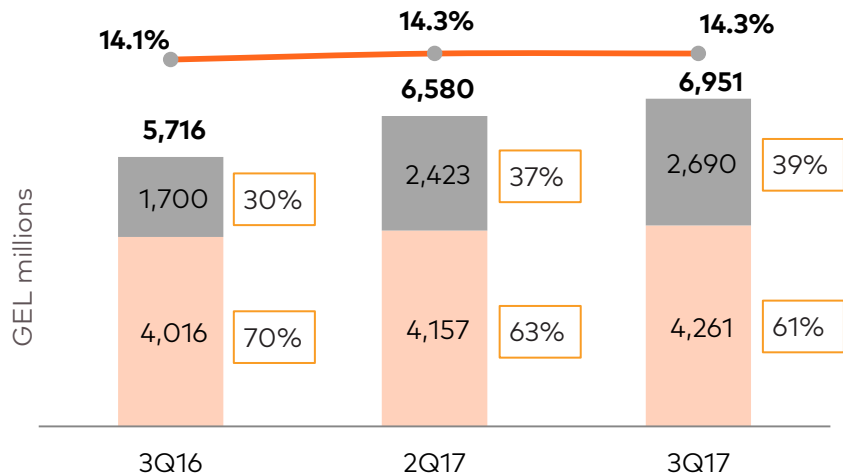


GROWING SHARE OF RB DEPOSITS

YEAR OF DE-DOLLARISATION

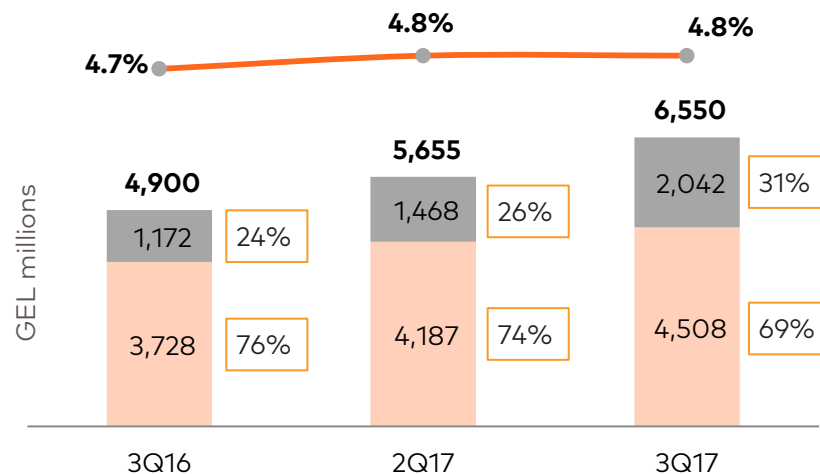


LOANS & LOAN YIELDS



- Loans to customers, GEL
- Loans to customers, FC
- Currency blended loan yield
- Share in total loan book

CLIENT DEPOSITS & COST OF FUNDS

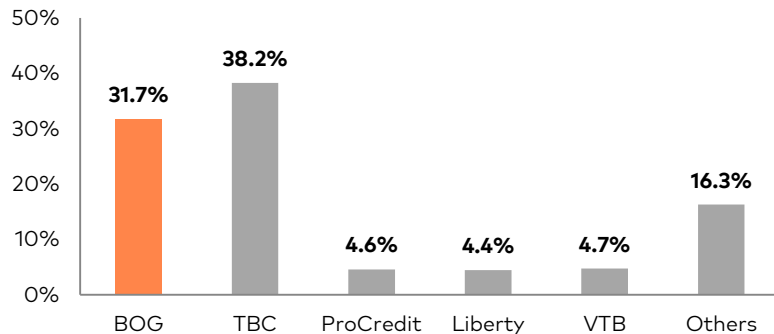


- Client deposits and notes, GEL
- Client deposits and notes, FC
- Cost of Funds, currency blended
- Share in total deposits

