



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

*GROWTH AT THE RIGHT PRICE*  
*LSE: BGEO*

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## *Strategy*


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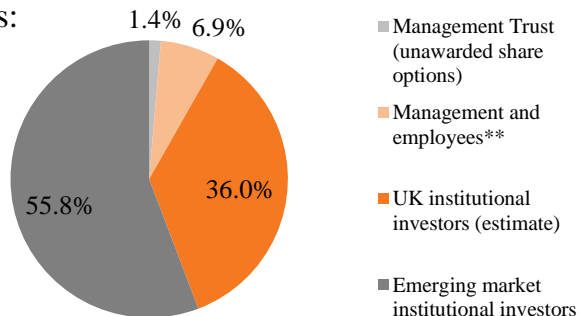
*Tbilisi*

*Speaker: Irakli Gilauri, CEO*

*15 November 2013*

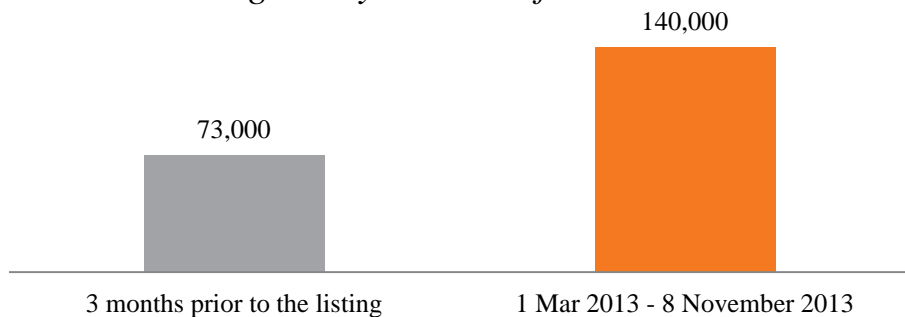
# Shareholder structure and share price

 Bank of Georgia Holdings plc. (BGH) (LSE: BGEO) a UK-incorporated holding company of JSC Bank of Georgia. As of 30 September 2013, BGH's shareholder structure was as follows:

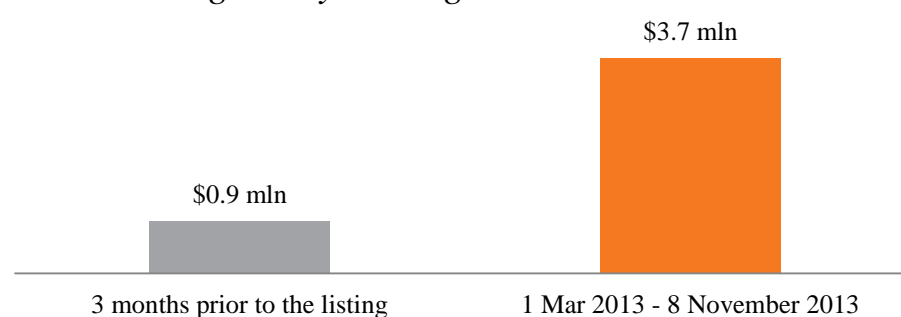


- BGEO is included in FTSE 250 and FTSE All Share Index Funds as of 18 June 2012, as announced by FTSE on 6 June 2012
- World class corporate governance is the key to our success

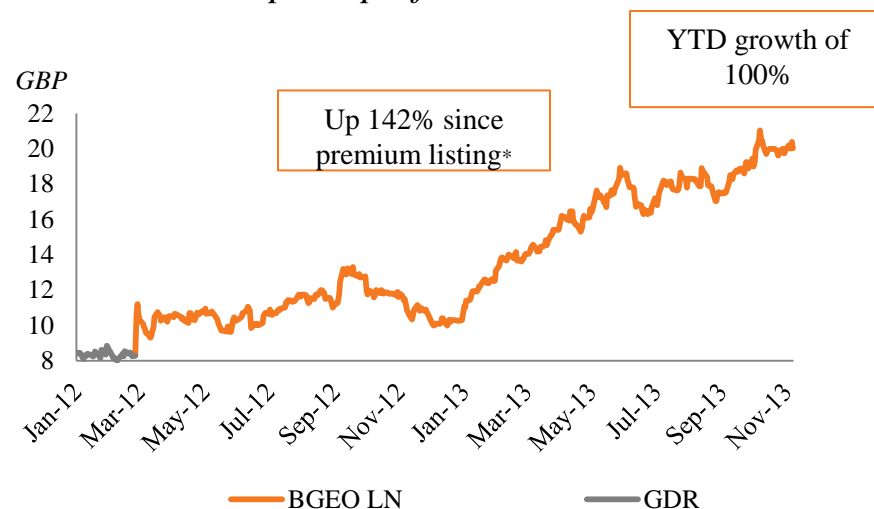
## Average daily number of shares traded



