



BANK OF GEORGIA

INVESTOR DAY 2019

Risk management

Speaker:

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**RISK GOVERNANCE AND NEW
REGULATORY LANDSCAPE**



CREDIT RISK

RISK GOVERNANCE

— 3RD LINE

RISK COMMITTEE

AUDIT COMMITTEE

INTERNAL AUDIT

RISK MANAGEMENT

— 2ND LINE

ALCO

- Capital risk
- Liquidity risk
- Interest rate risk
- FX risk
- Market risk

CREDIT COMMITTEE

- Corporate credit
- Retail credit
- Counterparty credit
- Credit concentration
- Collateral

COMPLIANCE

- AML
- Regulatory
- Tax
- Reporting
- Reputational

— 1ST LINE

RB

CB

WM

G&T

GLC



WE CONSTANTLY RE-EVALUATE EXISTING FRAMEWORK

- To strengthen the risk culture within the organisation
- To increase the engagement of the business in managing the risk we take
- To improve the decision-making process

RISK MANAGEMENT AS AN ENABLER IN REACHING OUR STRATEGIC GOALS

GOALS:

- Customer-focused
- Cost efficient

WE ACHIEVE THIS BY:

- Digitalisation/automation
- Advanced data analytics

CREDIT UNDERWRITING

63% Fully automated decisions in total requests

25% Of micro business clients has a pre-approved credit offer

44% Pre-approved in total credits sold

33% Of the total micro loans issued are from credit offers

<5MIN
Decision time in 67% of the 89k applications processed per month

15MIN
Application processing time in agro lending

CAPITAL AND LIQUIDITY

 FULLY BASEL III COMPLIANT

 SYSTEMIC BANK BUFFERS

 LCR, NSFR
(NSFR to be introduced in 3Q19)

 MORE CAPITAL THAN YOU SEE
(IFRS vs. NBG, 100% risk weighting for NBG reserves)

DE-DOLLARISATION

 **BAN ON FOREIGN CURRENCY LENDING UP TO GEL 200,000**

 **30% RESERVE REQUIREMENT FOR FOREIGN CURRENCY DEPOSITS AND SHORT-TERM BORROWINGS**

 **RESPONSIBLE LENDING**

 **CAPS ON PTI AND LTV RATIOS**

 **50% CAP ON INTEREST RATES**

 **LIMITED PAYDAY LOANS**

 **REQUIREMENT OF FORMAL
PROOF OF INCOME**

DEBT RELIEF INITIATIVE

DEBT RELIEF TO THE MOST STRESSED BORROWERS

AROUND 600,000 BORROWERS AFFECTED

 **NEW REGULATORY LANDSCAPE**

 **BASEL III CAPITAL AND LIQUIDITY**

 **RESPONSIBLE LENDING
REGULATION**

 **DE-DOLLARISATION**

 **DEBT RELIEF INITIATIVE**

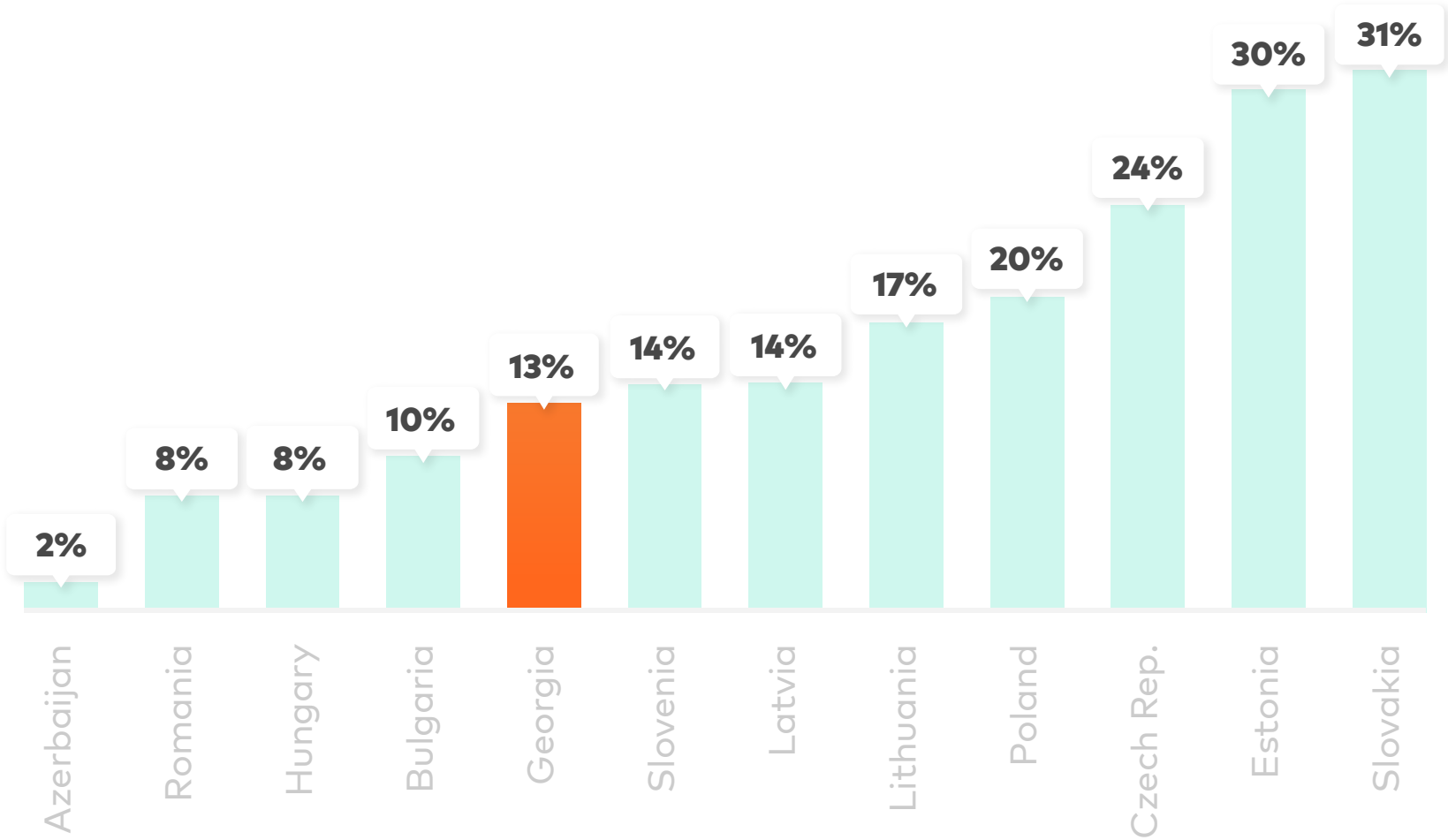
REGULATION IMPACT ON LOAN GROWTH

MODERATED RETAIL GROWTH IN 1Q19

- Consumer⁽¹⁾ – 0.4% decline y-o-y in 1Q19 vs. 27.2% y-o-y growth in 1Q18
- Mortgage - 45.6% y-o-y growth in 1Q19 vs. 49.2% y-o-y growth in 1Q18