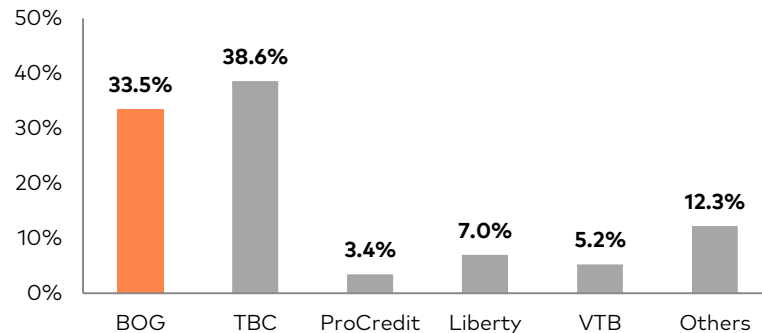
STRONG COMPETITIVE POSITION



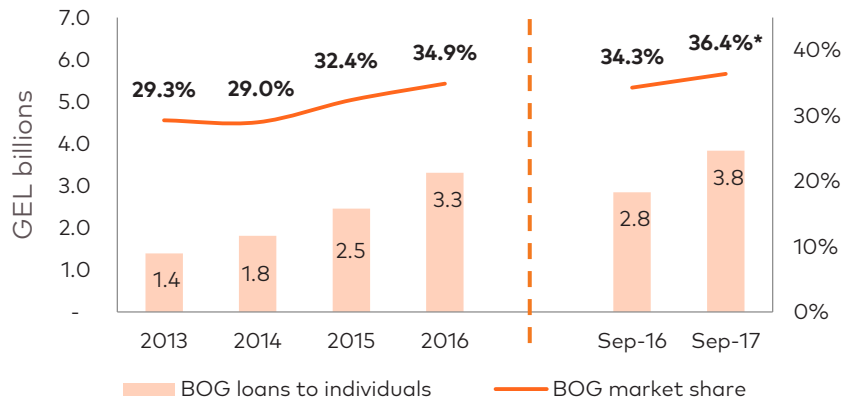
GROSS LOANS



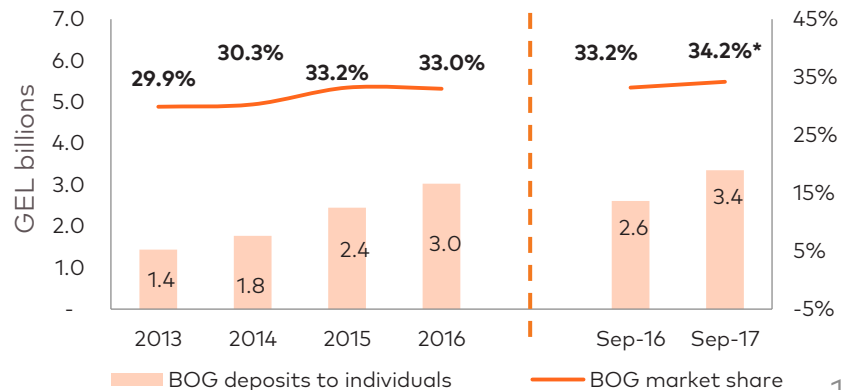
CLIENT DEPOSITS



LOANS TO INDIVIDUALS



DEPOSITS TO INDIVIDUALS



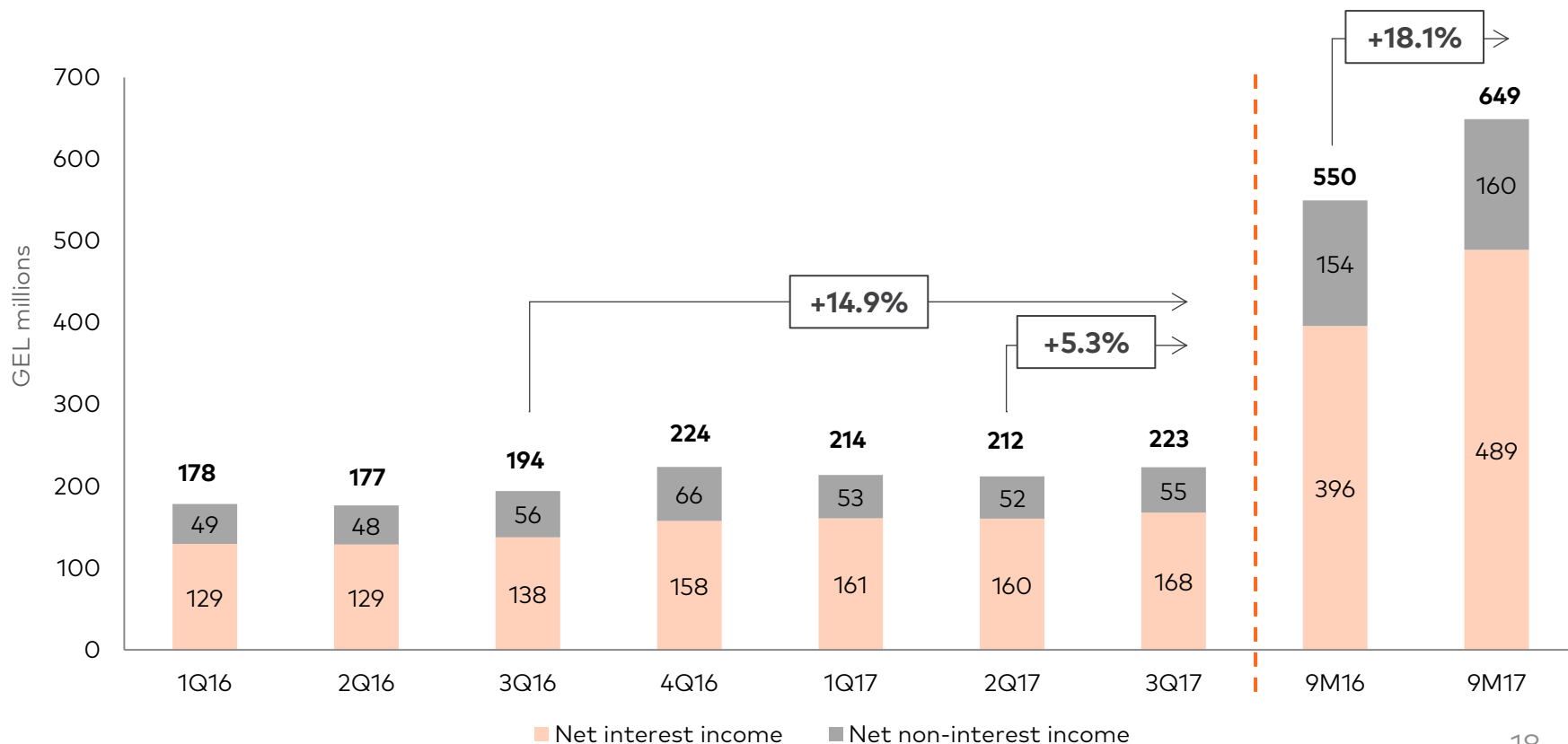
* Excluding Credo Bank, which registered as a bank in 1Q 2017