## Average daily trading volume



## Share price performance



\* Share price change calculated from the last price of BGEO LI on 27 February 2012 to the price of BGEO LN on 8 November 2013

\*\* Includes shares held, shares vested awarded and unvested of the Management Board, Supervisory board and other employees of the Bank and its subsidiaries

# 3x20%: Growth story over time with dividends

UK corporate governance

FTSE 250

## ROE c.20%

- Revenue up 5.6% y-o-y to GEL 138.3 mln in Q3 2013, in 9M 2013 up 9.3% <sup>1</sup> to GEL 401.0 mln
- Profit up 25.6% y-o-y to GEL 58.6 mln in Q3 2013, up 15.8% y-o-y to GEL 153.7 mln in 9M 2013
- Non-interest income decreased by 4.5% y-o-y to GEL 58.3 mln in Q3 2013 and in 9M 2013 increased by 6.9% <sup>1</sup> to GEL 170.5 mln
- Operational efficiency/scale:
  - Cost to income ratio improved to 39.7% in Q3 2013 compared to 39.9% Q2 2013 and 44.4% in Q3 2012. 9M 2013 cost to income at 41.0% compared to 45.2% in 9M 2012.
- Prudent risk management:
  - Cost of risk <sup>2</sup> of 1.6% in Q3 2013 compared to 1.5% in Q2 2013
- Q3 2013 ROAE of 20.6%, compared to 19.3% in Q2 2013

## TIER I c.20%

- Conservative National Bank of Georgia (NBG) regulation
  - Risk weighting of FX assets at 175%, Bank's leverage at 4.1x as of 30 September 2013 and 4.3x as of 31 December 2012
- Strong internal cash generation to support loan growth without compromising capital ratios
  - BIS Tier I of 23.7% and BIS Total Capital ratio of 28.6% as of 30 September 2013
  - NBG Tier I 15.4% and NBG Total Capital of 16.6% as of 30 September 2013

## Growth c.20%

- Strong growth across the board supported by synergistic business
  - Net loan book <sup>3</sup> grew 7.2% y-o-y to GEL 3,283.5 million
  - Client deposits in Q3 2013 increased 6.0% y-o-y and 8.7% year-to-date to GEL 2,850.0 million despite sharp decrease in cost of deposits. Cost of client deposits declined to 5.2% in Q3 2013 from 5.9% in Q2 2013 and 7.1% in Q3 2012
- Consumer driven franchise with robust sales force to increase cross selling with synergistic businesses
- Increase in contribution from synergistic business in the Group's profit. Insurance and healthcare business contributed 11.9% to the Group's profit in 9M 2013 compared to 6.7% in 9M 2012

## Dividends


- An annual dividend of GEL 1.5 per share for 2012 was paid in June 2013
- Dividend of GEL 0.7/27p per share for 2011
- Going forward, the Board will aim to maintain a dividend payout ratio in the 25%-40% range
- Aim for one-off dividends linked to divestments

<sup>1</sup> Excluding one-off fx gain for BNB

<sup>3</sup>Including finance lease receivables




<sup>2</sup> Equals impairment charge for loans to customers and finance lease receivables for the period divided by monthly average gross loans to customers and finance lease receivables over the same period

# Bank of Georgia at a glance

 The strategy to enter insurance, healthcare and real estate business announced in 2010 worked well



## Strategic business

### *Well established brand*

-  Retail
  - Largest retail franchise: 1,190,255 retail clients, 199 branches, 486 ATMs, 926,646 cards outstanding as of 30 September 2013
  - Market shares of 30.2% by retail loans and 29.6% by retail deposits as of 30 September 2013
-  Corporate
  - Largest corporate bank with c.7,200 corporate clients; 31.2% market share by corporate deposits as of 30 September 2013
-  Investment Management
  - Investment Management client deposits 2009-2012 CAGR growth of 54.8%; Outstanding client deposits of GEL 614.6 mln at 30 September 2013
  - International representative office network in Israel, UK and Hungary