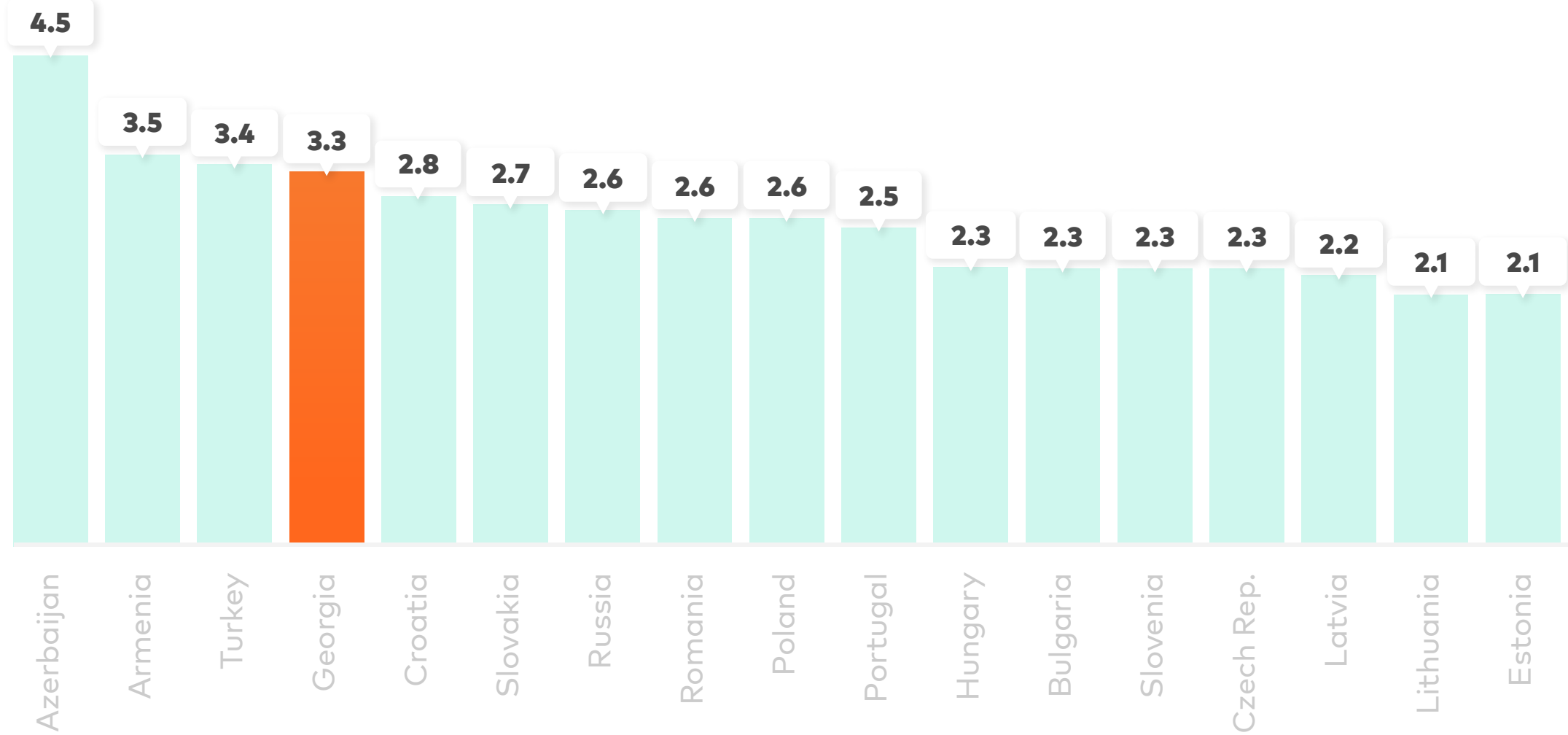
BUT... WITH LESS THAN 100,000 MORTGAGE LOANS