Source: NBG

SOLID BANKING REVENUE GROWTH



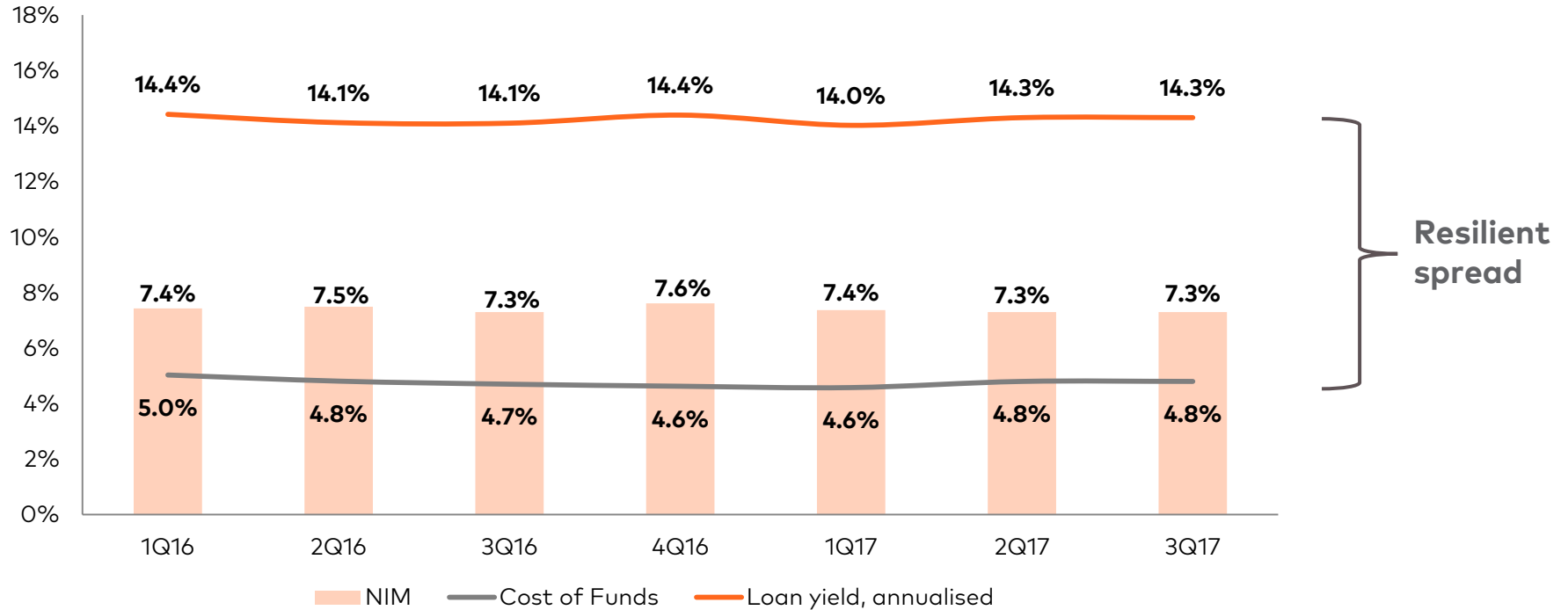
REVENUE



STABLE MARGINS



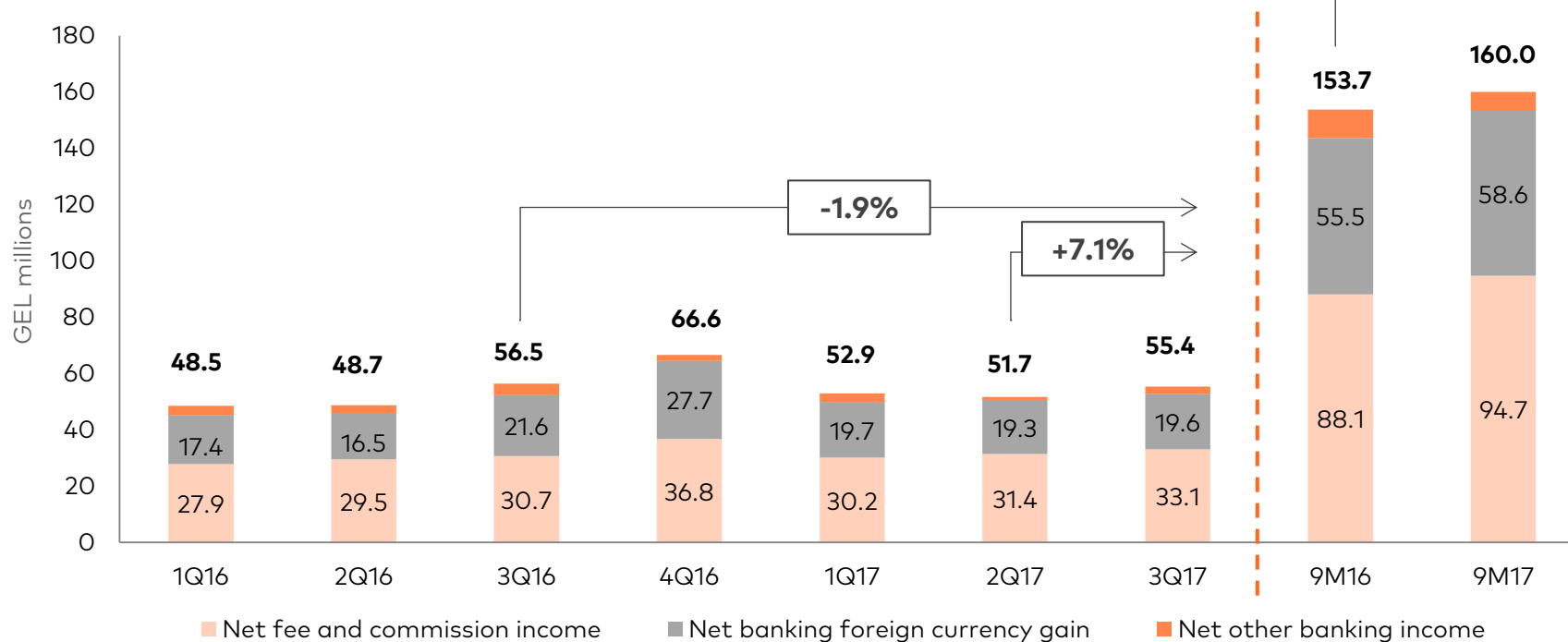
NIM, LOAN YIELD & COST OF FUNDING



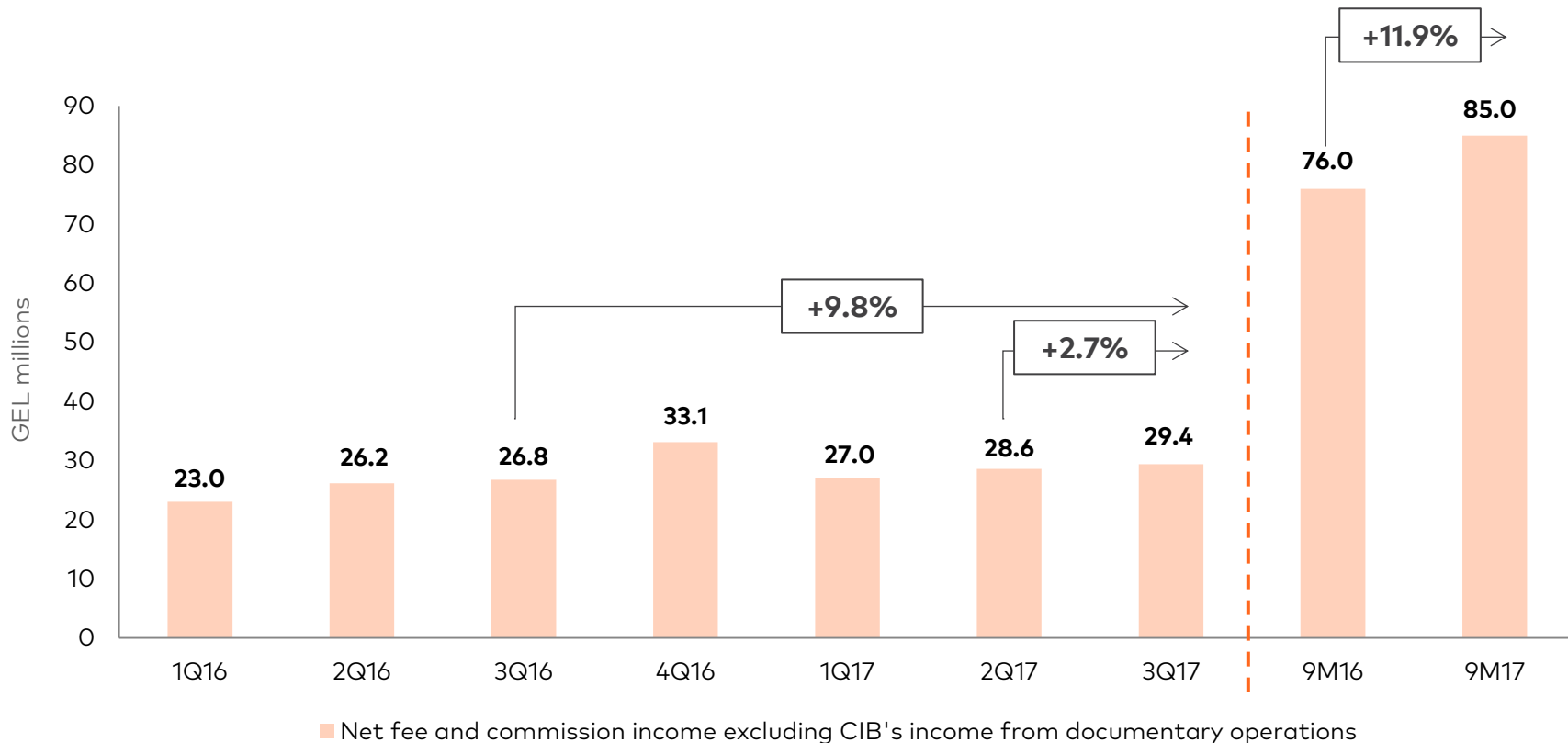
SOLID BANKING REVENUE GROWTH



