



BANK OF GEORGIA
HOLDINGS PLC

Credit Risk

Speaker: George Chiladze, Chief Risk Officer

Discussion topics

Selected economic trends

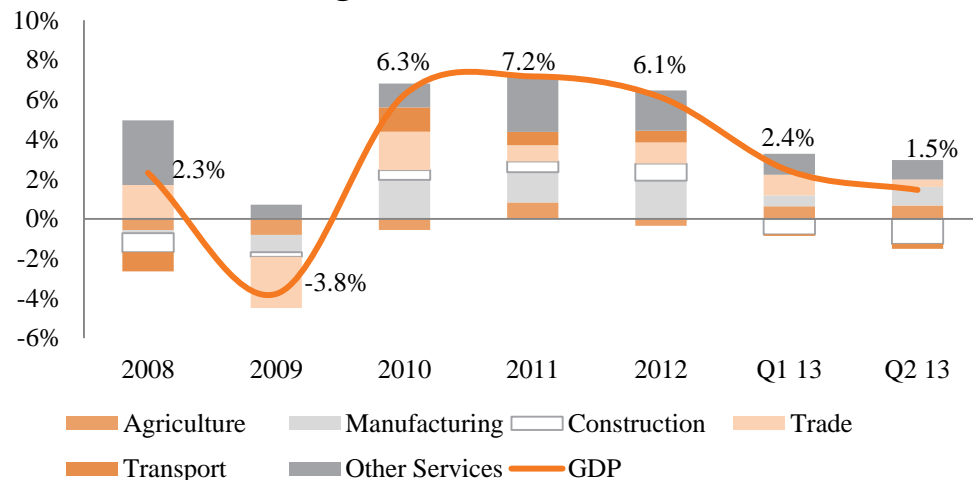
Loan portfolio overview

Cost of risk

New provisioning methodology

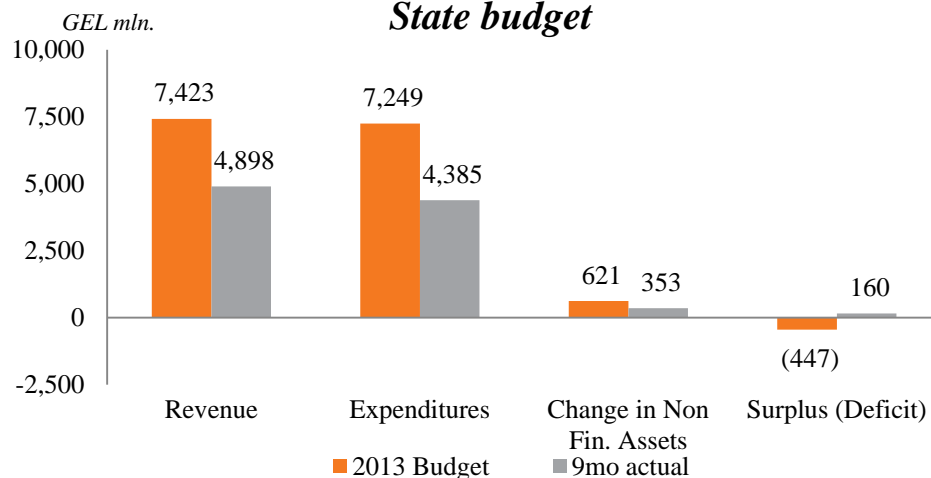
Georgian economy: beginning of a positive trend

GDP growth drivers

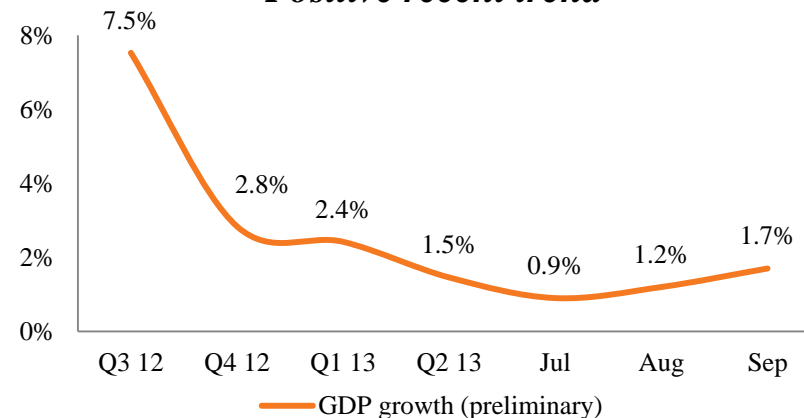


- GDP growth slowed to 1.5% in Q2 2013
- Construction was down by 12% in 1H 2013 hurt by the halt in public infrastructure spending; Transportation was down 1.5% in 1H 2013
- Agriculture was up by 6.7% in 1H 2013 helped by increased subsidies in the Sector
- Expect Infrastructure spending to pick up and Agriculture Subsidies to continue

