



BANK OF GEORGIA  
HOLDINGS PLC

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## *Asset and Wealth Management*

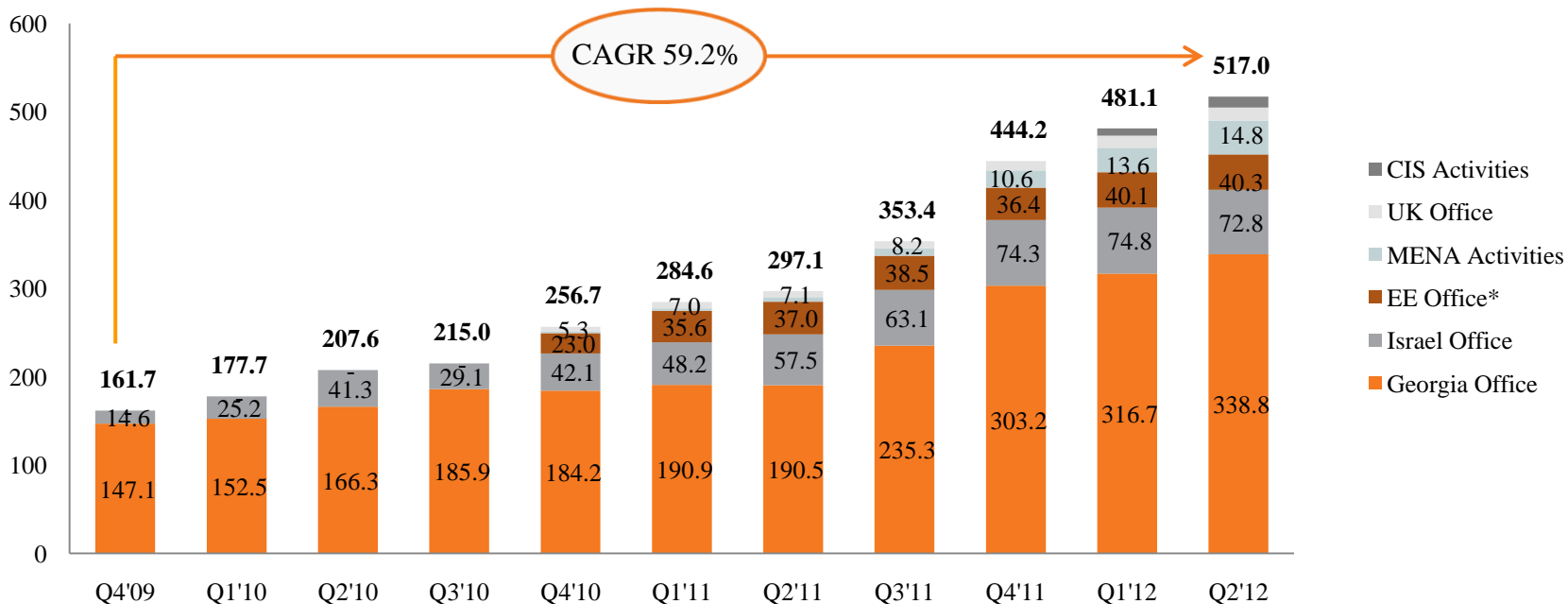
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*Speaker: Vasil Revishvili, Deputy CEO*