NET NON-INTEREST INCOME



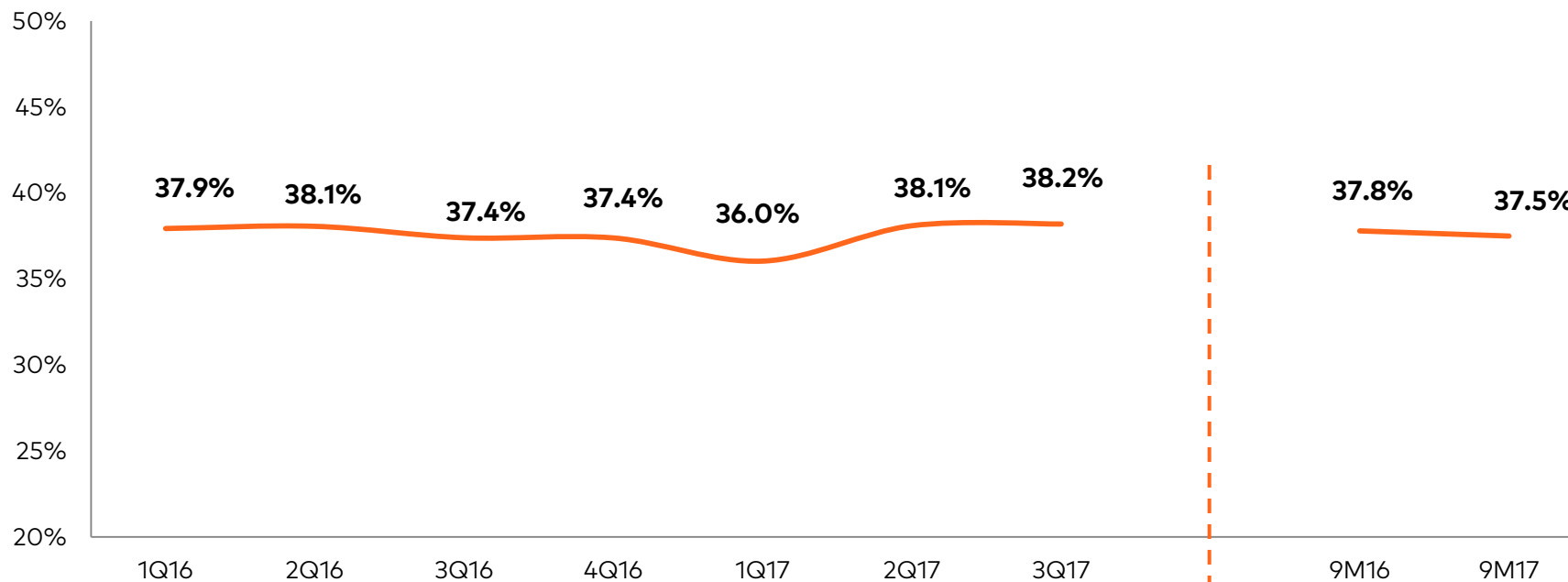
SOLID NET FEE AND COMMISSION INCOME GROWTH



FOCUS ON EFFICIENCY



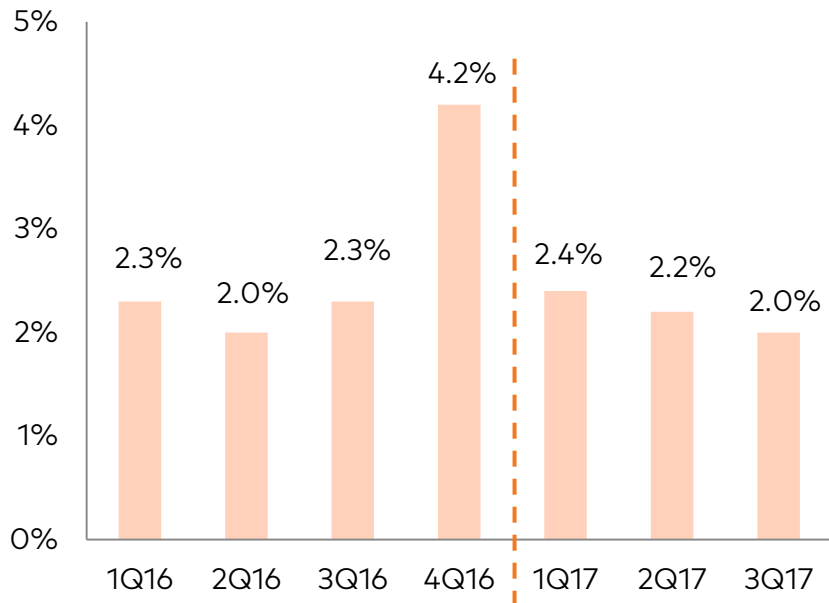
COST / INCOME RATIO



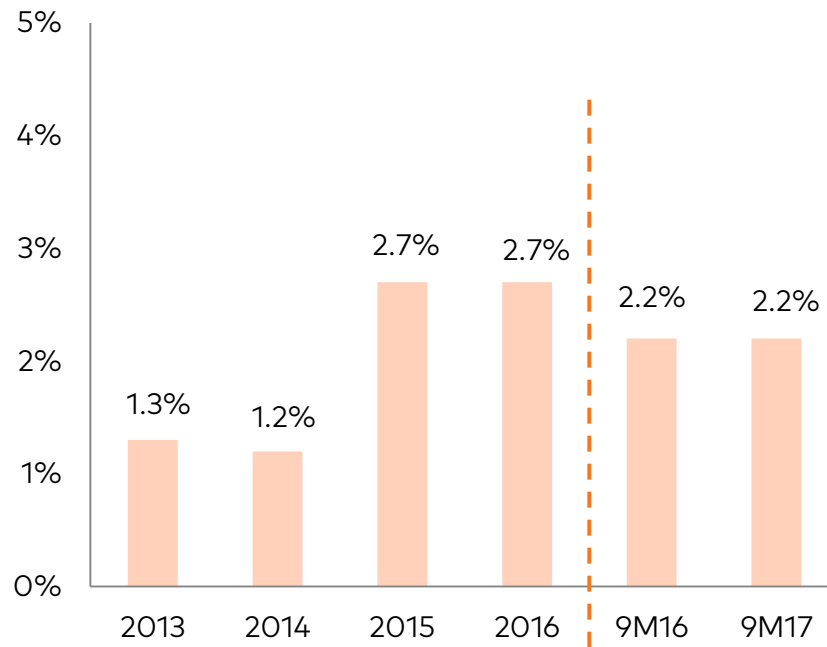
IMPROVED LOAN PORTFOLIO QUALITY (1/2)