State budget



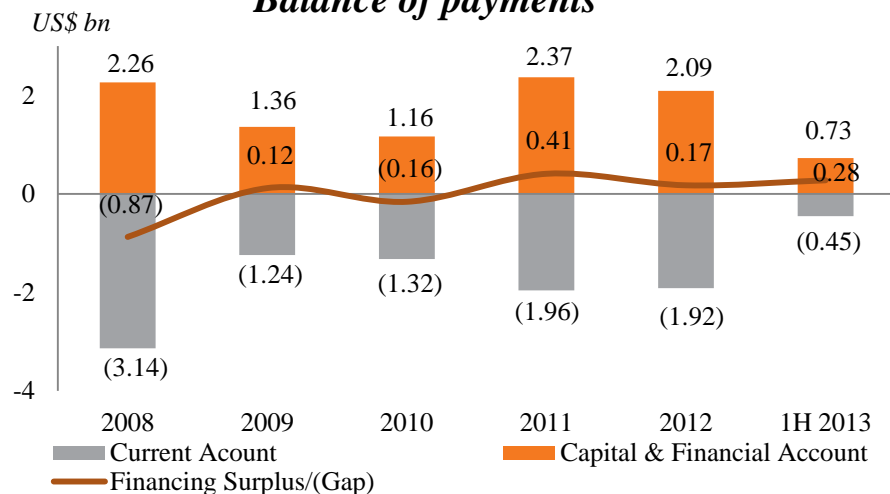
Positive recent trend



Source: Geostat, MoF

Georgian economy: Strong FX inflows

Balance of payments



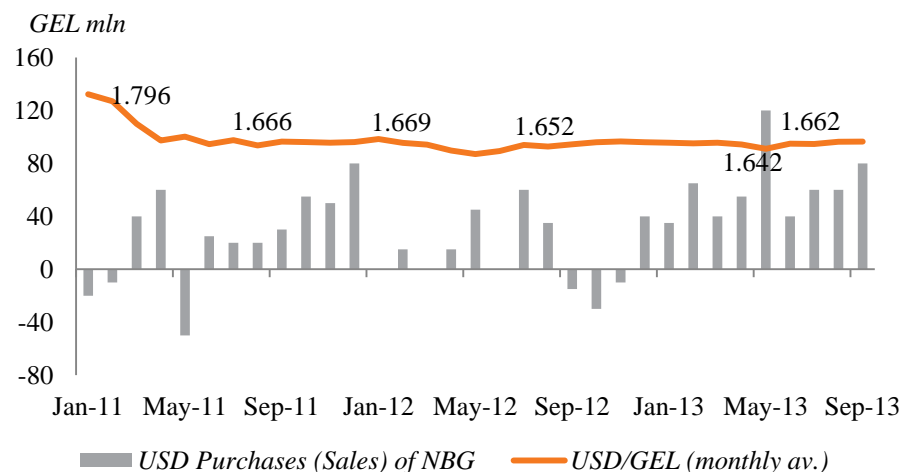
CA deficit narrowed to 5.7% of GDP in 1H 2013

Exports increased by 14% in 9 months of 2013, while imports decreased by 4%

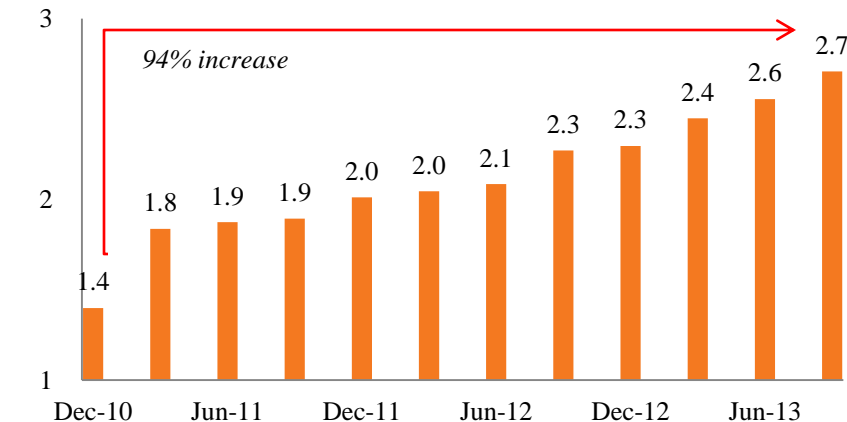
Tourism, growing by 22% CAGR over 2000-2012, emerged as the major source of FX income, generating USD 1.4 billion in 2012. Number of visitors is estimated to reach 5.2 million in 2013, up 18%