*September 2012*

# Client funds growth

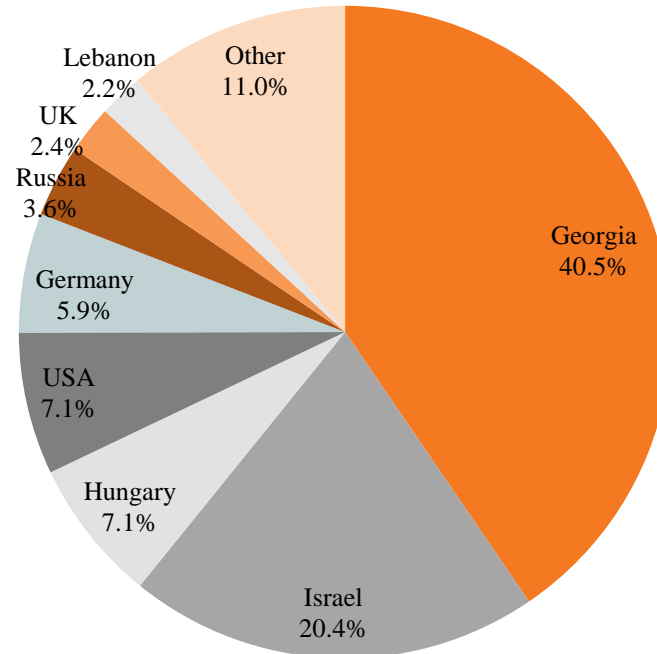
GEL mln



- 8 Private Bankers, 7 senior sales professionals, 10 support staff
- Tel-Aviv office established in February 2009; UK office in October 2010; Hungary office will officially open in September 2012 (activities started in 2010)
- Dedicated officers coordinate activities on CIS market, and MENA ex Israel market

\* Budapest office to be officially opened in September 2012

## Client funds geographical distribution, 30 June 2012

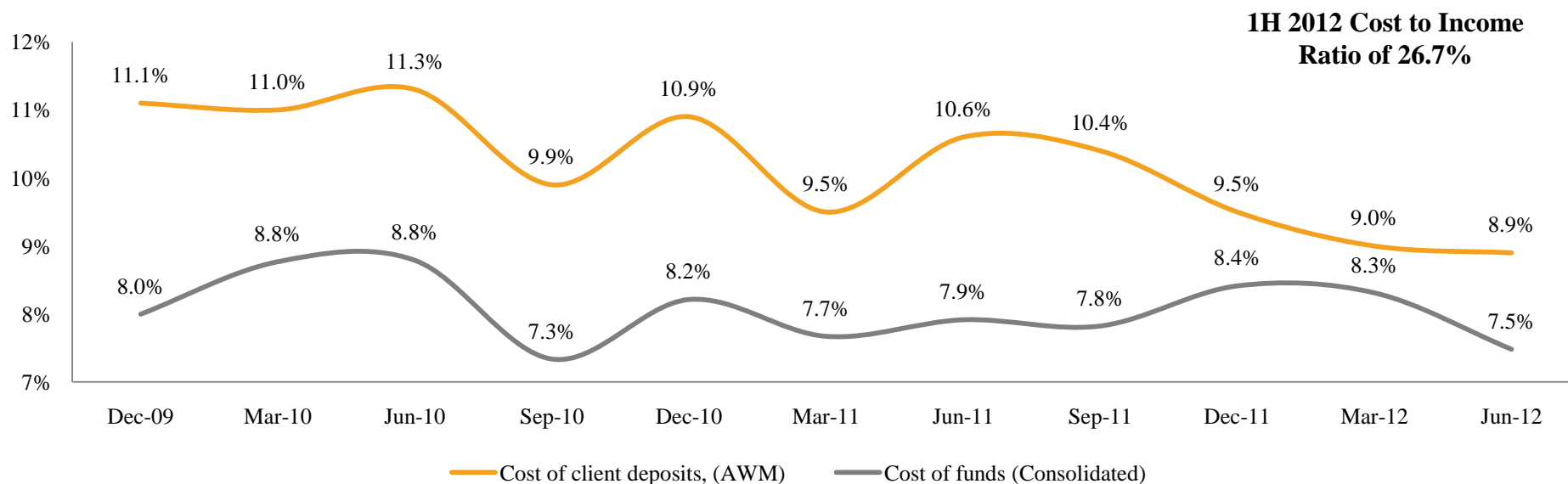


- Total number of WM Clients: 925
- Average AUM per client: c. GEL 560K
- Funds Distribution per product: 79.2% Term deposits and investment deposits, 20.8% call and card accounts, demand deposits
- Funds Distribution by currencies: 53.8% USD, 31.0% EUR, 9.7% GBP, 2.3% GEL, 3.2% Other Currencies