COST OF RISK RATIO, QUARTERLY



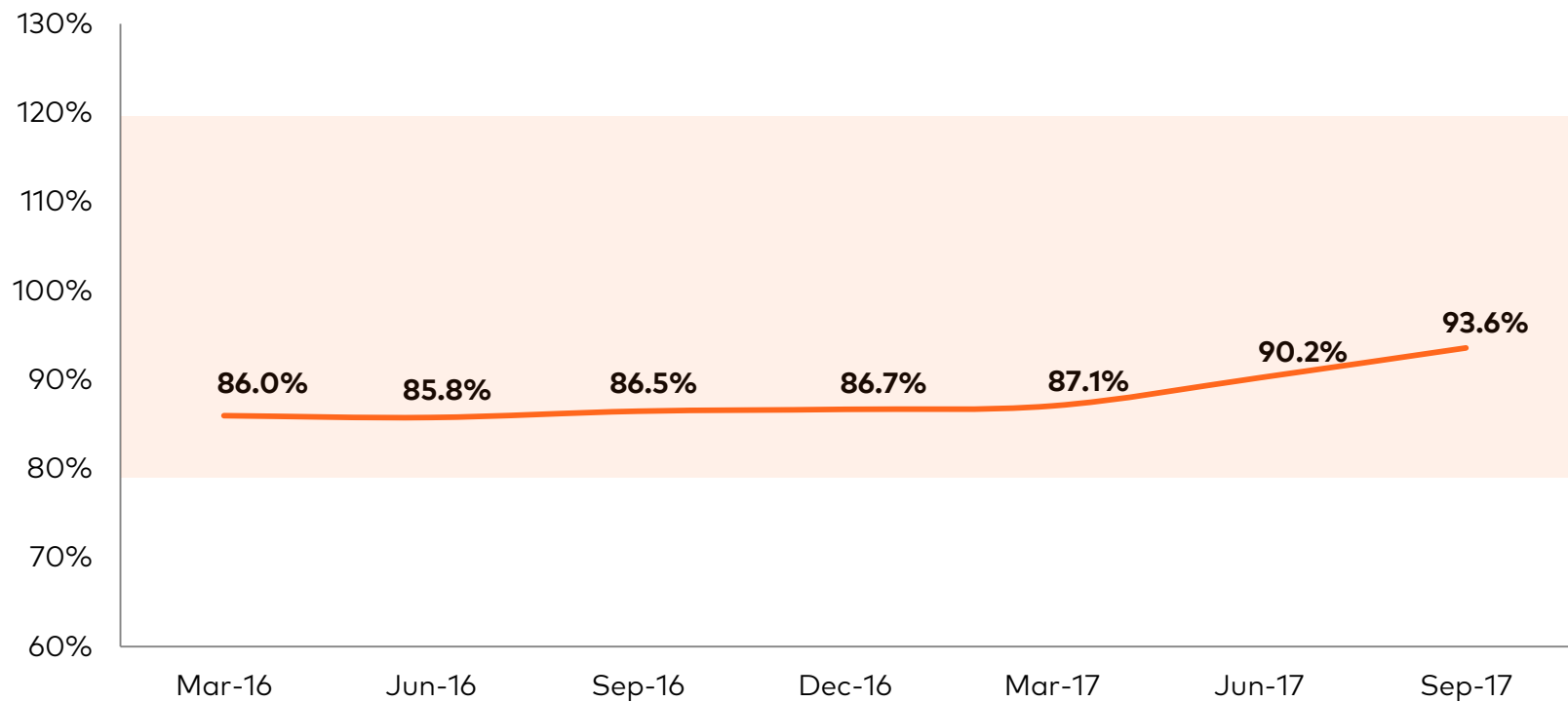
COST OF RISK RATIO, YEAR TO DATE



IMPROVED LOAN PORTFOLIO QUALITY (2/2)



NPL COVERAGE RATIO

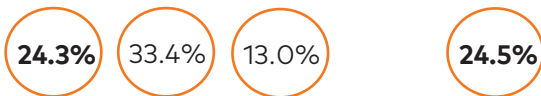


RETAIL BANKING DRIVING GROWTH AND PROFITABILITY



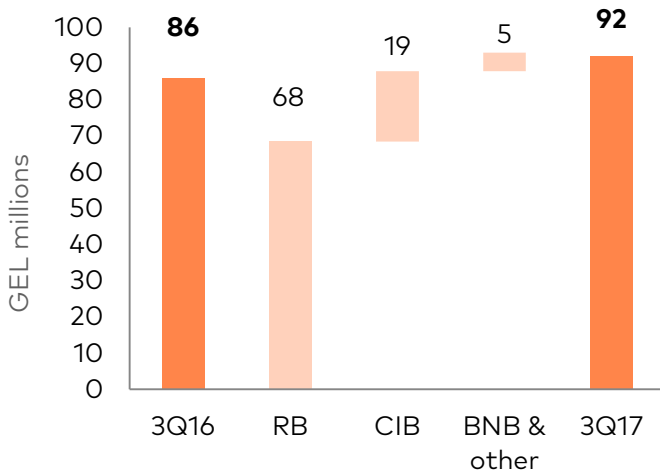
Quarterly

ROAE:

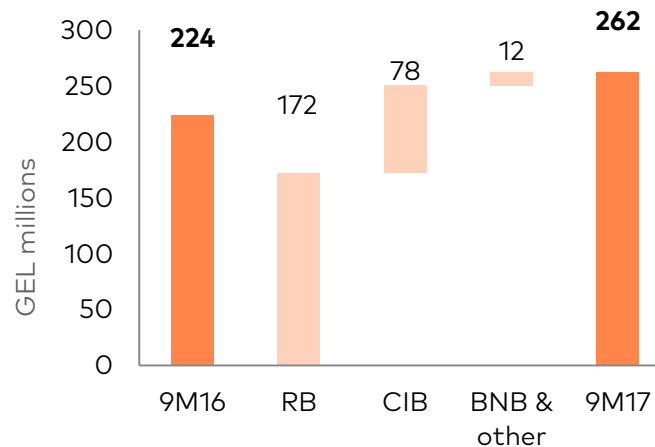
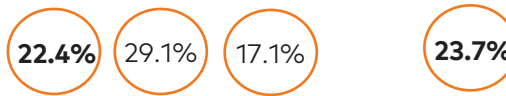


PROFIT:

Growth (y-o-y):