MORTGAGE LOANS TO GDP, 2018



Source: ECB, Central Banks

AVERAGE HOUSEHOLD SIZE, 2018

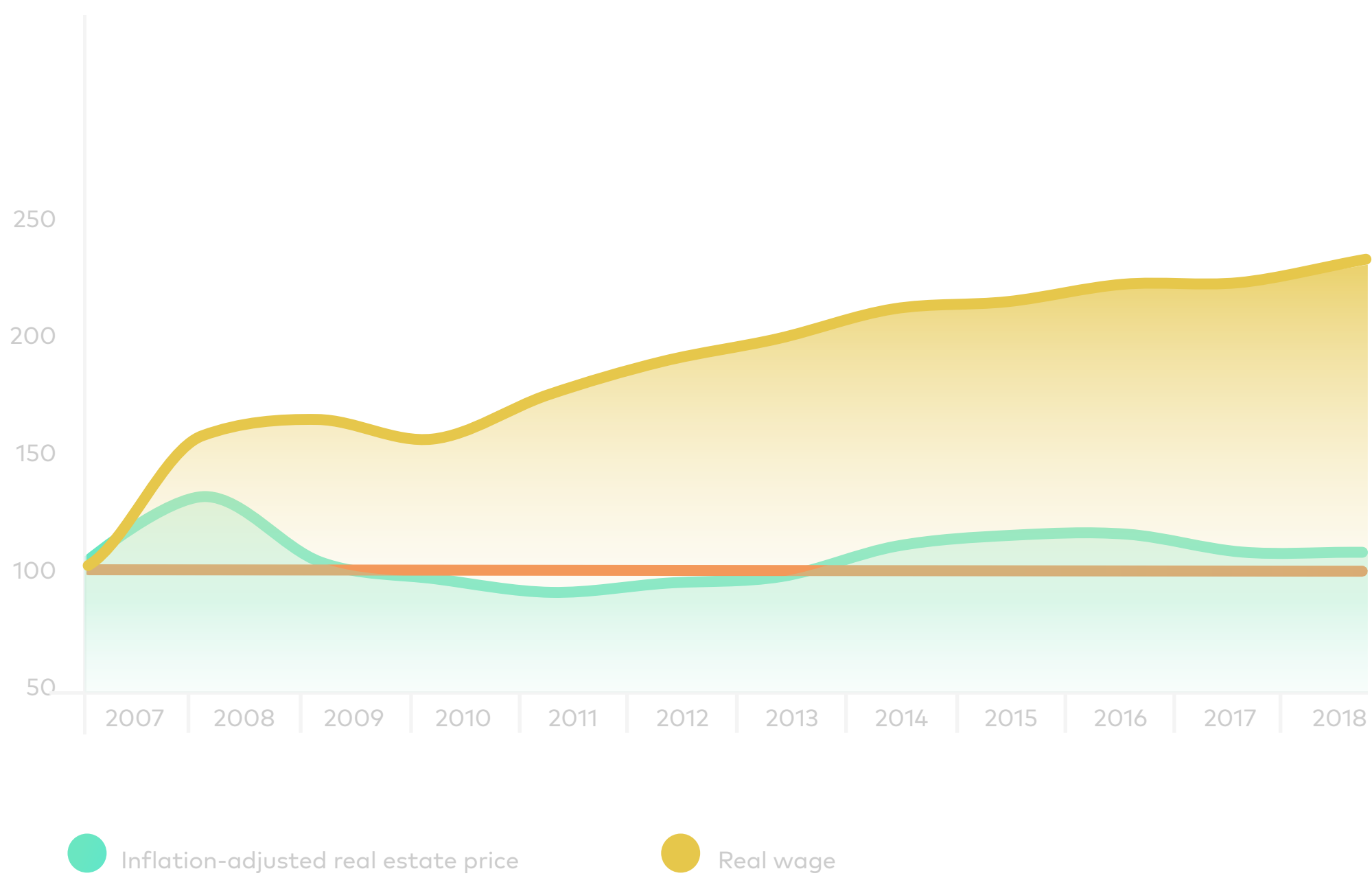


Source: Eurostat, respective statistics offices

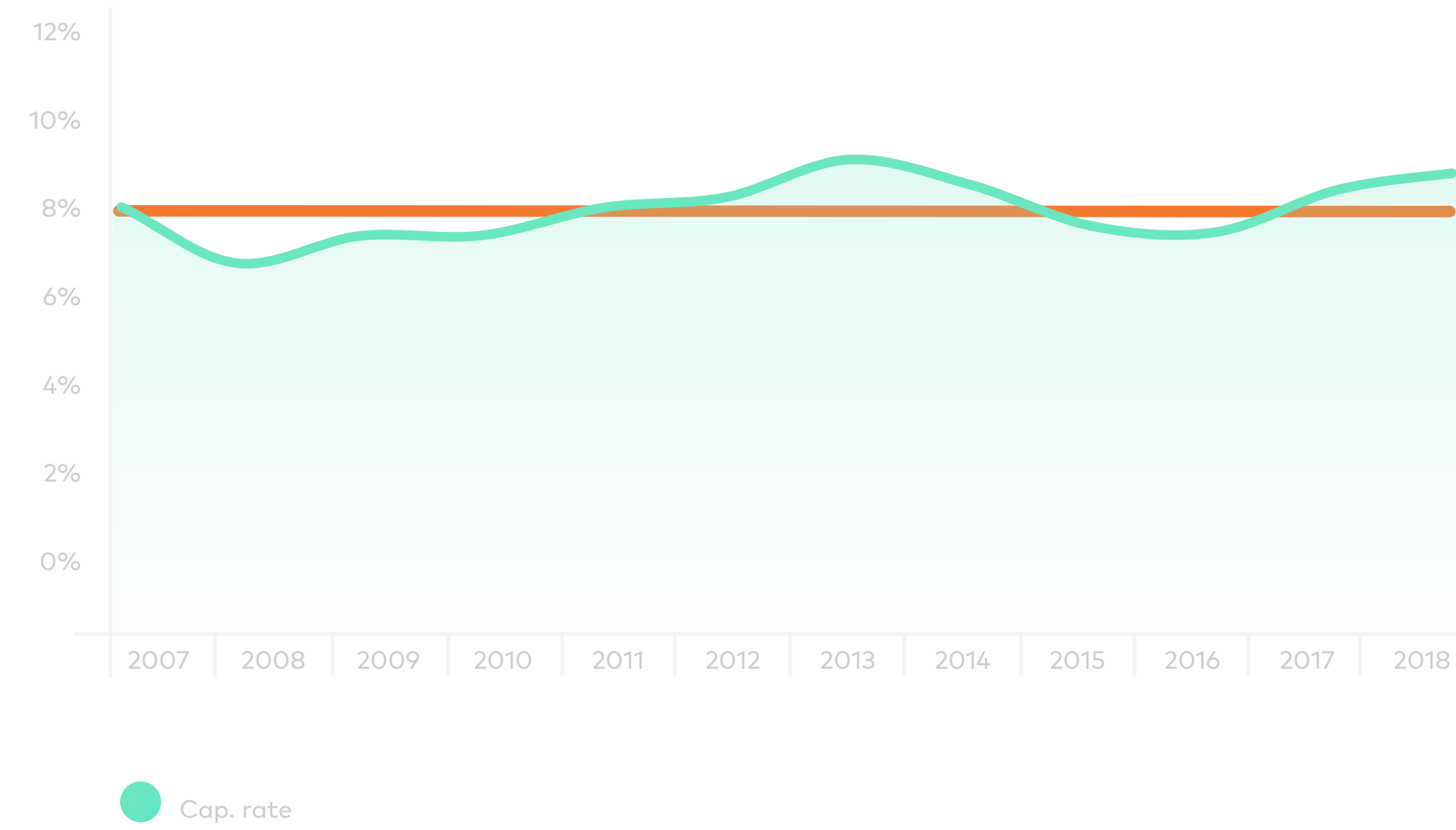
⁽¹⁾ Includes all retail loans, except for MSME and mortgages