## Worldwide presence

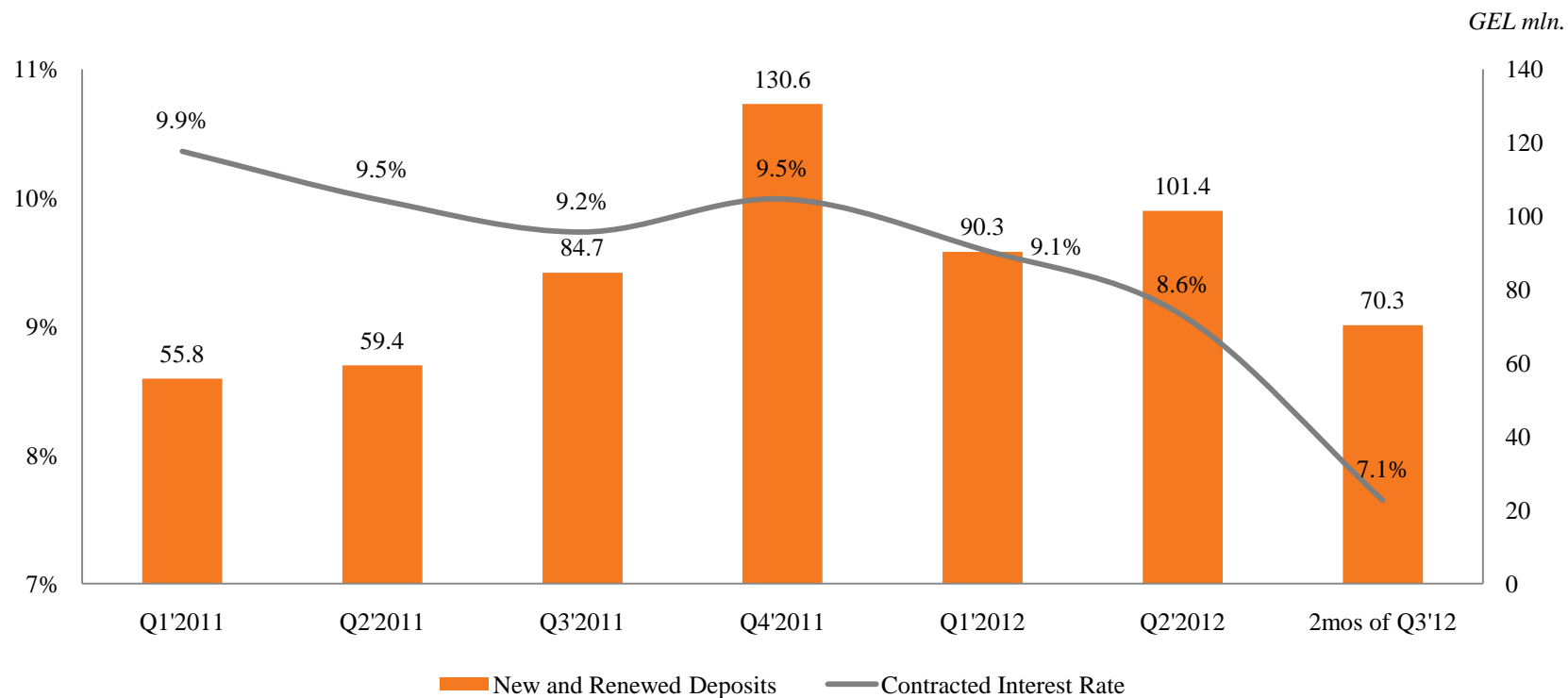


## Cost of client funds



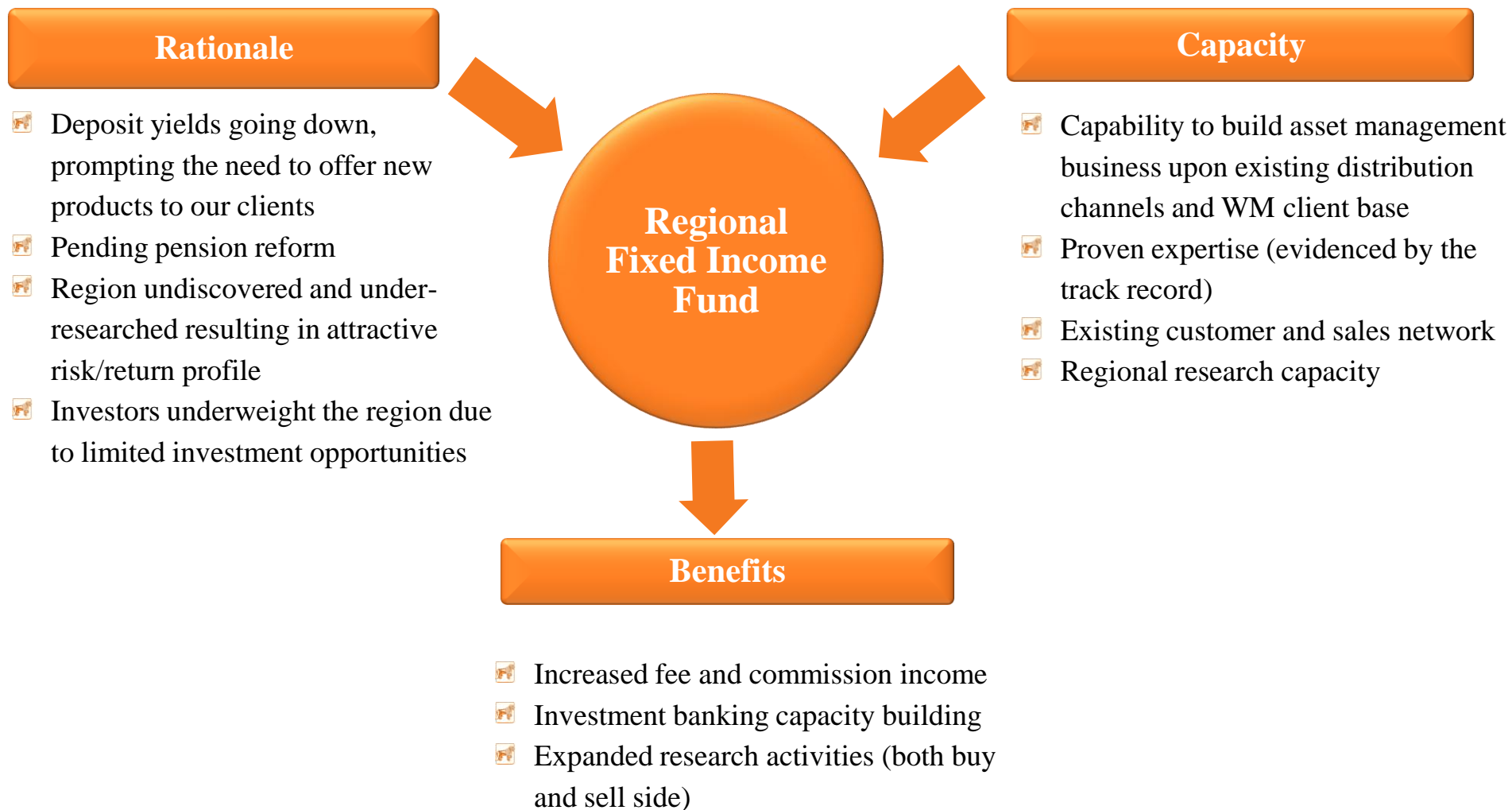
- Historically, cost of client funds has been high due to additional costs related to “Franchise Building” (sales network building, new client attraction); Our target is to reduce AWM cost of client funds to the level of consolidated cost of funds
- Cost of Client Deposits decreased by 1.7% y-o-y, and will continue to decrease as the effect of steep cut in contracted rates on deposits kicks in

## Reduced interest rates on new deposits



- Contracted interest rates on new time deposits decreased y-o-y by over 2.0% (and 2.5% from the peak in December 2011), to the level below current cost of funds of the bank, while maintaining broadly the same currency structure and weighted average maturity