## Synergistic business

### *Growth opportunities to support strategic business*

-  Insurance and Healthcare (Aldagi)
  - Strongly positioned to benefit from the growth of insurance and healthcare sectors through insurance subsidiary Aldagi, one of the leading providers of life and non-life insurance in Georgia with 30.0%\* market share by gross insurance premium revenue
  - Vertical integration with healthcare business to boost insurance business growth and its contribution to the Group's income
  - Approximately, 11% of BGH revenues and 12% of BGH profit in 9M 2013
-  Affordable Housing
  - Pilot project of 123 apartment building completed on time and within the budget with IRR of 47%
  - 522 apartment building project is expected to finish 5 months ahead of schedule, 83% pre-sold since June 2012
  - Mortgages with a total value of GEL 23.5 mln sold

## Non-core business

### *Intention to exit from non-core business over time*

-  BNB
  - Belarus banking operation accounting for 4.6% total assets as of 30 September 2013
  - The Bank owns 80%, the remainder owned by IFC/World Bank
  - Assets of US\$163.8 mln, up 71% y-o-y and equity of US\$31.3 mln as of 30 September 2013
  - Fully written off goodwill (GEL 23.4 mln)
  - ROAE of c. 17%

\* Based on insurance revenues as of 30 June 2013 per Insurance Supervisory Agency

# Key strategic priorities for the next 3 years

1

## Strengthen market leader position

- As demonstrated by BoG results, market leadership gives BoG superior pricing power, distribution and economy of scale
- Express strategy with the platform to increase number of clients will be the key driver to create indestructible franchise
- Increase number of retail clients to 1.2 mln y-o-y by c. 22% as of Sept 2013

2

## Further increase revenue diversification

- Leverage on local knowledge and access to capital internationally to introduce Investment Management products
- Expand in payments business in Georgia through Express Strategy
- Leverage on knowledge of IT and payment business to export IT and payments business in the region
- Strong IT knowledge will be the key

3

## Decrease cost of funding

- Through superior access to capital markets and BoG retail franchise we managed to decrease our cost of funds from 7.8% in Q3 2011 to 5.6% in Q3 2013 & increase NIM
- We managed to increase NIM in low loan demand cycle
- Express strategy allows us to increase current accounts balances. Retail current account balances grew by 30% y-o-y in Sept'13

4

## De-dollarise balance sheet

- Leverage on NBG repo facility
- Keep US\$ & GEL deposit rate differential
- PR on GEL deposits
- Every 1% de-dollarisation of loan book releases GEL 3 mln regulatory capital
- C. GEL 40 mln Lari floating rate loans issued
- GEL loans increased from 22% of total loans in 2010 to 34% as of 30 September 2013