REAL ESTATE - MORE AFFORDABLE

REAL WAGE AND REAL ESTATE PRICE INDEX



CAPITALISATION (RENT TO PRICE) RATIO



Source: NBG, Geostat



**RISK GOVERNANCE AND NEW
REGULATORY LANDSCAPE**

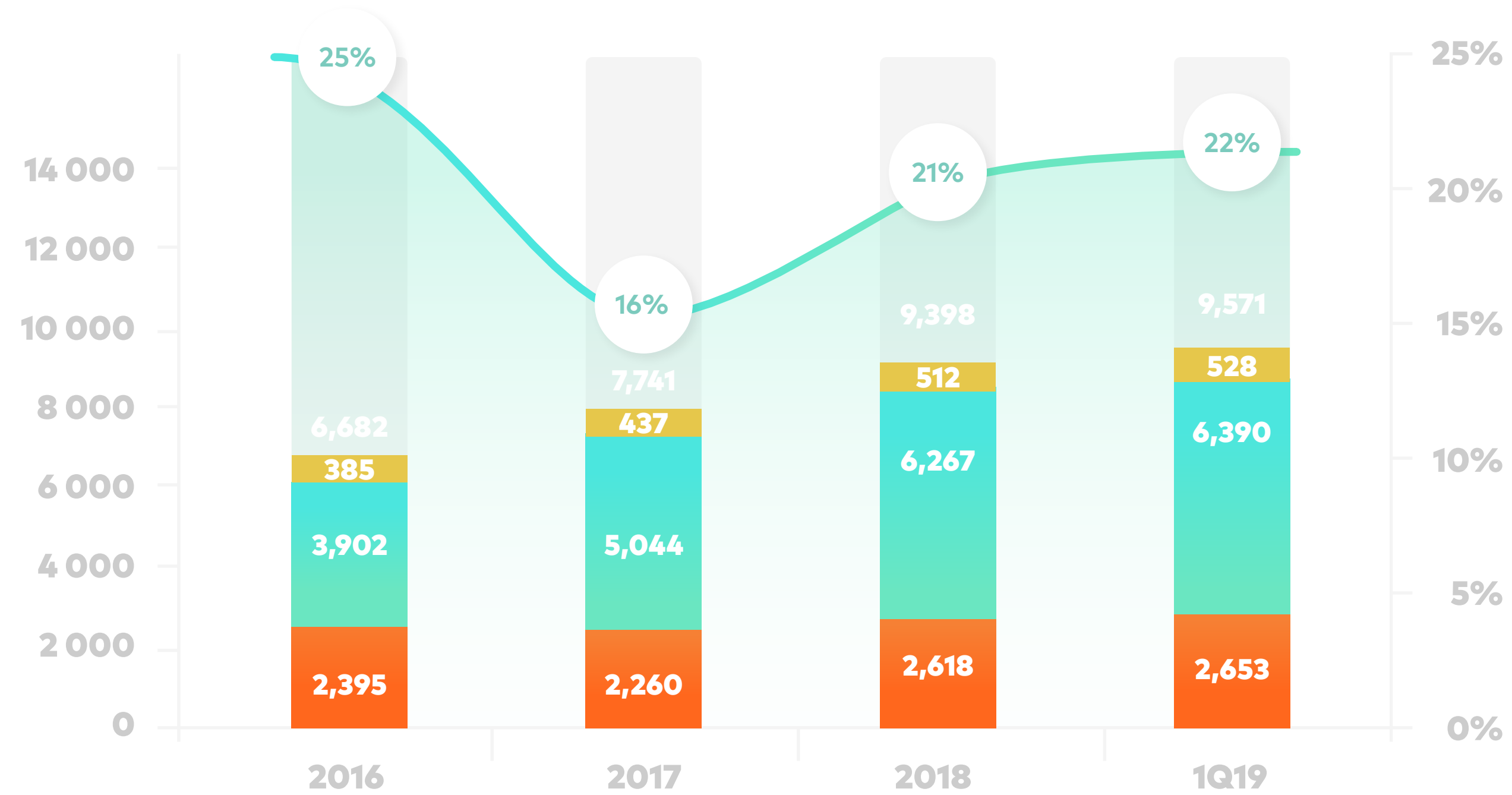


CREDIT RISK

LOAN PORTFOLIO DYNAMICS

BANKING BUSINESS LOAN PORTFOLIO

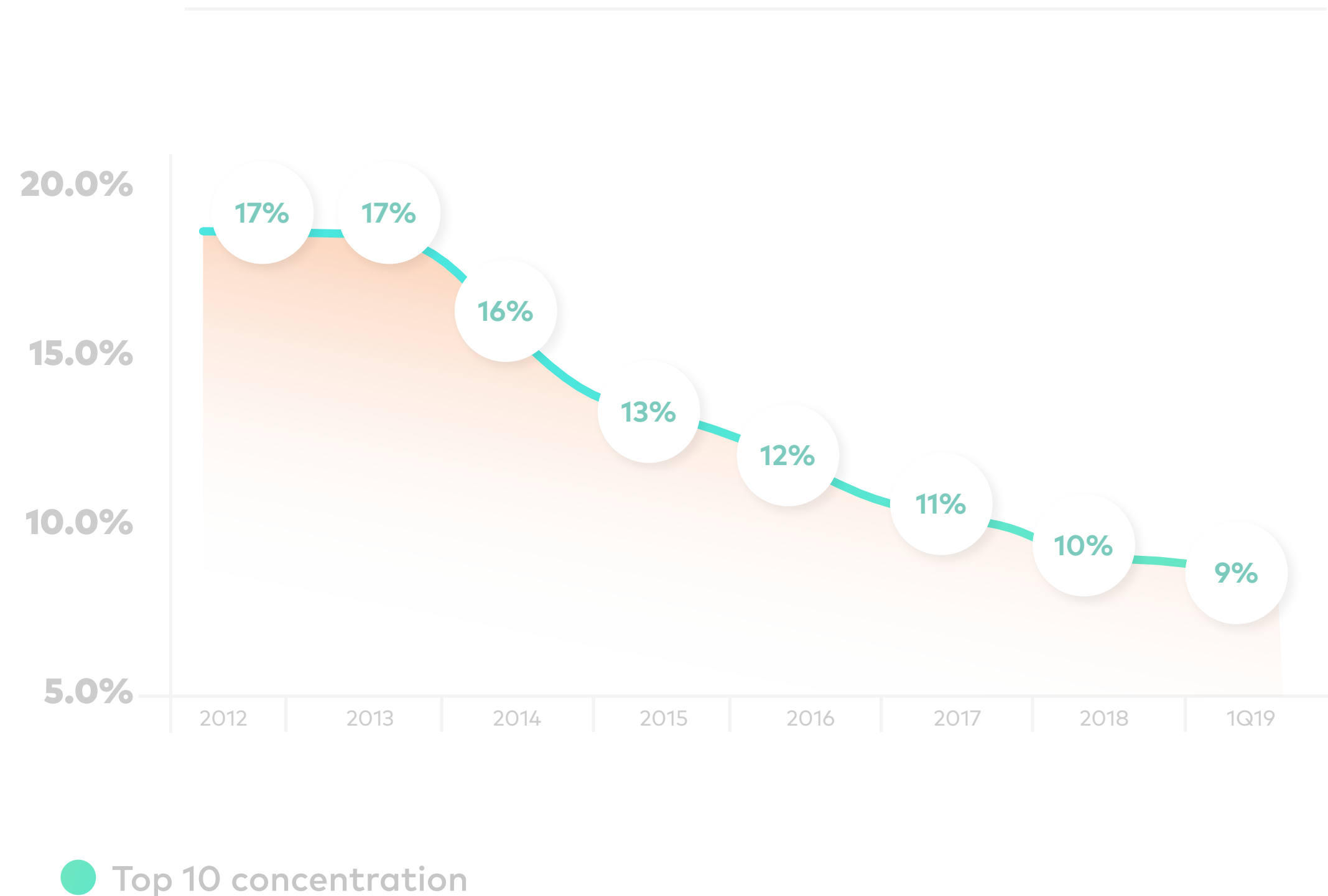
GEL MILLIONS



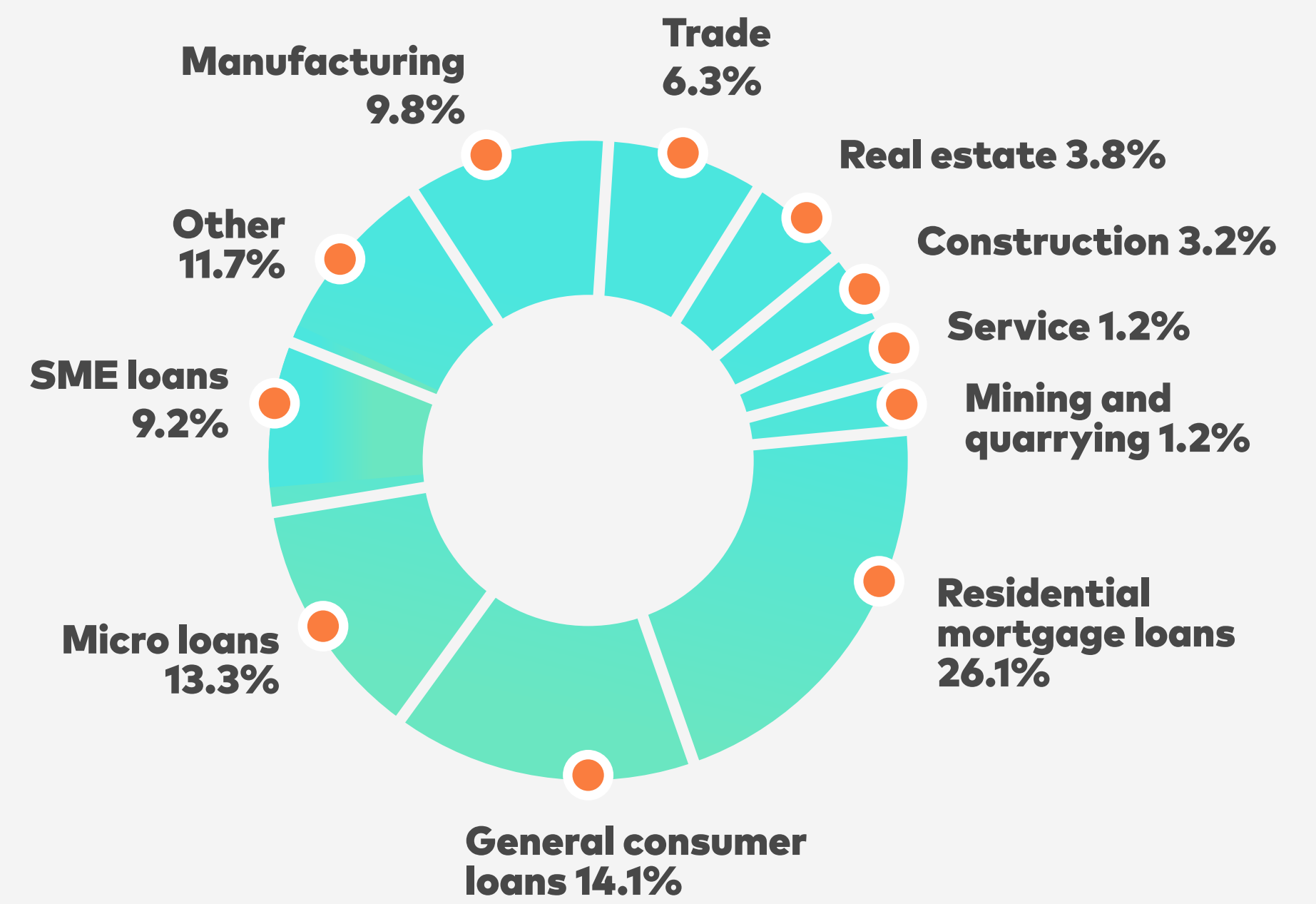
● CIB
 ● RB
 ● Other⁽¹⁾
 — y-o-y growth rate

⁽¹⁾ Other mainly includes BNB and intersegment eliminations

CONCENTRATION OF TOP 10 BORROWERS



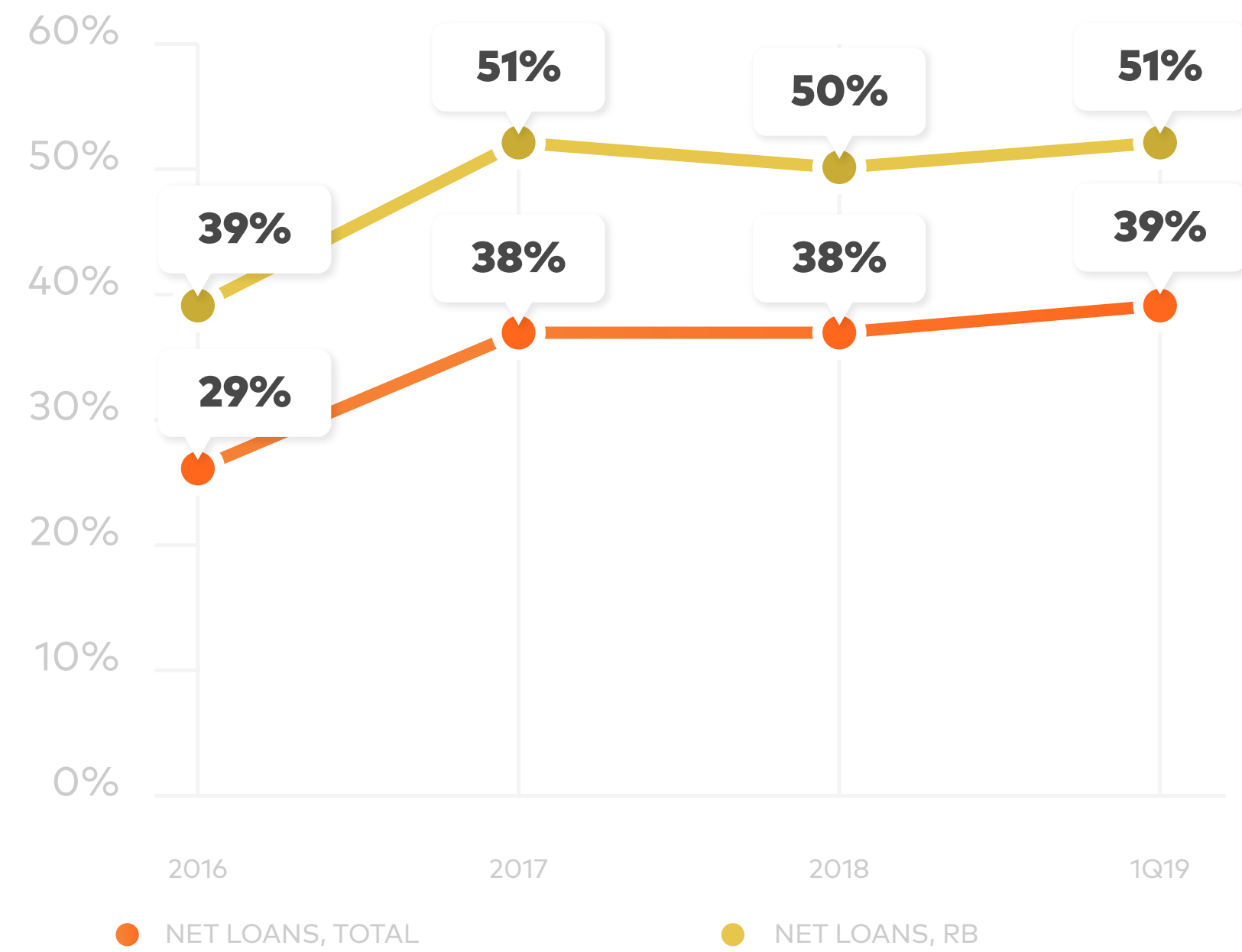
EXPOSURE BY SECTOR AND PRODUCT - MAR-19⁽¹⁾