NBG bought US\$ 0.55 billion YTD as of Sep 2013

Stable exchange rate



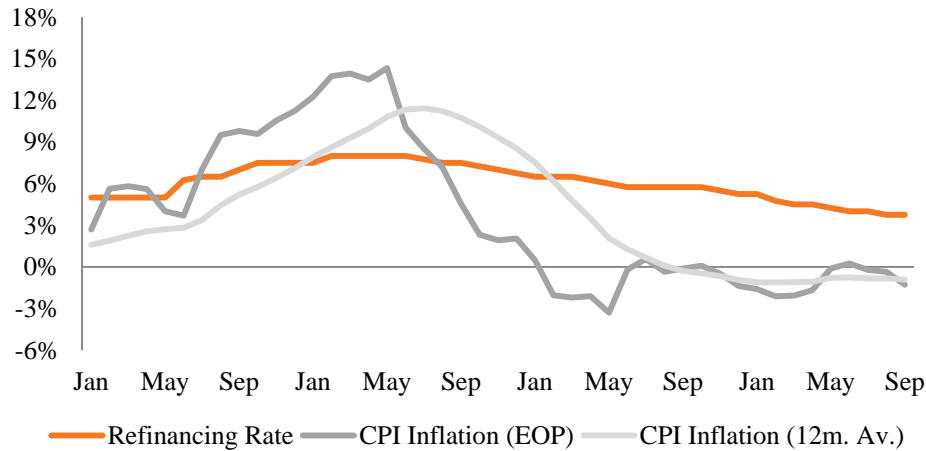
Net foreign reserves



Source: NBG

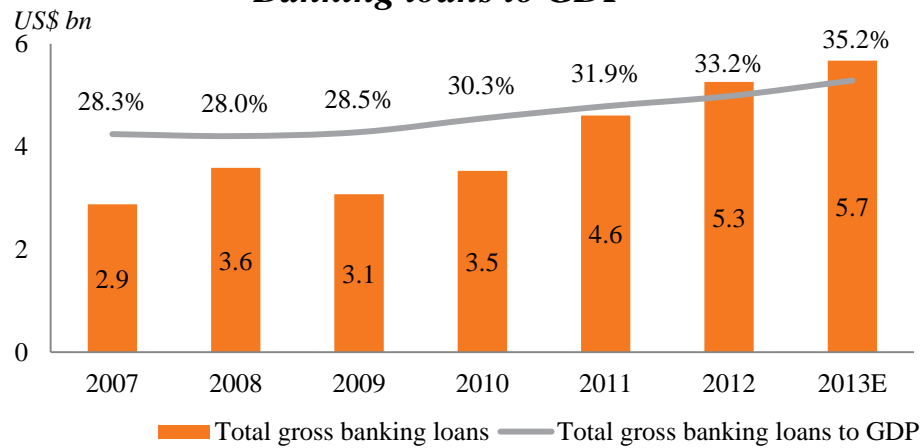
Georgian economy: Depressed demand

Monetary policy

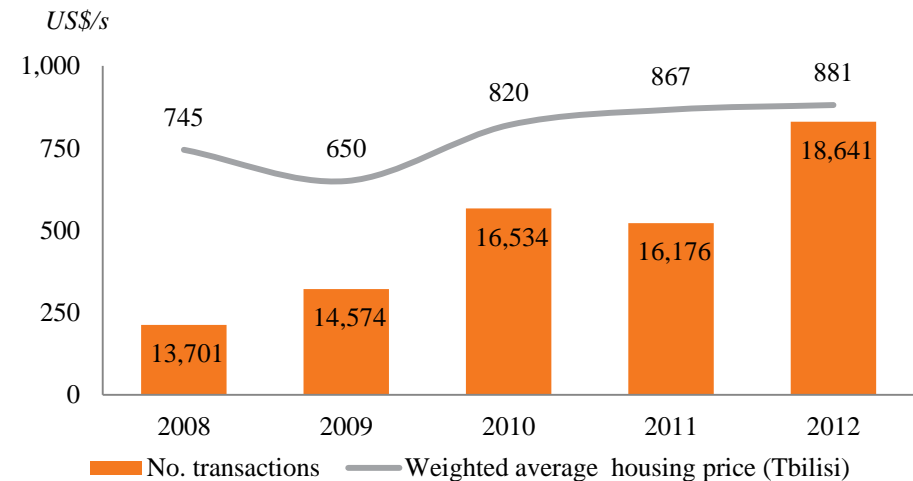


- ❏ NBG remained accommodative in the face of slowdown both in public and private investments, but inflation remains way below its 6% target
- ❏ Slow loan growth
- ❏ Stable housing prices with increased liquidity in the market