Nine-month

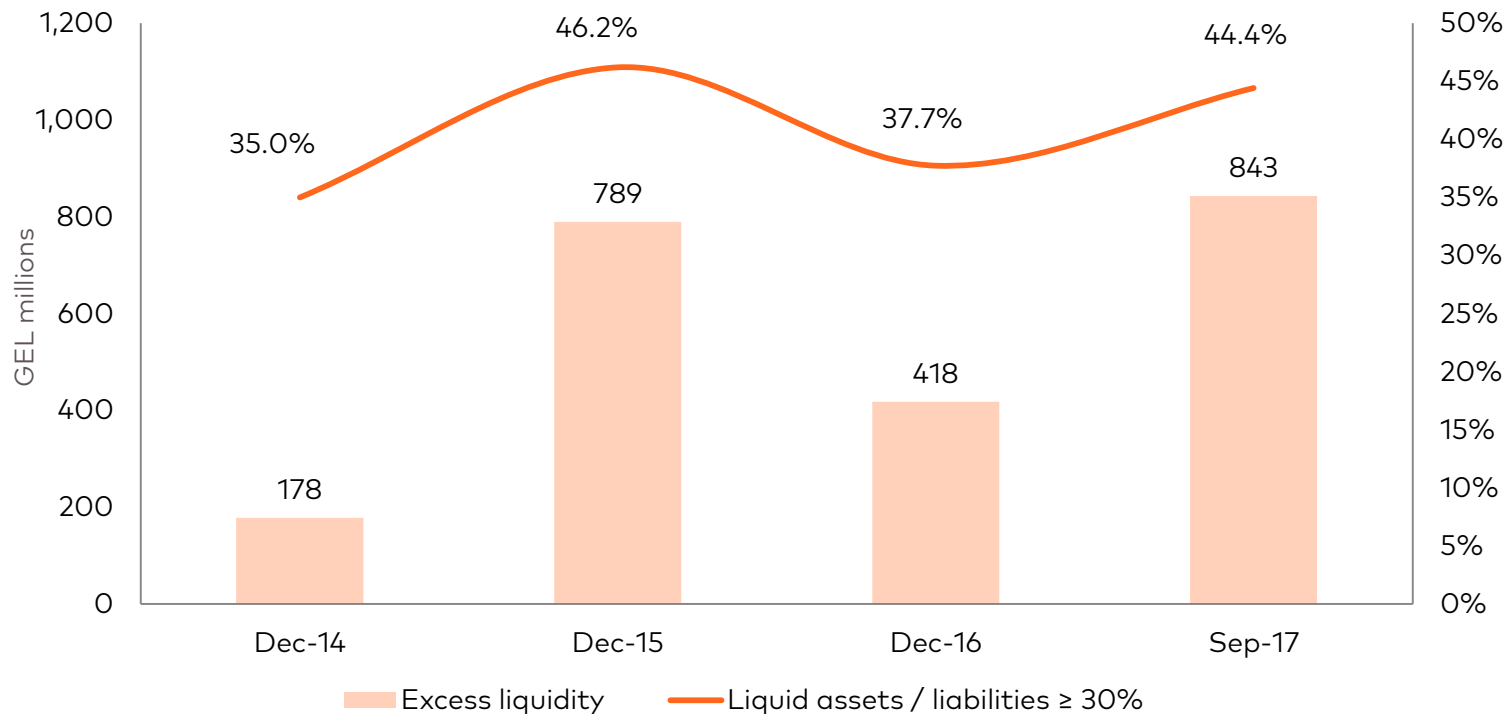


STRONG LIQUIDITY



LIQUIDITY RATIO

BOG Standalone

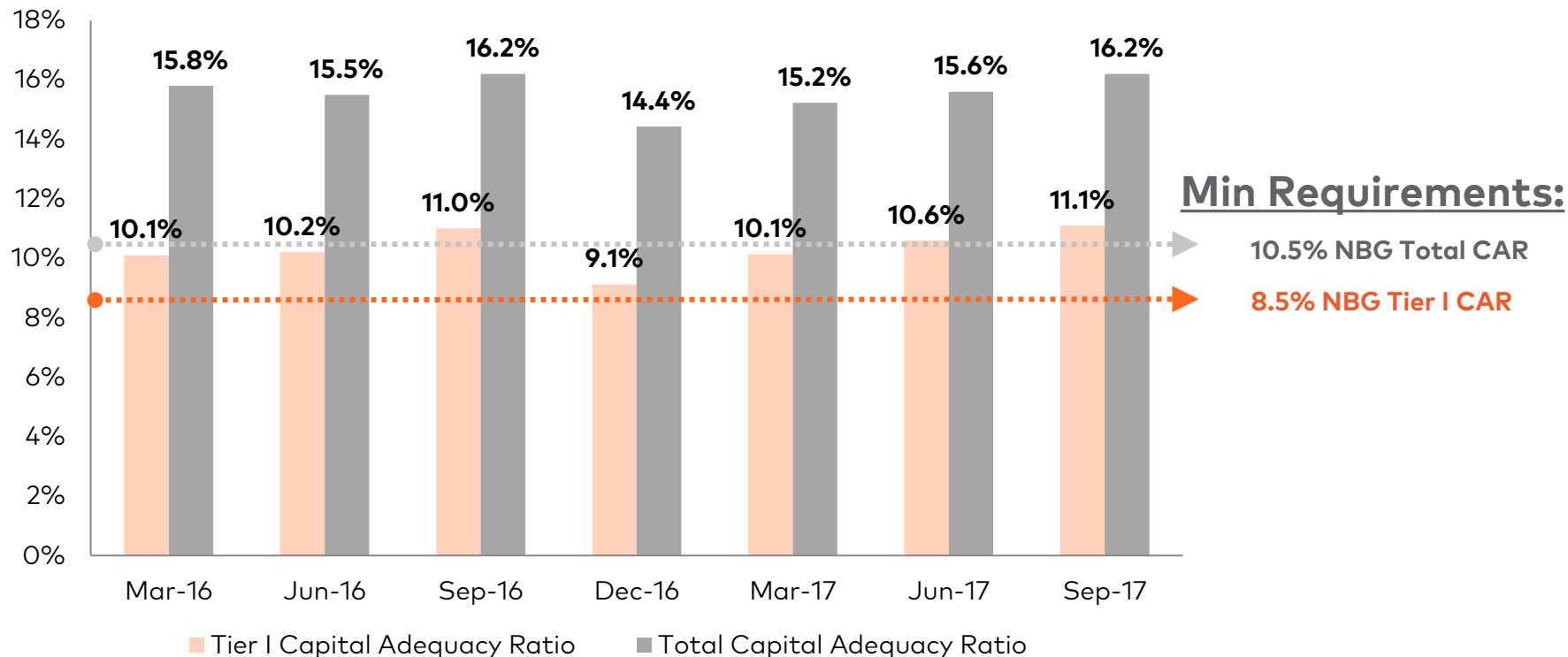


EXCELLENT CAPITAL ADEQUACY POSITION



CAPITAL ADEQUACY RATIOS

BOG Standalone



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RESULTS IN 2017 vs. OUR TARGETS & PRIORITIES



		Targets	9M16	9M17	Progress
KEY TARGETS	1 ROAE	20%+	22.4%	23.7%	✓
	2 Retail banking growth	20%+	19.5%	38.2%	✓
PRIORITIES	1 Grow retail share in loan book	65%	60.2%	68.4%	✓
	2 Increase Mass Retail product to client ratio	3.0	1.7	1.8	➔
	3 Increase number of Solo clients	To 40,000	16,964	28,492	✓
	4 De-concentrate corporate loan book	Top-10 borrowers: 10%	11.9%	10.4%	✓
	5 Become a regional private banking hub	AUM: GEL 2.5bln	GEL 1.4bln	GEL 1.8bln	➔
FINANCIAL METRICS	1 NIM	7.25% - 7.75%	7.4%	7.3%	✓
	2 Cost / income	c. 35%	37.8%	37.5%	➔
	3 NPL coverage ratio	80-120%	86.5%	93.6%	✓
	4 Cost of risk	c.2.0%	2.2%	2.2%	✓

KEY MILESTONES IN 2017 (1/4)



Retail Transformation

- **Optimised branch operating model** - effective client-centric service
 - Reduced number of mass retail branches from **141** before transformation to **114** currently
- Pro-active interaction with clients
 - **141% increase** in the number of products sold
 - **5.6% increase** in number of transactions per month through flagship branches



Plus Loyalty Programme

- **Status levels** achieved by using multiple banking products, which translates into **exclusive benefits**
- **More than 400,000 programme members** since launch in July 2017
- **22.9%** of enrolled customers have **upgraded** vs. the 10% initial target

KEY MILESTONES IN 2017 (2/4)



Public Transportation Contract

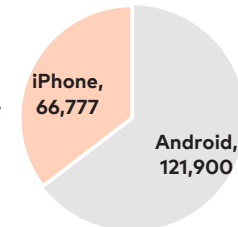
- **Sole provider** of payment support services to the public transportation network for another **ten years**
- **+2.1 million** transactions per month
- **Additional revenue** stream from **other banks'** card transactions



New Mobile Banking App

- Volume of transactions: **+55%** q-o-q
- Number of transactions: **+47%** q-o-q
- Number of active users: **+15%** q-o-q