# Asset management at Bank of Georgia



# Building and growing asset management business at Bank of Georgia

## Action plan

Launch of a  
flagship product

Bank of Georgia  
branded fund

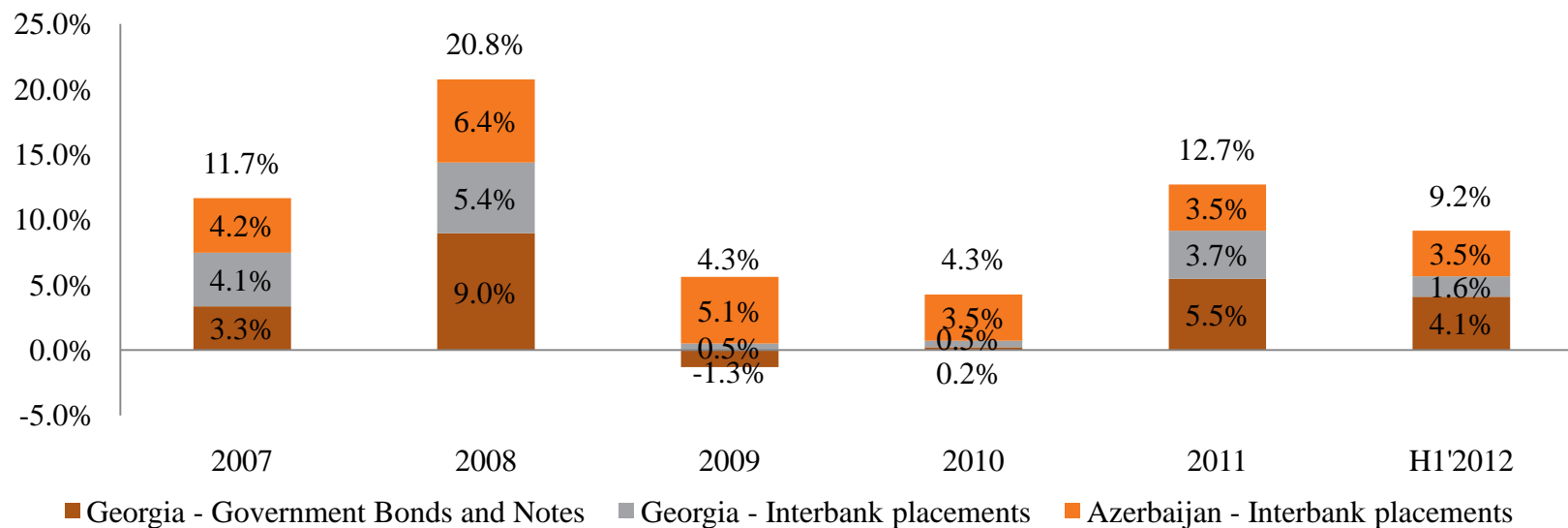
Co-branded  
fund

## Rationale

- According to preliminary estimates the system liquidity will allow allocation of US\$1.0 bln equivalent by the end of 2016
- “Regional Fixed Income Fund” to invest local and foreign currency fixed income instruments in Georgia, Azerbaijan and Armenia
- We are envisaging running both captive asset management company (Bank of Georgia branded fund) as well as allying with reputable Asset Management Company to run co-branded Fund(s)**
- Broadly, the strategy will replicate allocations of Bank of Georgia Treasury Department (with adjusted weightings of countries, currencies and instruments)
- Bank of Georgia fund will be managed by an “EU passported” Investment Management company, adhering to best practices of the industry (execution, risk management and compliance)
- Co-branded fund to attract asset managers, “underweight” on the region due to a limited expertise
- Growing interest in frontier markets is expected to result in considerable flows into the region



## Track record of Treasury Department



- ☐ Real allocations of Bank of Georgia Treasury Department are used
- ☐ For the purposes returns calculation, simple average of all instruments returns is taken
- ☐ All returns are in USD terms
- ☐ Average annual return of 10.6% (at equal weighting of instruments) over the period of 2007-2011

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## *Regional fixed income fund*

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- ❏ The objective of the fund is to achieve attractive returns through short duration high yielding bonds, deposits and other short term fixed income instruments
- ❏ The portfolio to consist of **10 to 20 different instruments** from Regional Issuers
- ❏ Target Return (in USD Terms): **8-10%**
- ❏ Target Volatility: **5% (ex ante)**
- ❏ Currency: Investments will be done in both **Local Currency and USD** instruments

### **Country coverage**

- ❏ Armenia, Azerbaijan, Georgia

### **Instruments (short to medium term fixed income)**

- ❏ Bank Instruments: Call and Term Deposits; Certificates of Deposit / Promissory Notes
- ❏ Sovereign Issuers: T-Bills and Treasury Bonds, structures on National Bank notes & CDs