Banking loans to GDP



Housing prices



Sources: NBG, Geostat, BoG research

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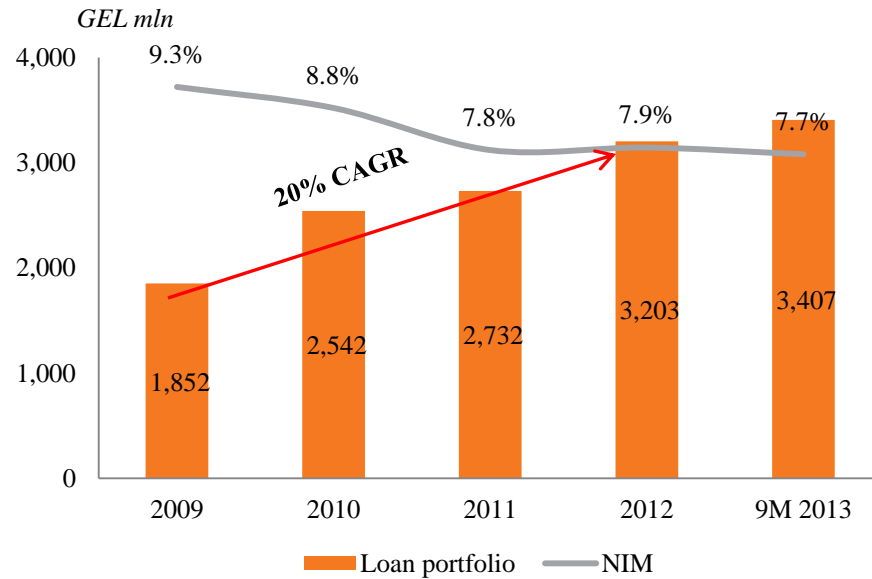
Loan portfolio overview

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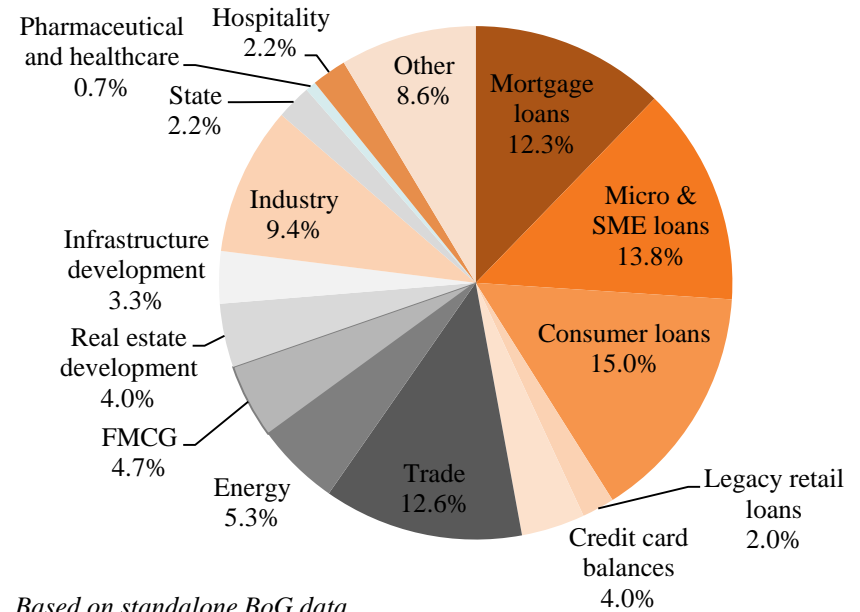
New provisioning methodology

Loan portfolio

Loan portfolio



Diversified loan book

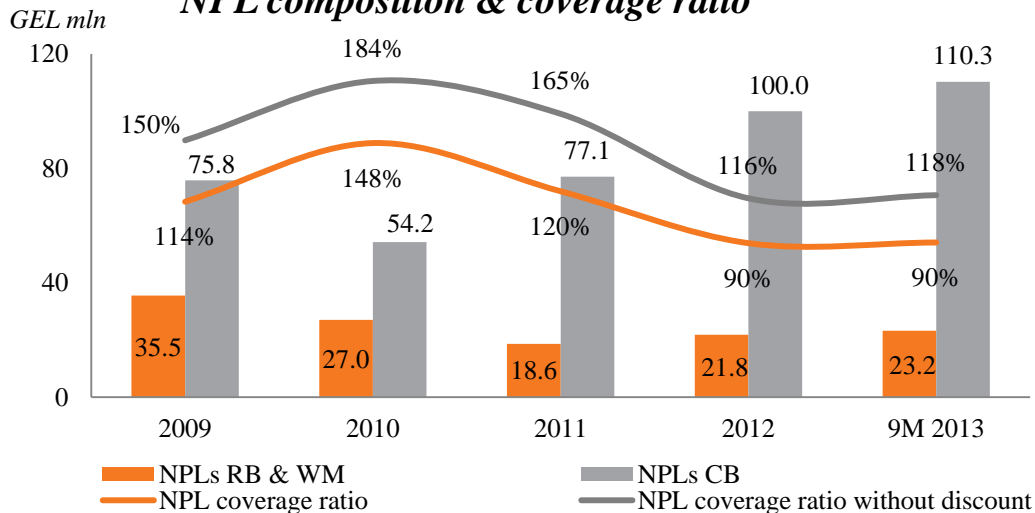


Key points

- Moderate loan growth and stable NIM, still loan book nearly doubled since the end of 2009
- Diversified loan portfolio (53% CB & 47% RB+IM)
- No industry or product accounts for more than 15% of total loan portfolio