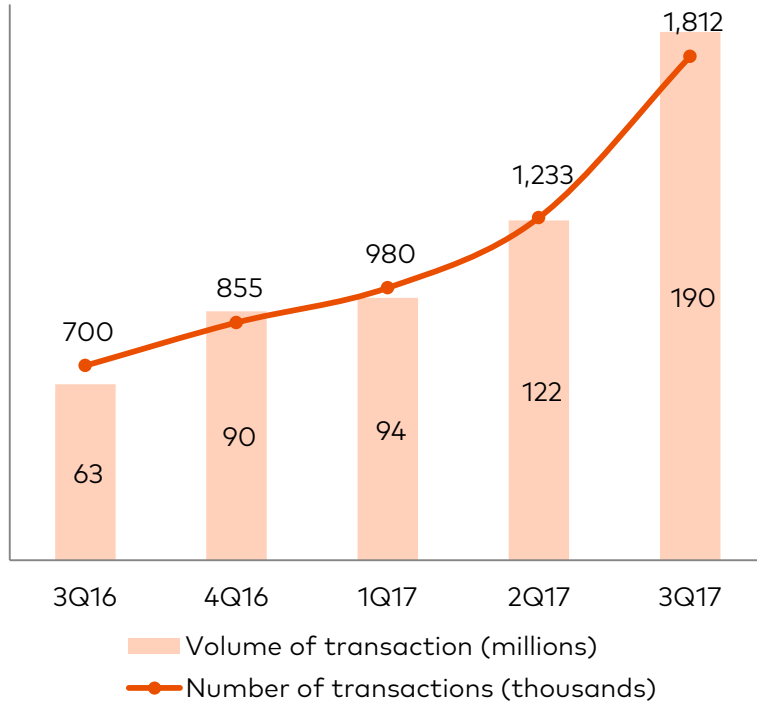
188,677 mBank
downloads since
June



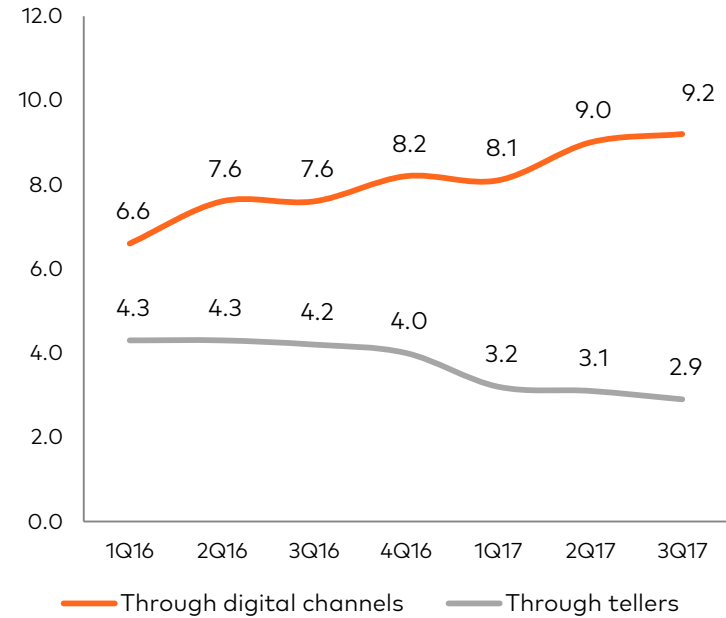
DIGITAL PENETRATION



TRANSACTIONS THROUGH NEW mBANK



DIGITAL VS NON-DIGITAL TRANSACTIONS



KEY MILESTONES IN 2017 (3/4)



Solo Club

- **A membership group within Solo** offering exclusive access to Solo's products ahead of other Solo clients at a higher fee
- Premium banking lifestyle
- Launched in **2Q17** – currently **1,527 members**
- **American Express Platinum** credit card exclusive offering



Data Analytics

- Switch from traditional statistical models to **machine learning**
- **Underwriting**
 - ▶ **77%** fully automated decisions
 - ▶ **<5min** for 85% of applications processed
 - ▶ **105,000** applications processed per month
- **Targeted campaigns** through different channels
 - ▶ **116** campaigns
 - ▶ **205,000** sold products

KEY MILESTONES IN 2017 (4/4)

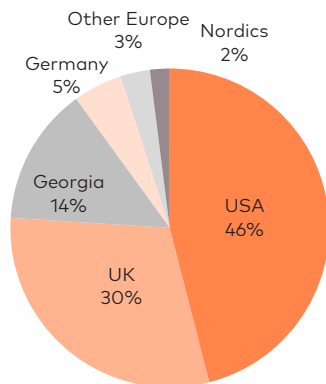


BANK OF GEORGIA 500MLN GEL INAUGURAL LARI EUROBOND ISSUANCE

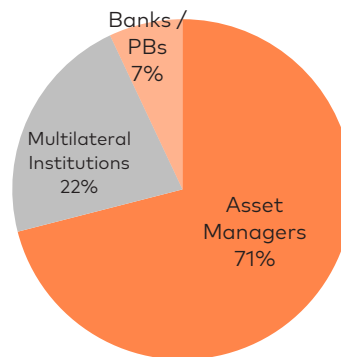


Notes	GEL 500 million, 3 year, 11.00% Eurobonds payable in U.S.\$
Listing	Irish Stock Exchange
Notes rating	Moody's Ba3 / Fitch BB-
Joint Lead Managers / Bookrunners	J.P. Morgan, Renaissance Capital
Co-Manager	JSC Galt & Taggart

ALLOCATION BY GEOGRAPHY



ALLOCATION BY INVESTOR TYPE



RETAIL BANKING CLIENT-CENTRIC, MULTI-BRAND STRATEGY



Brands & Target Segments

Selected Operating Data (9M17)

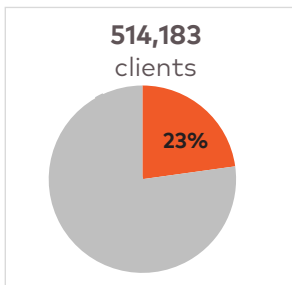
Strategic Focus

Business Model

Total No of Clients (excluding MSME) 2,096,843

1

Emerging Retail



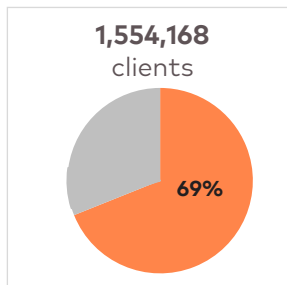
Double number of transactions

Product-centric cross-selling

Focused on transactional banking

2

Mass Retail

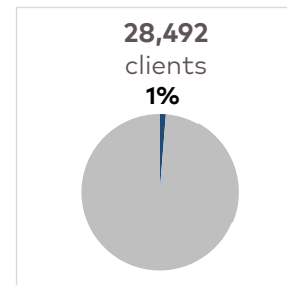


Product/client ratio growth to 3.0

360° financial planning

3

SOLO Mass Affluent



Client growth to 40,000

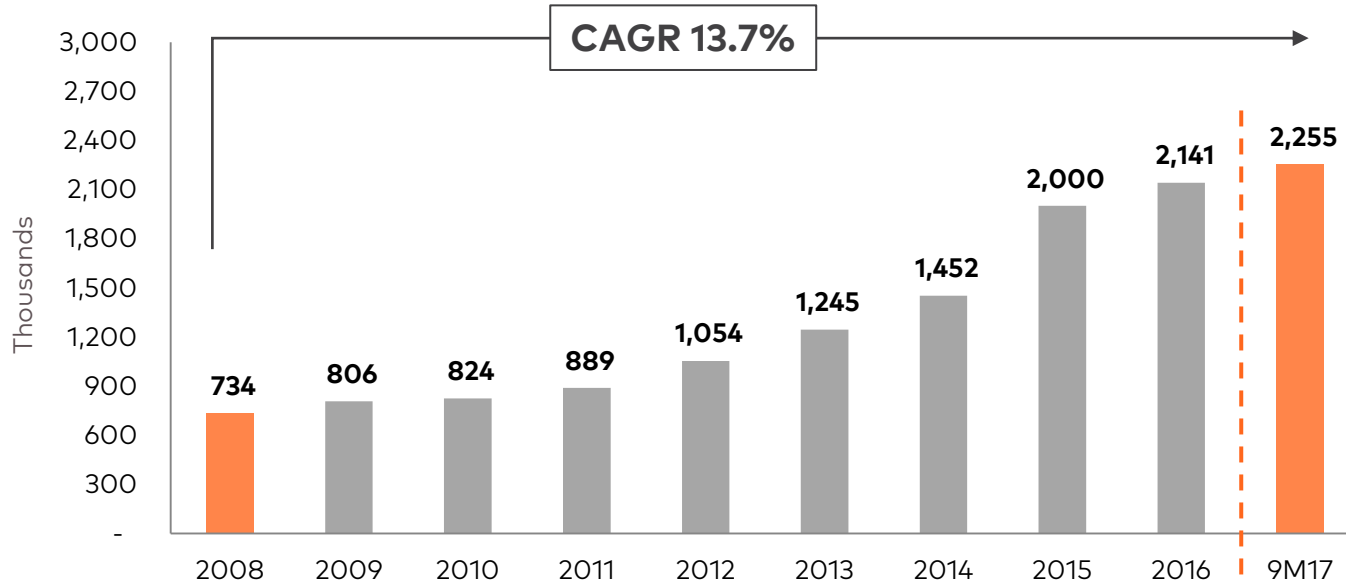
Advisory based 5-step approach

SOLO Lifestyle

OVER 2 MILLION RETAIL CLIENTS



NUMBER OF RETAIL BANKING CLIENTS



Aggressive client acquisition phase is over
We target growth through increasing engagement of existing clients