5

## Cost discipline

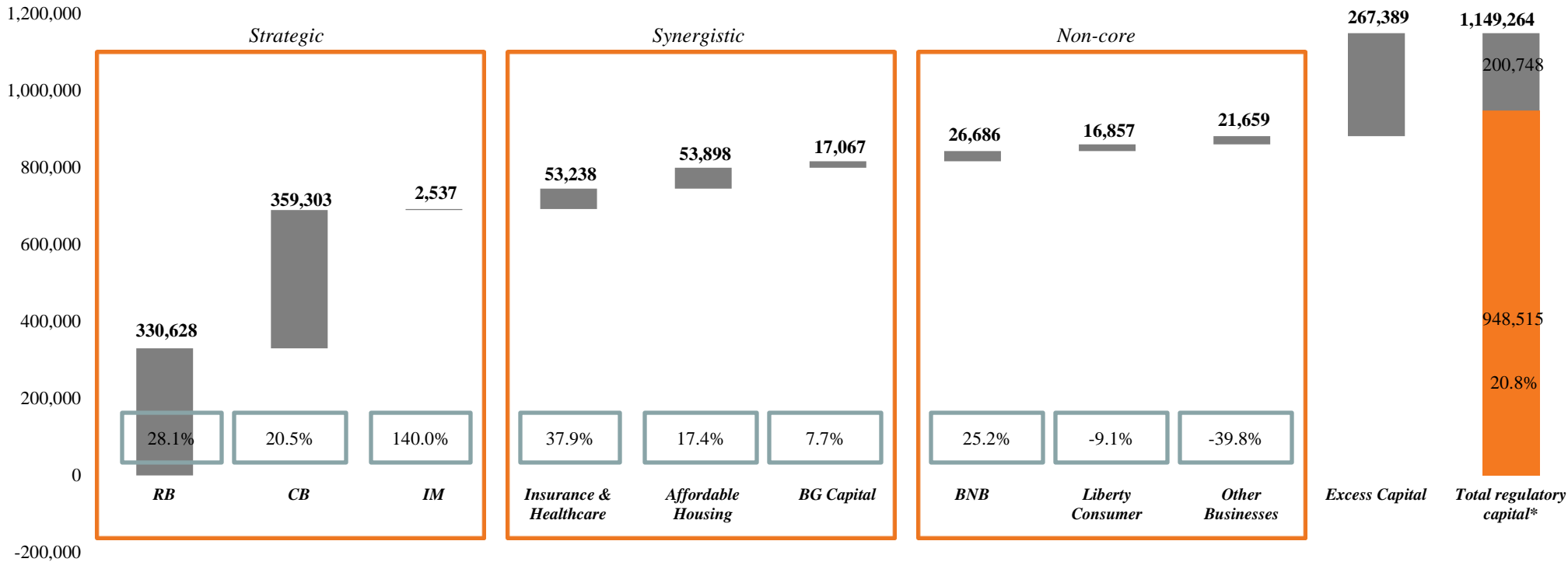
- C/I ratio below 40% - 2 years ahead of target
- Express strategy is the key to further decrease the ratio
- Investment in Express Technologies will allow us to scale up the business with minimum operating costs
- Education platform will be another contributor to lower costs

6

## Create education platform

- Use training budget & training centre to convert it into small university
- Leverage BoG franchise to attract external talent
- Platform to discover future leaders within 11,000 employees

# New NBG regulatory capital allocation, 30 September 2013



**RoC · Return on Allocated Capital**

\* Total new NBG regulatory capital, before deduction of investments of GEL 200,748 with GEL 948,515 of net regulatory capital after deductions.

## *Strong operating cash flow formation*

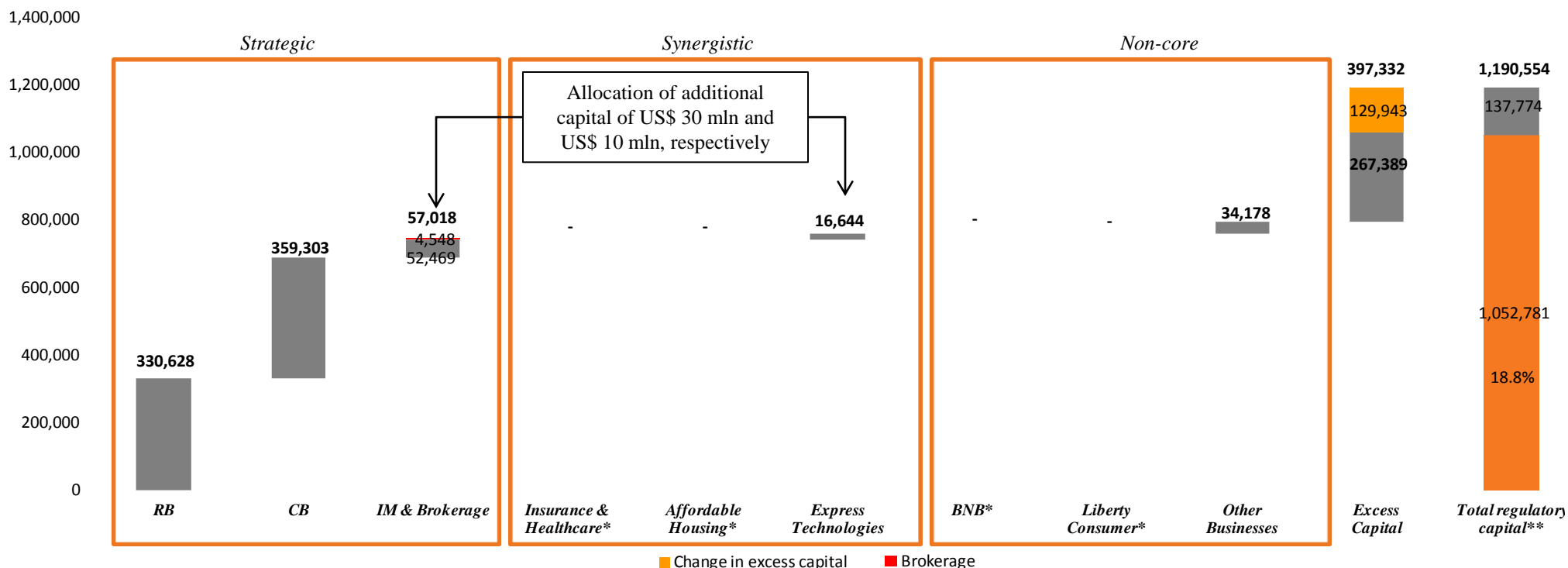
<i>GEL'000</i>	<b>30-Jun-13</b>	<b>30-Jun-12</b>	<b>30-Jun-11</b>	<b>30-Jun-10</b>
Net Operating Cash Flow	162,510	133,445	112,572	113,091
<i>Growth</i>	<i>21.8%</i>	<i>18.5%</i>	<i>-0.5%</i>	
Capital Expenditures	(30,632)	(29,276)	(34,626)	(18,799)
<i>Growth</i>	<i>4.6%</i>	<i>-15.5%</i>	<i>84.2%</i>	
Of which JSC Bank Of Georgia	(13,487)	(10,795)	(30,511)	(12,544)
<i>Growth</i>	<i>24.9%</i>	<i>-64.6%</i>	<i>143.2%</i>	
Dividends Paid	(49,483)	(23,618)	(9,169)	-
<i>Growth</i>	<i>109.5%</i>	<i>157.6%</i>	<i>-</i>	