Loan portfolio quality

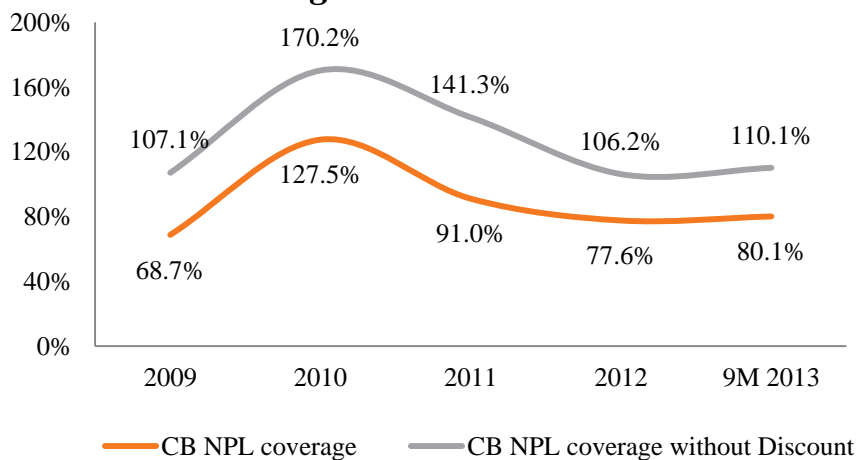
NPL composition & coverage ratio



📌 An increase in NPLs in 2012 was due to a single exposure

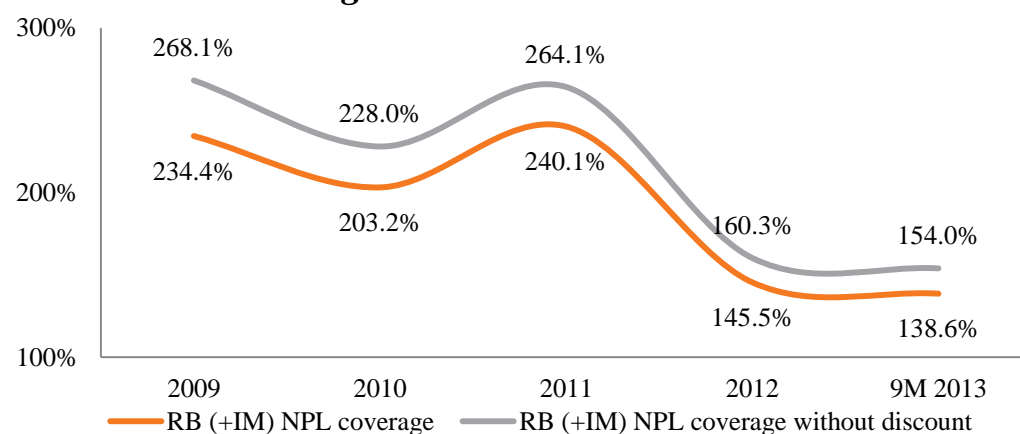
📌 Conservative NPL coverage ratio. Net NPL (NPLs less the discounted value of collateral) coverage ratio above 100%

NPL Coverage Ratio CB



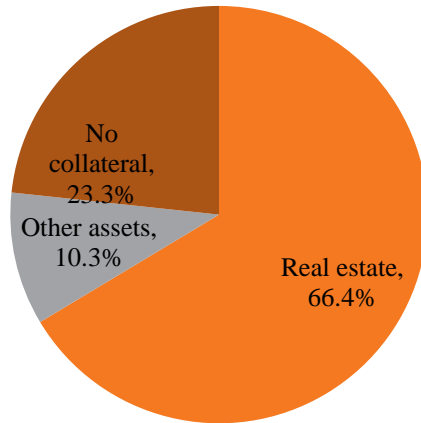
Based on standalone data

NPL Coverage ratio RB + IM



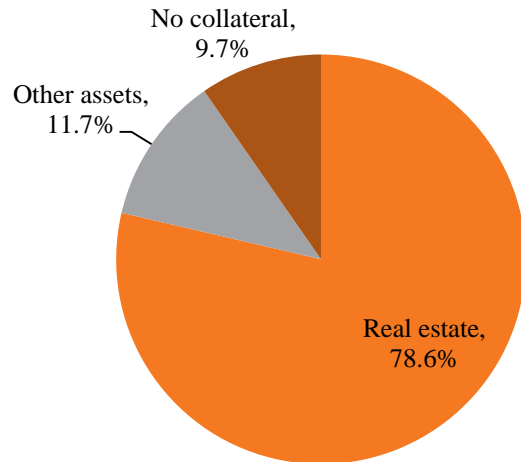
Collateralization by type, 30 September 2013