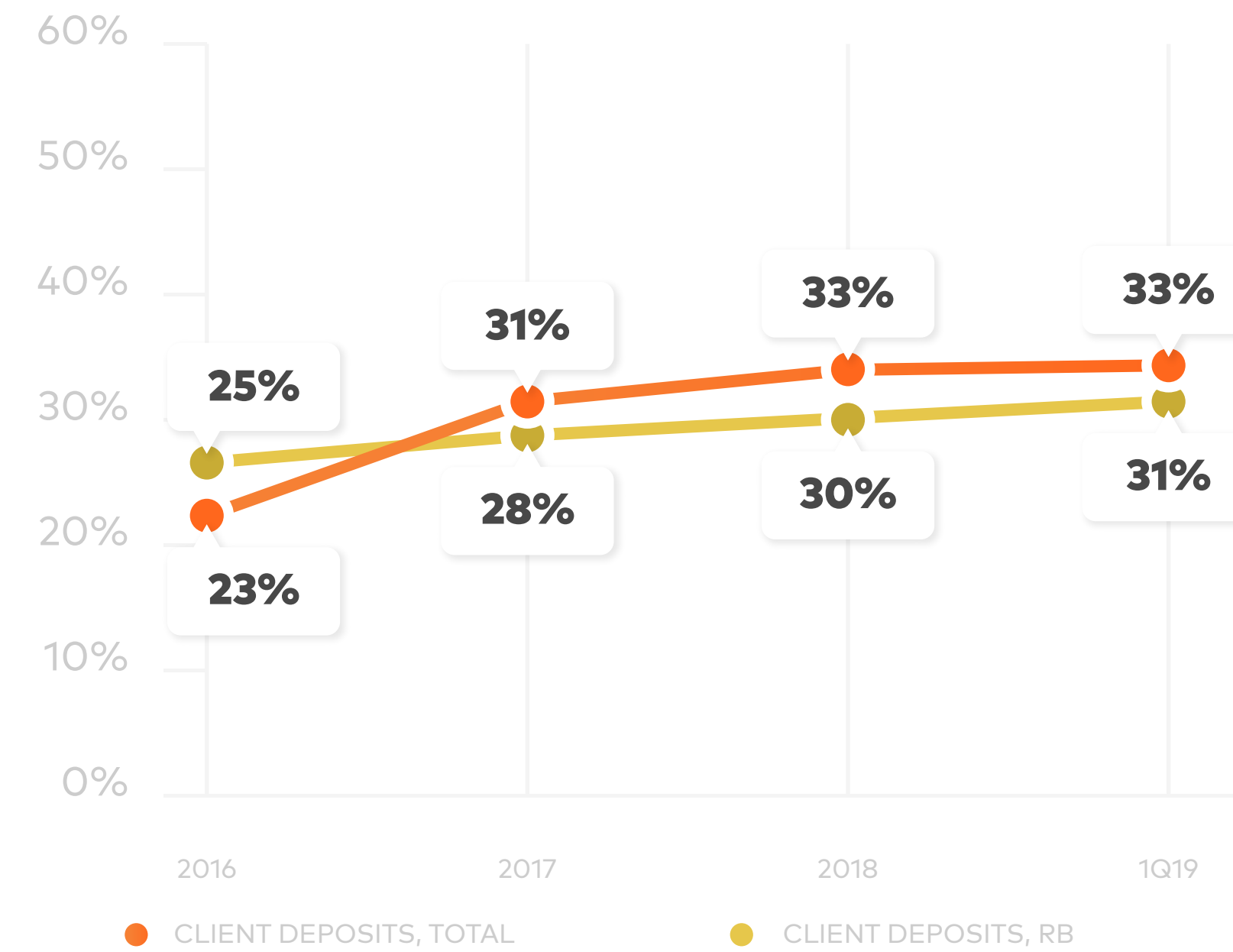
⁽¹⁾ Sector breakdown based on gross Banking Business portfolio