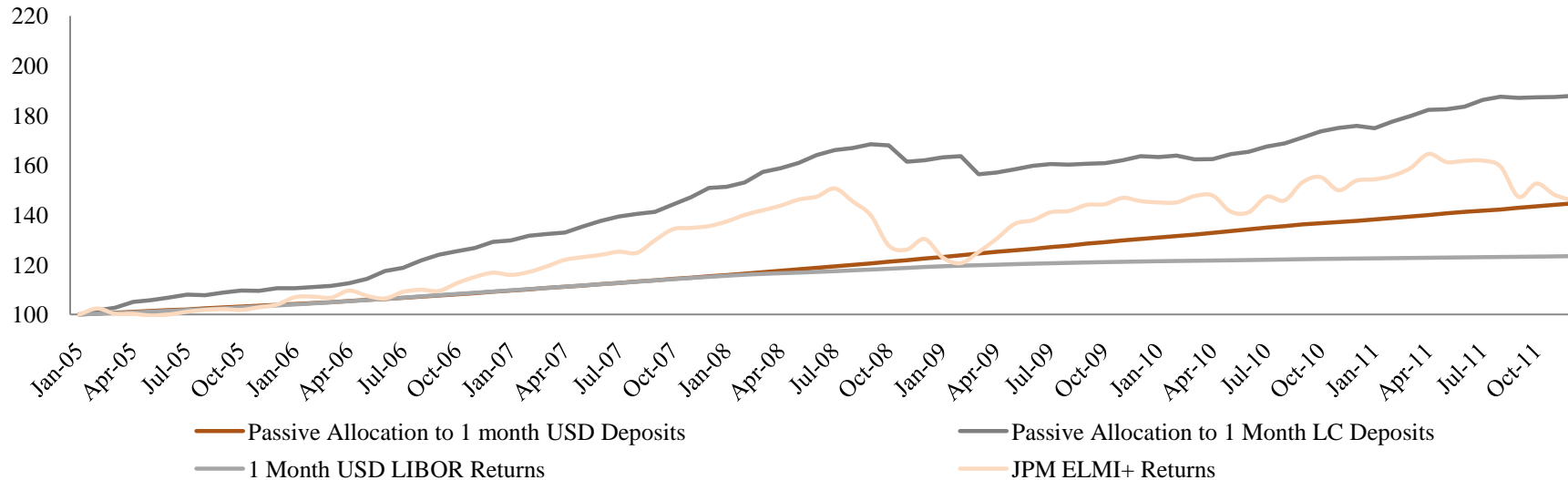
## *Tentative asset allocation*

- According to preliminary estimations of depth on focus markets, we estimate we target to allocate up to USD 1.0B in regional fixed income securities within the next 4 years
- Total size of the target market (as at July 2012) is US\$16B equivalent (of which bank deposits: US\$15B)
- Tentative breakdown and sales timetable is as follows (All figures in USD mln equivalent):

US\$ mln or equivalent	Yr 1	Yr 2	Yr 3	Yr 4
LC Deposits	60	125	175	300
FX Deposits	60	125	175	300
T-Bills and Central Bank Notes	30	100	150	250
Private Placements	-	25	100	150
<b>Total:</b>	<b>150</b>	<b>375</b>	<b>600</b>	<b>1,000</b>

*Estimates do not include the possible effect of Pension Reform*

## Simplified modelling of portfolio returns\*



	Annualised Return	Volatility
12mo LIBOR	3.05%	-
JP Morgan ELMI+ Index Returns	5.61%	8.63%
Passive Allocation to LC 1mo deposits	9.54%	3.76%
Passive Allocation to USD 1mo deposits	5.48%	-

- For the sake of simplification (and avoidance of “knowledge of hindsight” effect) equally weighted basket of 1 month local currency deposits is analysed
- Even passive investment in LC deposits gives a very attractive risk/return profile
- Hypothetical Portfolio strongly outperforms JP Morgan ELMI+\*\* (Emerging Markets Local Currency Money Market Instruments) Index with lower levels of volatility

\* For calculation purposes we used average LC Deposit rates over the last 11 years for relevant countries, returns converted into USD (Source: WB Development Indicators)

\*\* ELMI+ tracks total returns for local-currency-denominated money market instruments in 24 emerging markets countries (Source: JP Morgan)

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## *Summary of strategic goals*

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**Decrease deposit costs**

**Continue to expand distribution network**

**Focus on fee income business on the back of decreasing deposit yields**

**Cross-sell asset management products to WM clients and CB clients**

**Build asset management business targeting US\$1 bln AUM in four years**

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# Q&A

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## *Forward looking statements*

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This presentation contains forward-looking statements that are based on current beliefs or expectations, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and JSC Bank of Georgia and/or the Bank of Georgia Holdings' plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

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