Total loan book

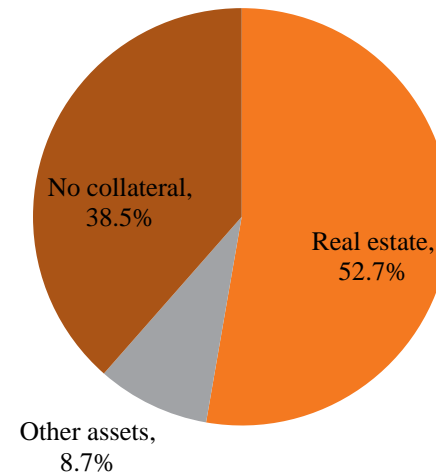


- High level of collateralization level maintained
- Majority of the loans collateralized with real estate
- Consumer lending collateralized with white goods are classified as non-collateralized

CB loan book



RB & IM



Based on standalone data

Corporate loan book loan loss reserves, 30 Sep 2013

<i>GEL 000's</i>	LLR%	LLR (% of total LP)
Infrastructure development	32.1%	1.1%
Real estate development	12.2%	0.5%
Trade	4.1%	0.5%
Energy	3.5%	0.2%
FMCG	2.1%	0.1%
Others	2.1%	0.2%
Hospitality	0.8%	0.0%
Pharmaceutical and healthcare	0.8%	0.0%
Industry	0.8%	0.1%
State	0.8%	0.0%
CB loans	5.0%	2.7%

- ❏ Infrastructure sector is one with largest LLR at 32%, or 1.1%, of the total loan book
- ❏ Real estate development are old NPLs that bank is still in work out.
- ❏ Sectors that we like are Energy, HPP's in particular, Hospitality, Healthcare, Industry
- ❏ We plan to be active in Infrastructure and real estate development now better prepared from our past experiences

Based on standalone data

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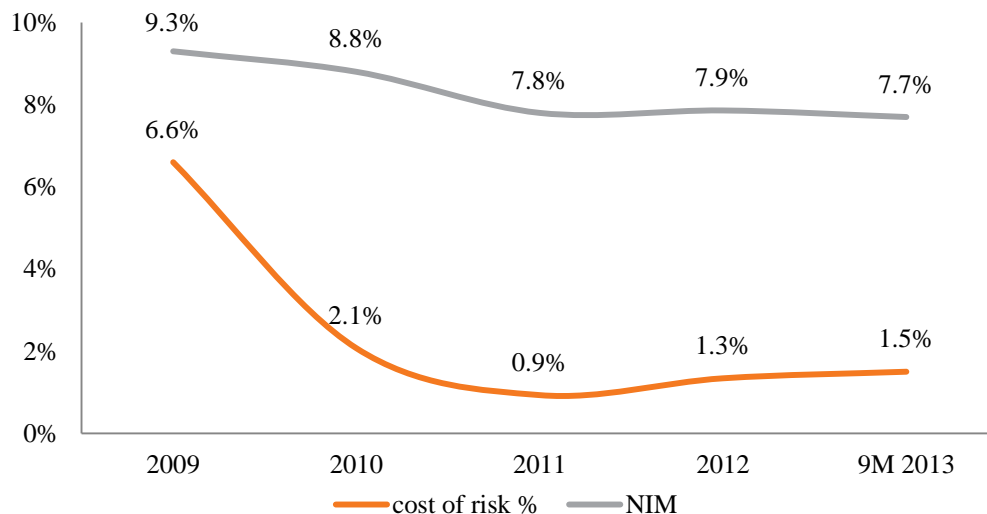
Loan portfolio overview

Cost of risk

New provisioning methodology

Cost of Risk

Cost of risk dynamics



- ❏ Cost of Risk has never exceeded NIM
- ❏ Cost of Risk remained stable between 1% and 1.5%
- ❏ Improving GDP growth dynamics and stable rate of recoveries supportive of lower cost of risk in Q4 2013 and 2014