DE-DOLLARISATION

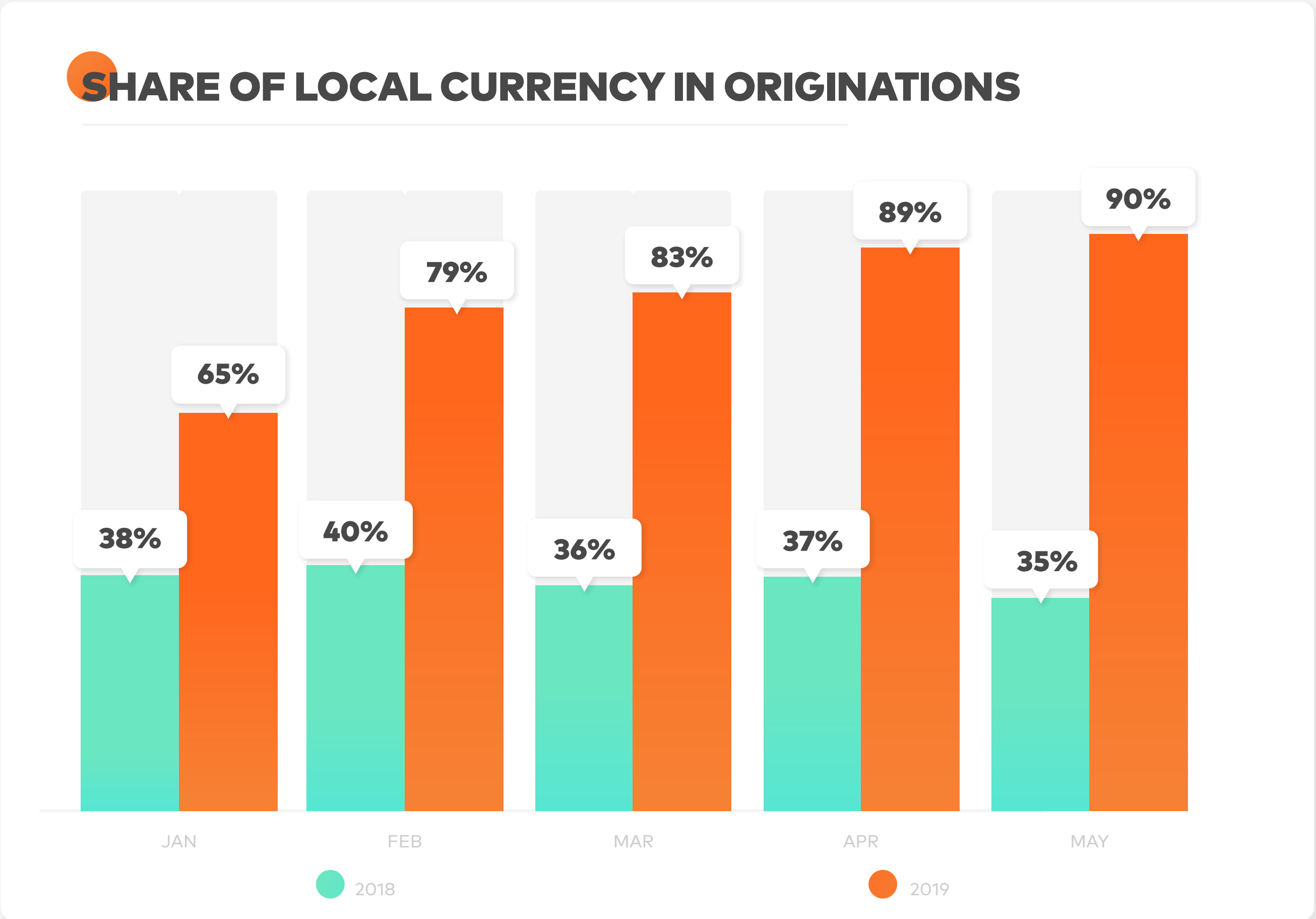
SHARE OF LOCAL CURRENCY LOANS



SHARE OF LOCAL CURRENCY DEPOSITS



ACCELERATING DE-DOLLARISATION IN MORTGAGES



AVERAGE DURATION OF FOREIGN CURRENCY LOANS

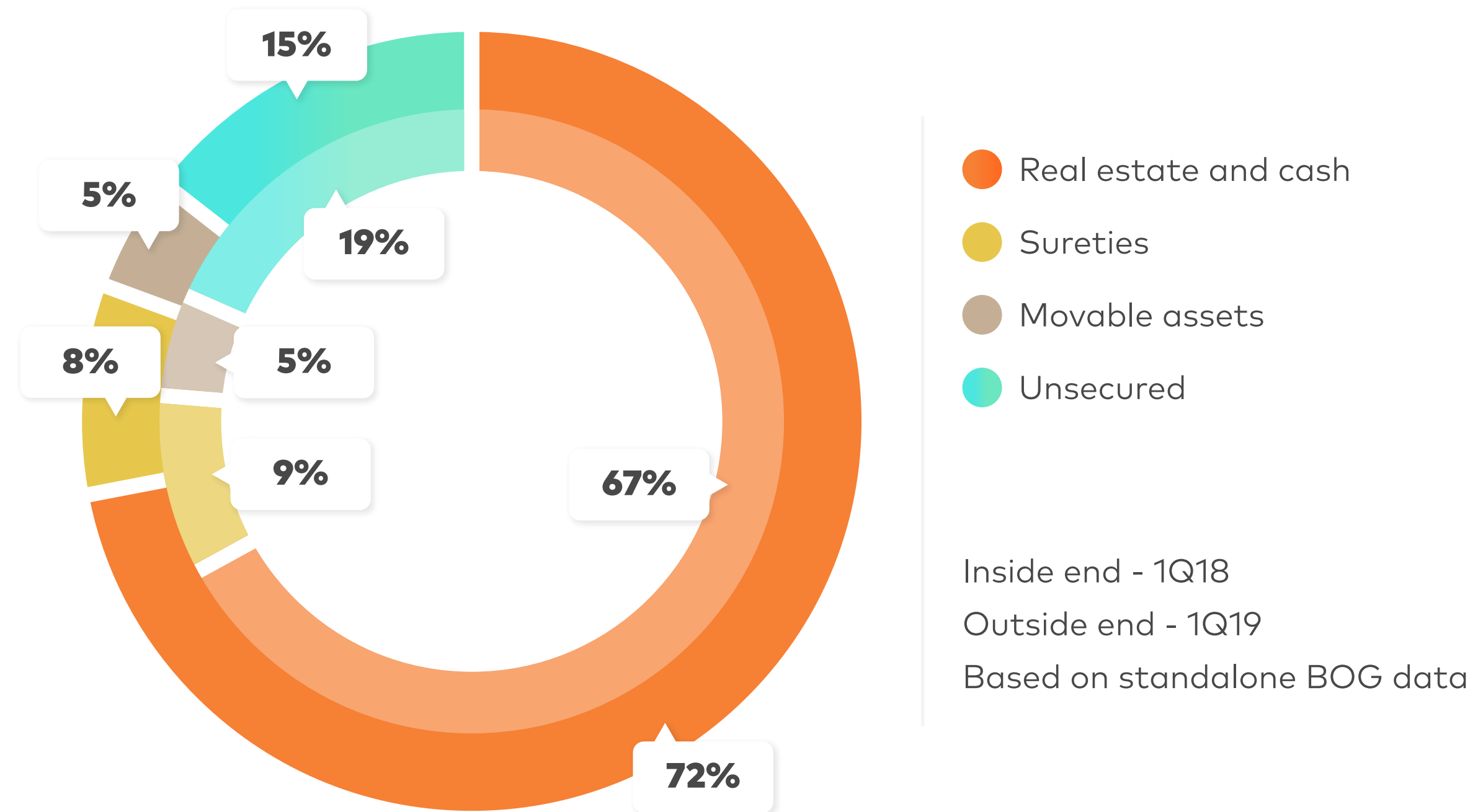
 **MORTGAGES**
5.9 years

 **MSME**
2.8 years

 **CORPORATE**
2.6 years

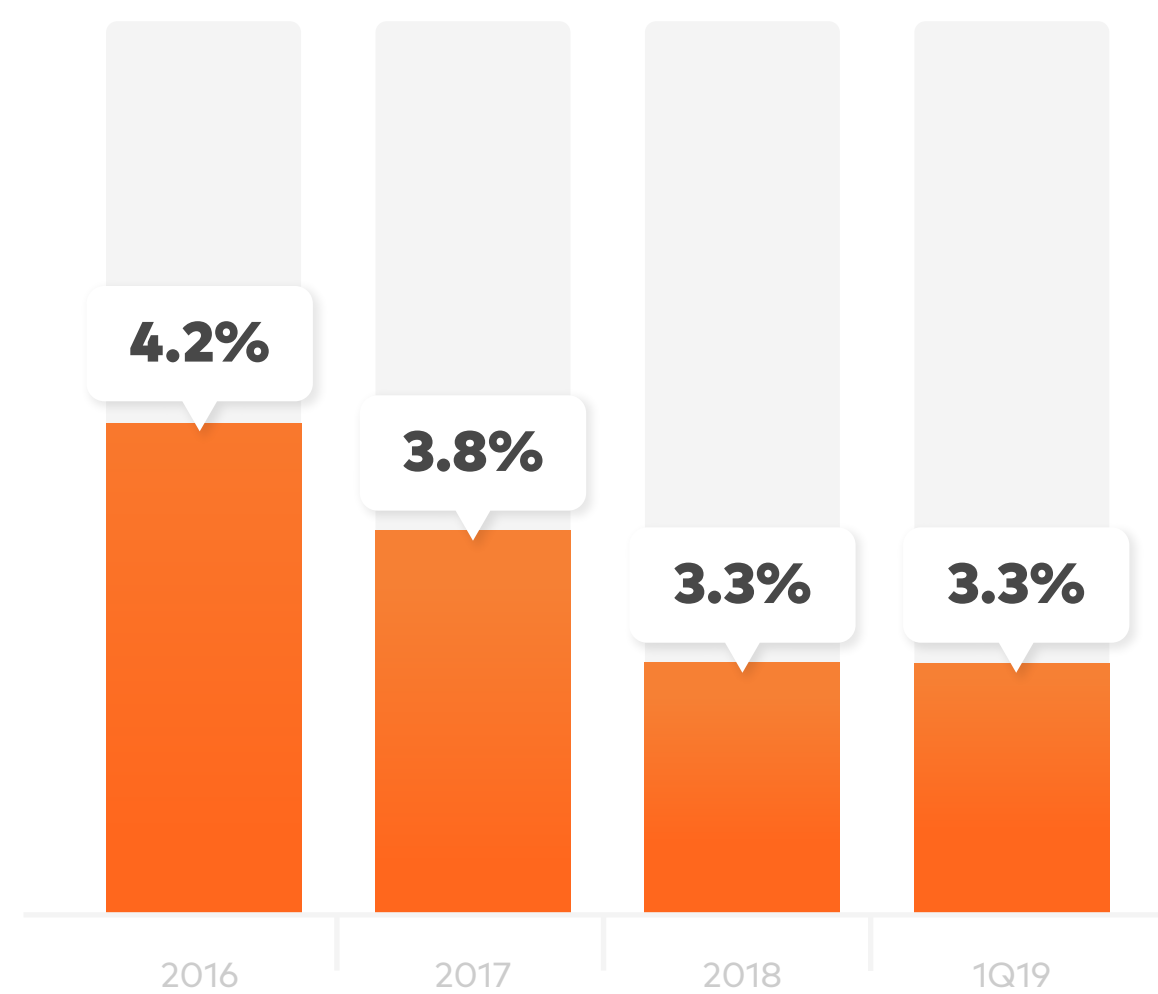
HIGH LEVEL OF COLLATERALISATION

TOTAL LOAN BOOK BY COLLATERAL TYPES