## *New capital allocations in the next 2-3 years*

Business line	Capital allocation (US\$)
Investment Management: (distribution in CIS, seed capital & EU platform)	c. \$30 mln
Healthcare* (currently GEL 53.9 mln has been allocated)	c. \$30 mln
Express Technologies	c. \$10 mln
<b>Total in next 2-3 years</b>	<b>c. \$70 mln</b>
* Investments to be made in next 12 months	



# Pro-forma new NBG regulatory capital allocation, 2016



\* Sold at book values as at 30 September 2013;

\*\* Total new NBG regulatory capital before deduction of investments of GEL 137,774 with GEL 1,052,781 of net regulatory capital after deductions.

# *Bank of Georgia by YE 2016*

## Strategic businesses



Retail Banking



Express Banking



Corporate Banking



Investment Management

## Strategic platforms



Express Technologies



Bank of Georgia University

## *What we are aiming for in the next 2-3 years...*

	Targets announced in 2012 for next 2-3 years	Performance	New target
3X20	ROAE – 20% / Tier I 20% / Growth 20%	✓ partially delivered	Priority
Dividends	Progressive	✓✓ in line Net Operating CF up 1H 2013 up c. 22% y-o-y	- 25-40% payout - Consider one-offs
NIM	7-7.5%	✓✓ above target	c. 7.5%
Cost / Income	40%	✓✓ delivered	c. 37%
Net Loan / Deposits +DFI	100 – 110%	✓ delivered	c. 100%
Cost of Risk	0.8 – 1.2%	✗ target not met	c. 1.5%
Operating Leverage	Positive	✓✓ delivered	Positive

## *What we are aiming for in the next 2-3 years... (cont'd)*

	Targets announced in 2012 for next 2-3 years	Performance	New target
Affordable Housing	IRR: 30%+	✓✓ above target	c. 40%+ use the expertise for IM
Insurance & Healthcare	ROAE: 25%+ IPO in 2-3 years	✓ in line	scale up the business through acquisitions and IPO the company within 2 years
Investment Management	AUM of US\$ 1.0 bn by YE 2016	✓ on track with AUM of US\$ 400 mln	AUM of US\$ 2.0 bln by YE 2016 investment of US\$ 30 mln
Belarus	focusing on ROAE divest the bank within 2-3 years	✓ in line ROAE of 17%	divestment within 2 years

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# Q&A

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## *Forward looking statements*

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