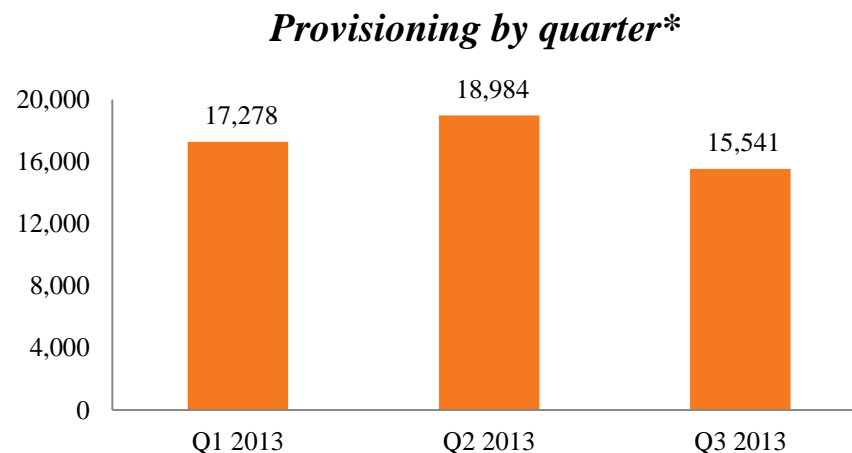
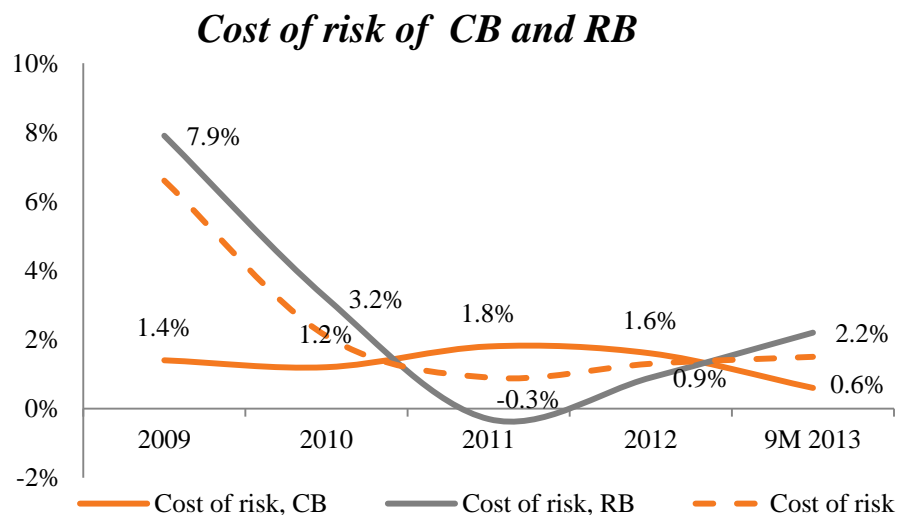
Internal risk management system

- ❏ Continued adherence to cash flow based lending, not asset based lending approach; majority of amortized loans in Loan Portfolio (circa 80%)
- ❏ Scoring system since 2006, more than 2.5 mln applications scored
- ❏ Better insight into consumer behavior
- ❏ Differentiated approach to Lari and US\$ lending
- ❏ Differentiated approach to PMT (payment per period) and collateral

Supportive external environment

- ❏ 2008-2009 changes in legislation protective of creditors' rights
- ❏ Credit info created in 2004, effective since 2007
- ❏ Financial information of the borrowers is transparent, with the improved level of tax compliance of the corporates
- ❏ Availability of property ownership information
- ❏ More educated borrower

Cost of Risk by segments



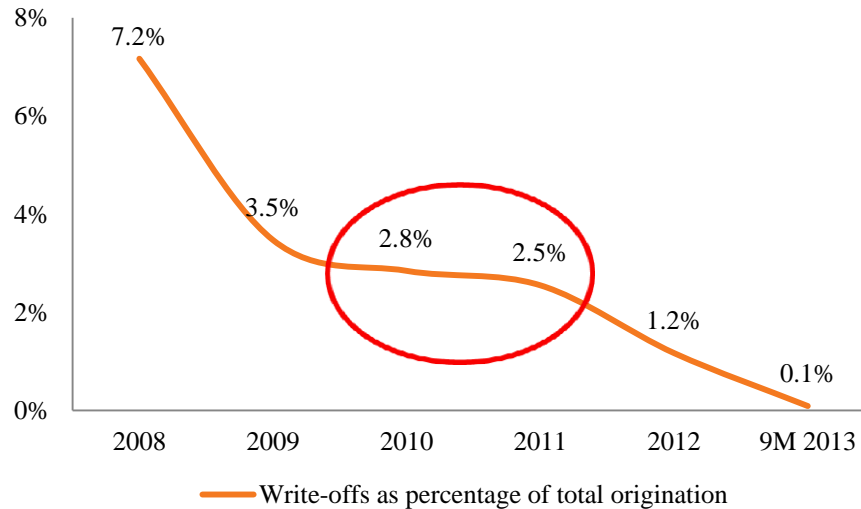
CB cost of risk varied between 1% to 1.5% with stronger quarterly variations

RB cost of risk dynamics was influenced by aggressive provisioning in the aftermath of crisis and then later on with the release of excess provisions when back normalised provisioning rates in Q4 2012. Normalized cost of risk for RB varies around 2%