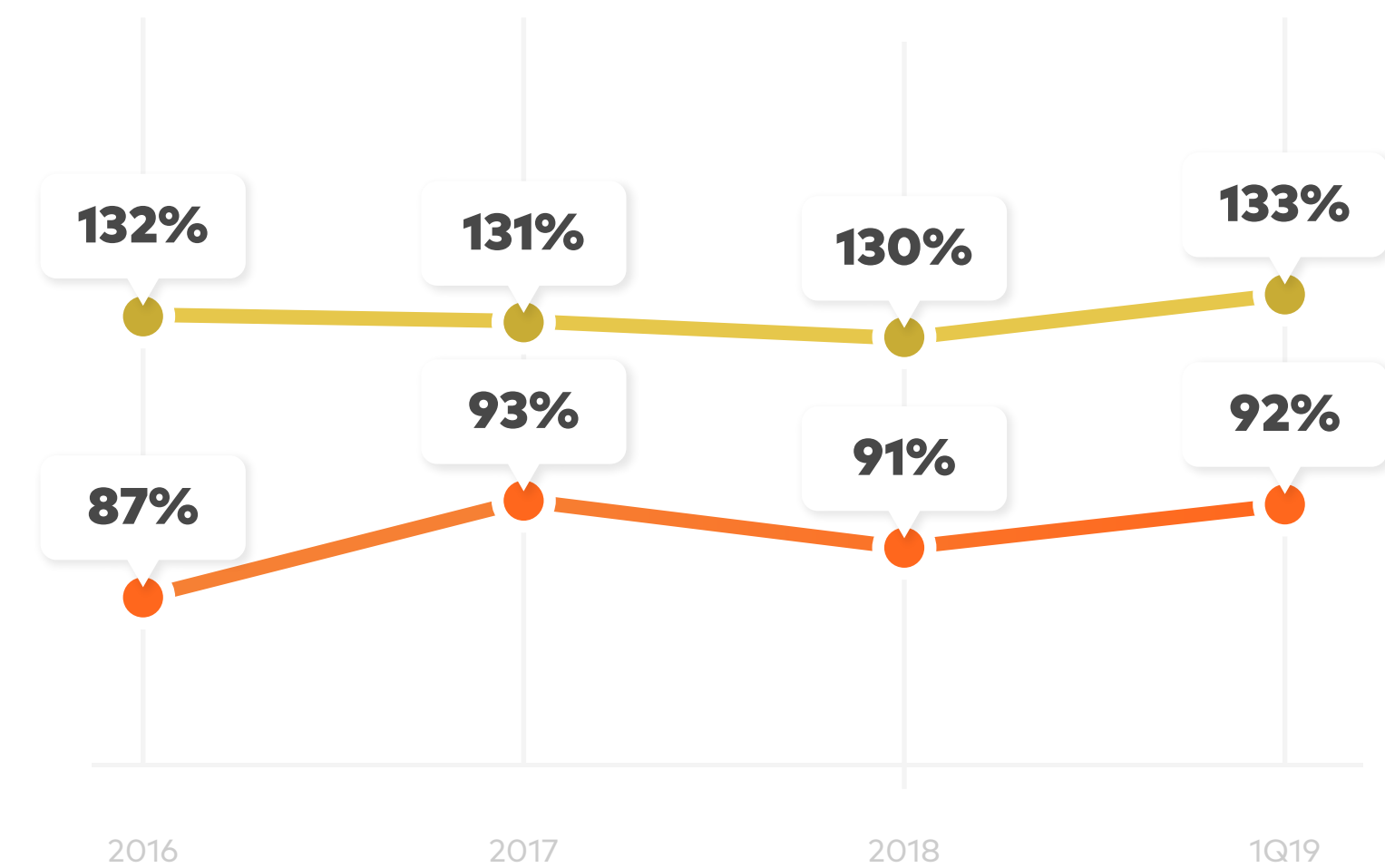
IMPROVING LOAN PORTFOLIO QUALITY

BANKING BUSINESS NPL COMPOSITION



● NPLS TO GROSS LOANS

BANKING BUSINESS NPL COVERAGE

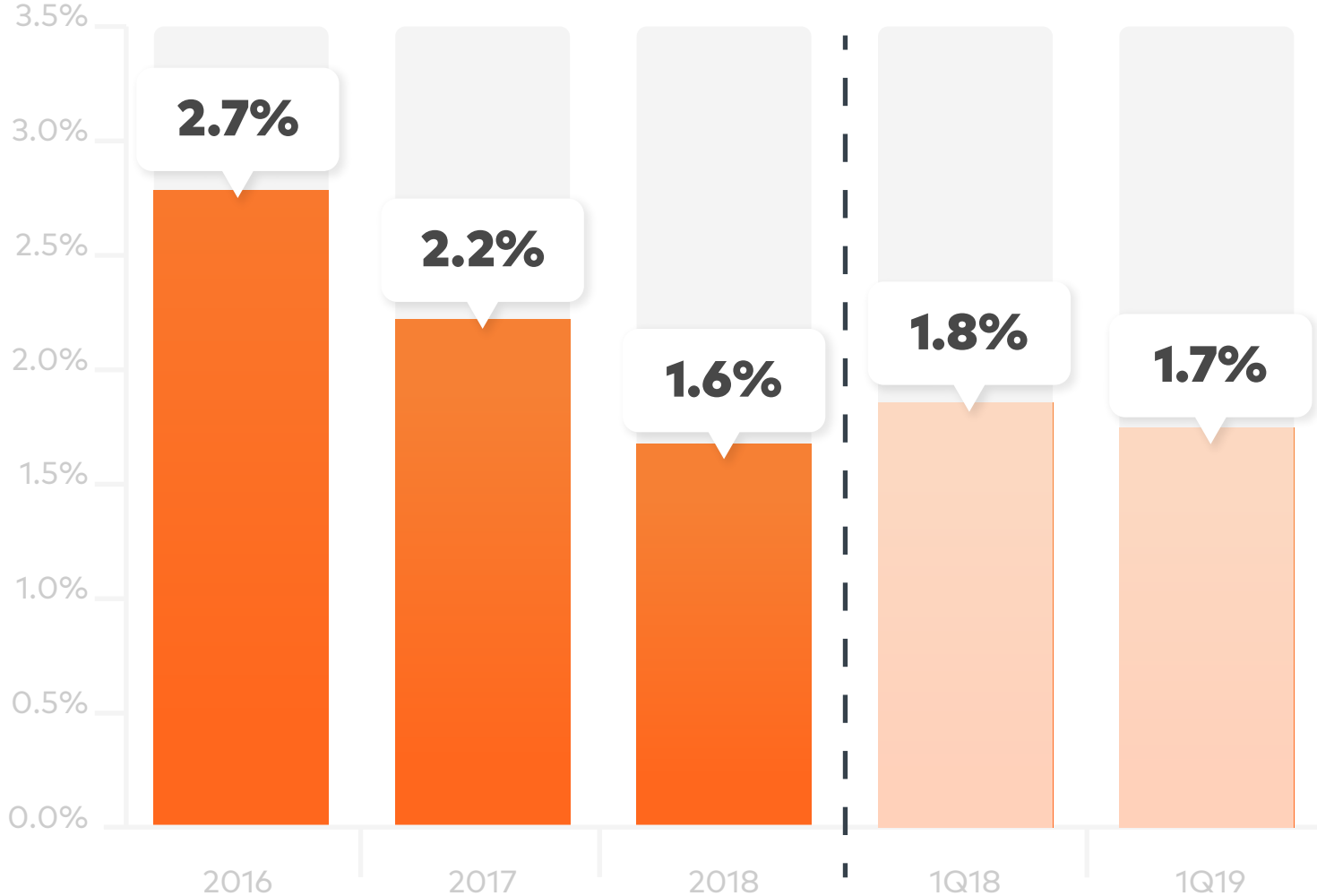


● NPL COVERAGE

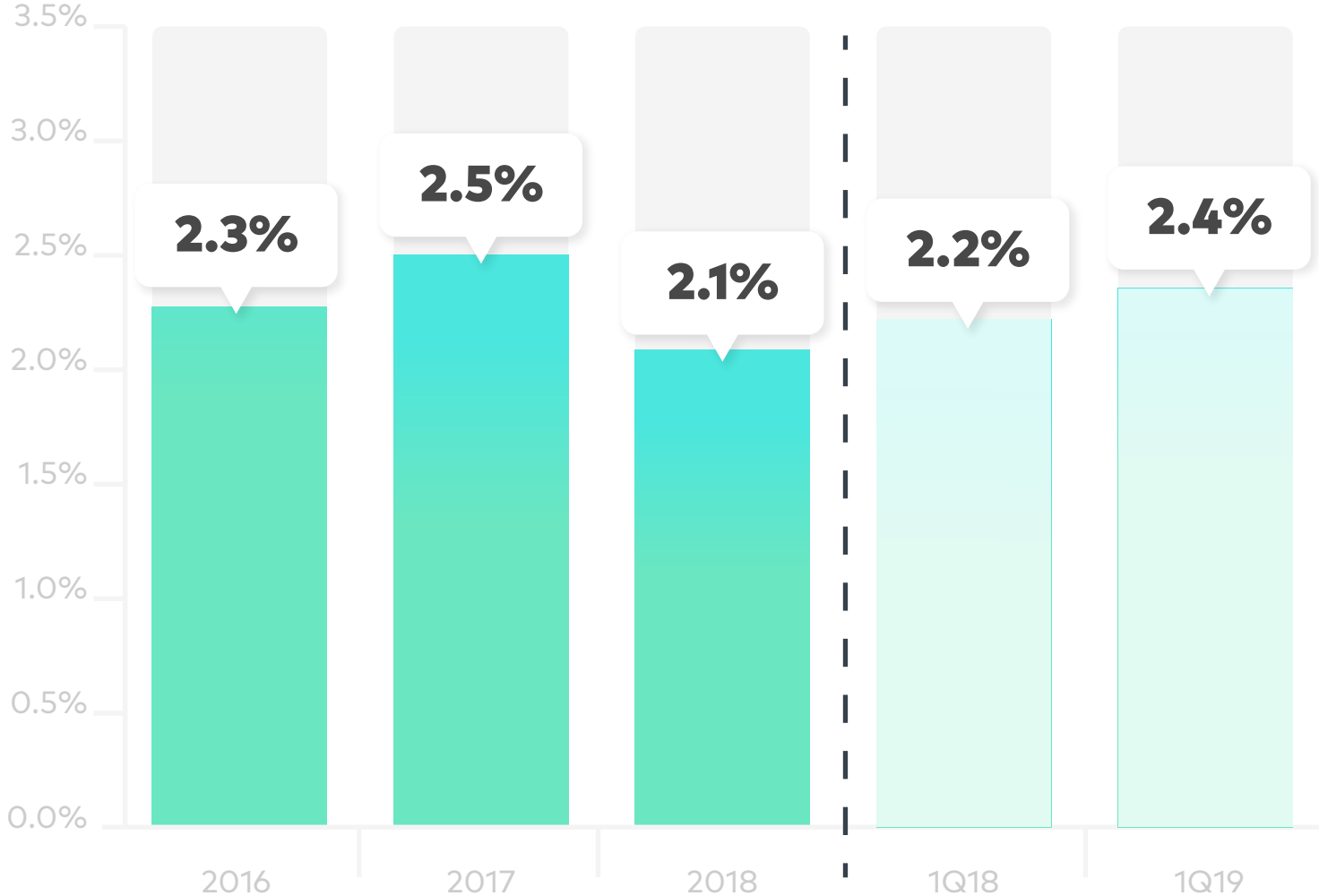
● COLLATERAL-ADJUSTED NPL COVERAGE

COST OF CREDIT RISK

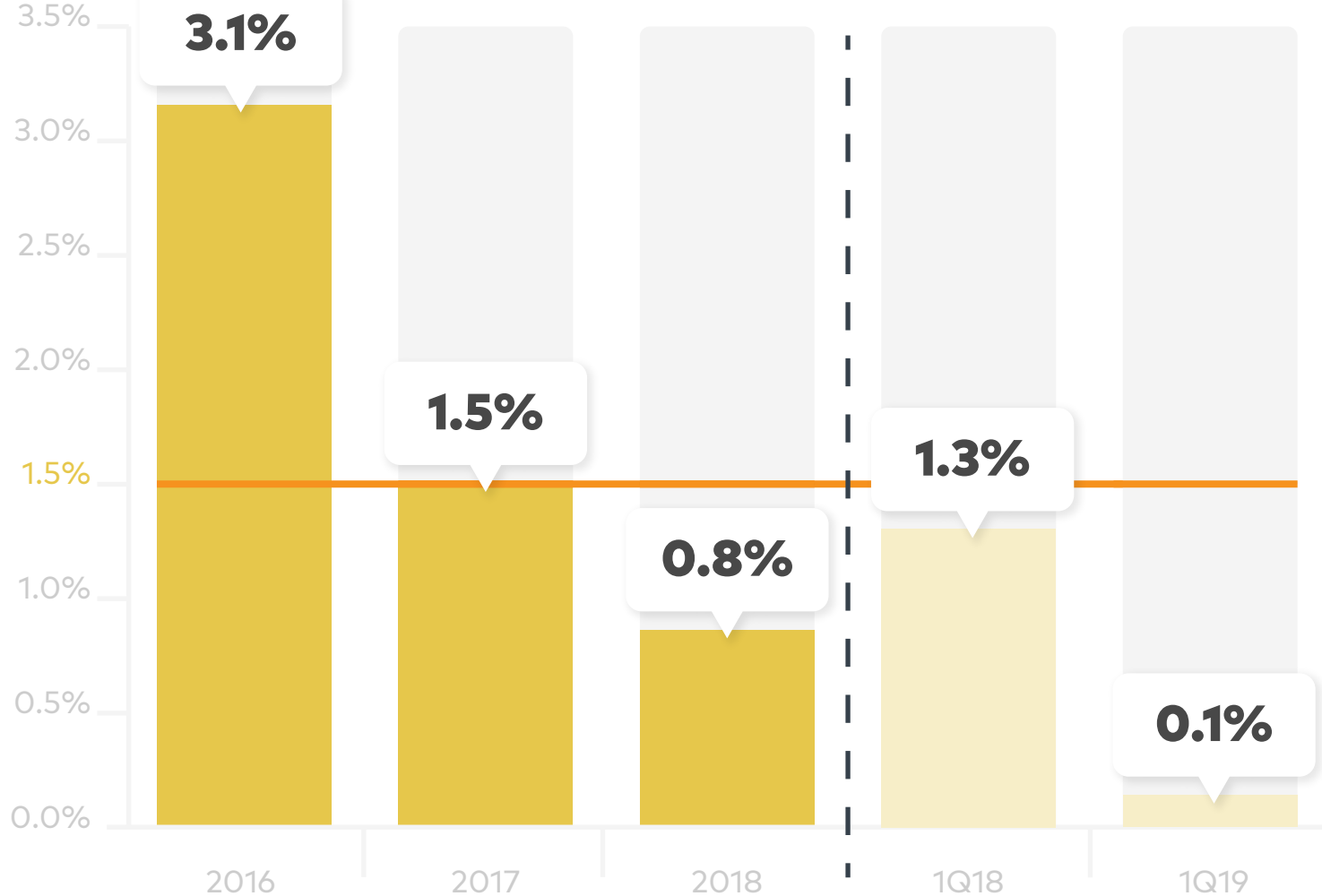
BANKING BUSINESS



RETAIL BANKING



CORPORATE & INVESTMENT BANKING



— Through-the-cycle cost of credit risk

RETAIL & WM COST OF CREDIT RISK COMPOSITION - 1Q19

GROSS LOAN BOOK

Total: **6,575**

GEL MILLIONS



COST OF CREDIT RISK

Total: **2.38%**





LOWER SYSTEMIC RISK



LARGE CAPITAL AND LIQUIDITY BUFFERS



LOWER EXPECTED RETAIL COST OF CREDIT RISK



FOCUS ON DATA ANALYTICS AND AUTOMATION



QUESTIONS?

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