MSME & CORPORATE BANKING STRATEGIC HIGHLIGHTS



Brands & Target Segments

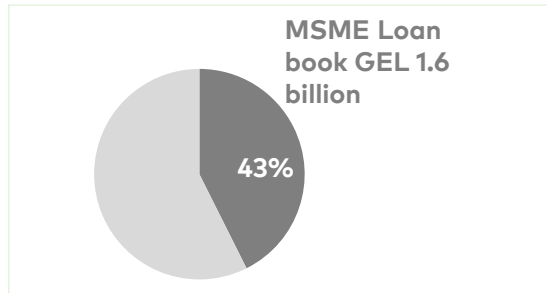
Selected Operating Data (9M17)

Strategic Focus

**MSME & CIB Loan Book
GEL 3.7 billion**

4

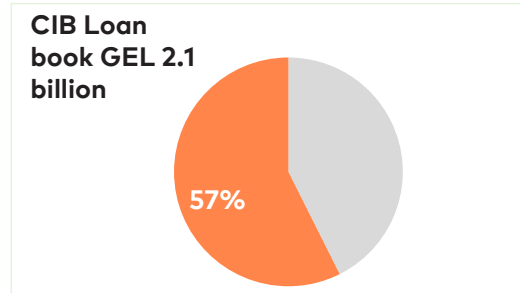
MSME
Micro, Small and Medium Business



- Increase number of clients
- Increase profitability per client
- Organise SME around customers instead of products
- New products and services for SME clients

5

Corporate Investment Banking Business



- Resume loan portfolio growth
- Manage concentration risk
- Grow fee business
- Attract new talents

BUILDING BLOCKS TO BECOME THE FINANCIAL SERVICES HUB



Wealth Management

- **Strong international presence:** Israel (since 2008), UK (2010), Hungary (2012), Turkey (2013) and Cyprus (2017)
- **AUM of GEL 1,818 million**, up 29.1% y-o-y
- **Diversified funding sources:**
 - Georgia 35%
 - Israel 14%
 - UK 4%
 - Germany 2%
 - Other 45%



Brokerage

- **Wide product coverage**



- **Exclusive partner of SAXO Bank** via While Label structure, that provides highly adaptive trading platform with professional tools, insights and world-class execution



Research

- Sector, macro and fixed income coverage
- International distribution



Corporate Advisory

- **Bond placements**
 - "First in corporate bond placements in the Caucasus Region in 2016" – Cbonds
 - More than **GEL 260mIn** local bonds placed in 2017

Sample Transactions



- **Corporate advisory platform**
 - Proven track record of more than 15 completed transactions over the past 8 years

UPDATED GUIDANCE



		Targets
KEY TARGETS	1 ROAE	20%+
	2 Total Banking Business loan book growth	15% - 20%
PRIORITIES	1 Increase Mass Retail product to client ratio	3.0
	2 Increase number of Solo clients	To 40,000
	3 Become a regional private banking hub	AUM: GEL 2.5bln
FINANCIAL METRICS	1 NIM	7%+
	2 Cost / income	~35%
	3 NPL coverage ratio	80-120%
	4 Cost of risk (through the cycle)	2.0%
	5 Dividend payout ratio	25-40%

BANKING BUSINESS SUMMARY



#1 in terms of Net Interest Income

#1 in terms of Net Fee and Commission Income

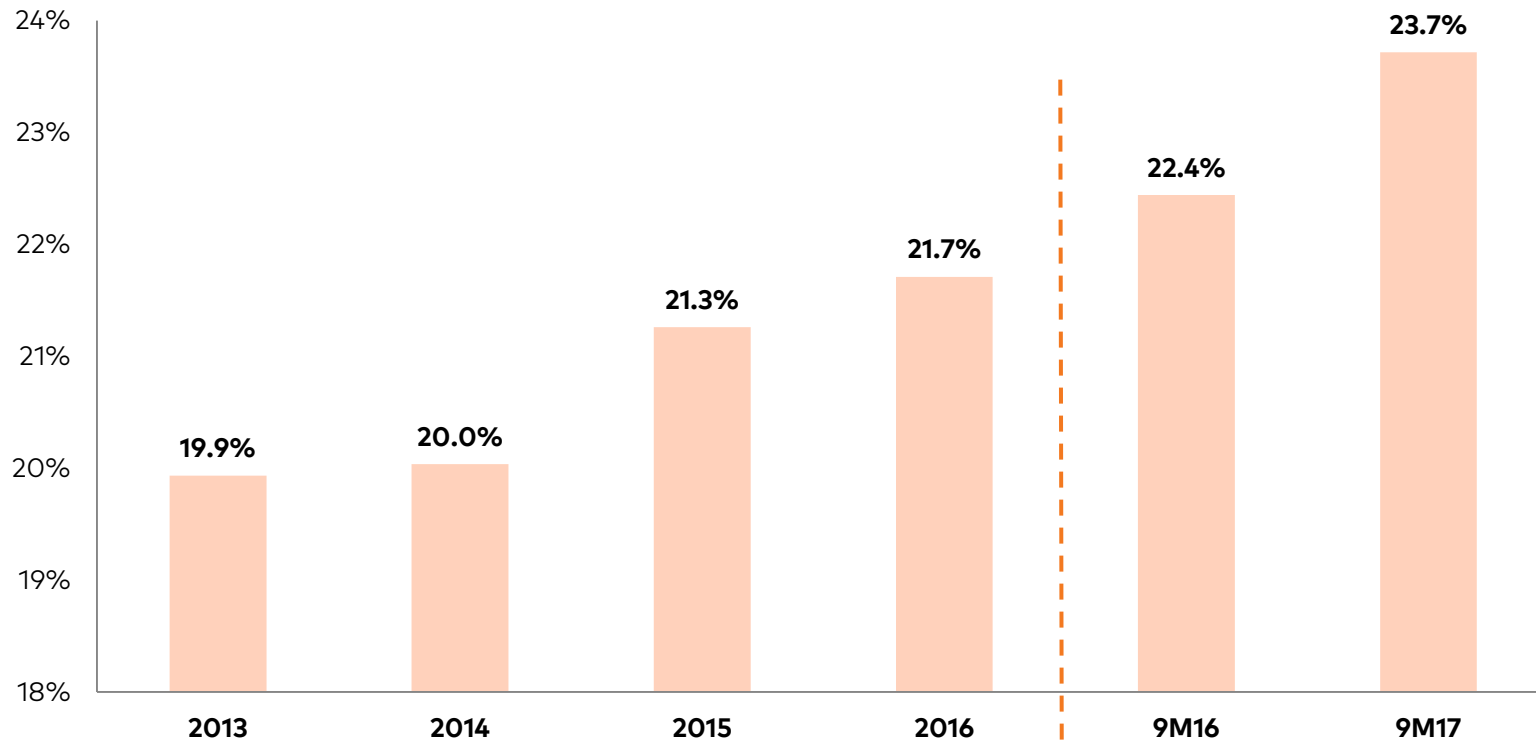
#1 most cost efficient with 37.5% Cost/Income ratio

#1 in terms of Net Income

OUTSTANDING ROAE



ROAE





BANK OF GEORGIA

QUESTIONS?

BGEO Investor Day
9 November 2017
Tbilisi, Georgia

DISCLAIMER – FORWARD LOOKING STATEMENTS



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