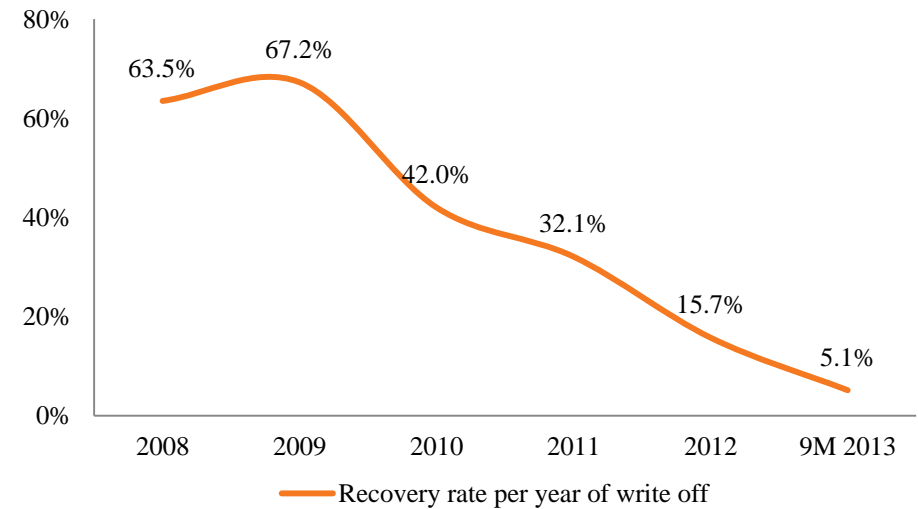
*Includes provisions and impairment of other assets

High recovery rate

Write-offs vintage



Recovery vintage



- More than 63% of loans written-off from 2007 through 2011 were recovered
- Total principal amount of written-off loans since 2008 is GEL 210 million as of Sep. 2013
- Value of only real estate collateral against these loans is GEL 63 million

Based on standalone data

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Cost of risk

New provisioning methodology

New Provisioning Methodology

- More accurate provisioning method, allows to better assess cost or risk when pricing products. Based on statistical assessment of Probability of Default (PD) and Loss Given Default (LGD) for each loan product type
- Methodology and IT solution – Deloitte (fineVARE)
- Change to new methodology – January 2014

Provision rates for collective assessment

Loan Product Type	Provision Rate	PD	LGD
Corporate Loans	1.0%	5.0%	20.4%
Micro Express Loans	0.2%	0.6%	35.2%
SME & Micro Loans	0.9%	1.9%	50.1%
Auto Loans	1.1%	1.9%	54.5%
Consumer Loans	0.8%	1.4%	57.4%
AMEX Credit Card Balances	0.3%	0.9%	39.0%
Other Credit Card Balances	0.5%	0.7%	70.9%
Retail Express Loans	8.0%	10.5%	75.6%
Mortgage Loans	0.3%	1.0%	34.5%
Retail Overdraft Balances	1.1%	1.6%	68.3%
POS loans	1.4%	1.8%	80.5%

New	
CB	1.00%
RB	0.70%
LP total	0.86%
Existing	
CB	0.84%
RB	1.01%
LP total	0.92%

Based on standalone data

IFRS LLP comparison: old vs. new methodologies

Pro-forma LLR calculated as of 30 Sep 2013

GEL '000	NEW			OLD			
Type of Exposure	Total Exposure	Provision	Coverage	Provision	Coverage	Difference	
Corporate Loans	2,039,687	83,250	4.1%	88,378	4.3%	- 5,128	
SME & Micro Loans	451,828	404	0.1%	4,206	0.9%	- 3,801	
AMEX Credit Card Balances	192,209	2,284	1.2%	4,111	2.1%	- 1,827	
Mortgage Loans	412,761	1,853	0.4%	3,443	0.8%	- 1,591	
Consumer Loans	410,370	12,270	3.0%	12,980	3.2%	- 710	
Auto Loans	18,430	566	3.1%	644	3.5%	- 78	
Legacy Loans	68,268	-	0.0%	-	0.0%	-	
Retail Guarantees&LCs	12	-	0.0%	-	0.0%	-	
SME & Micro Guarantees&LCs	21,925	76	0.3%	-	0.0%	76	
Micro Express Loans	25,883	188	0.7%	60	0.2%	128	
Retail Overdraft Loans	22,122	1,464	6.6%	1,279	5.8%	185	
Other Credit Card Loans	52,755	4,373	8.3%	3,893	7.4%	480	
POS Loans	44,112	1,781	4.0%	394	0.9%	1,387	
Retail Express Loans	14,884	3,016	20.3%	921	6.2%	2,095	
Corporate Guarantees&LCs	417,629	2,502	0.6%	-	0.0%	2,502	
Grand Total	4,192,875	114,028	2.7%	120,310	2.9%	- 6,282	

More accurate provisioning, allowing bank to differentiate cost of risk by product

Pro-forma LLR GEL 6.3 million less than with existing methodology

Lower LLR for Corporate, SME, Consumer and Mortgages

Loan Loss Reserves for off-balance sheet exposures

Based on standalone data

Q&A

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