



BANK OF GEORGIA
HOLDINGS PLC

Credit Risk

Speaker: Sul Khan Gvalia, Chief Risk Officer

Discussion topics

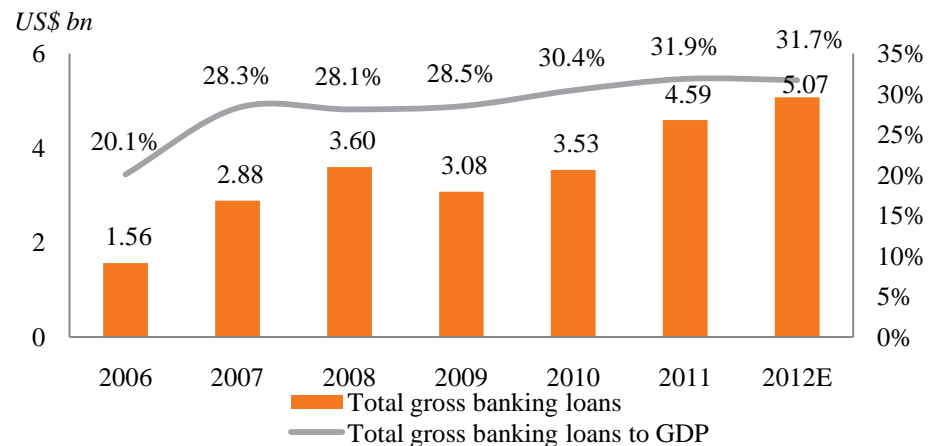
Selected economic trends

Loan portfolio overview

Cost of Risk

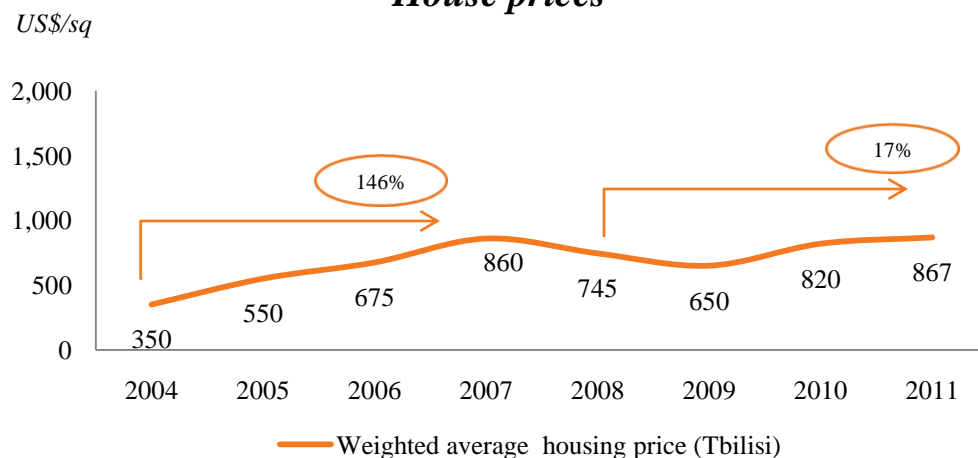
Georgian economy: beginning of a positive trend

Banking loans to GDP

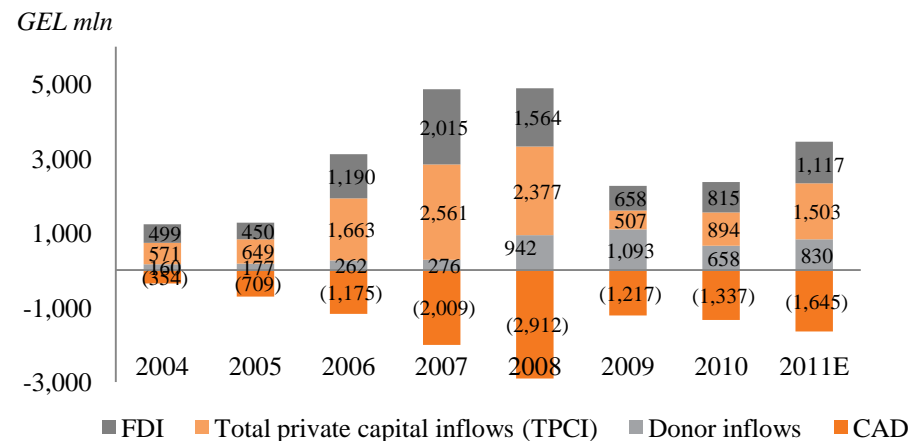


- █ Beginning of a positive economic trend with loan penetration and housing prices growing robustly
- █ Currency outlook is stable with current account deficit driven by FDI and donor inflows

House prices



FDI, CAD, TPCI and Donor inflows



Discussion topics

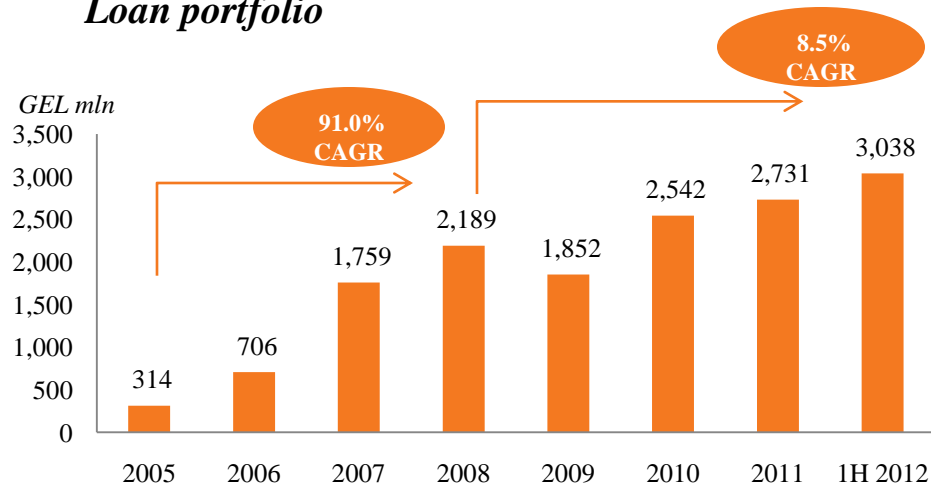
Selected economic trends

Loan portfolio overview

Cost of Risk

Loan portfolio and NPL dynamics

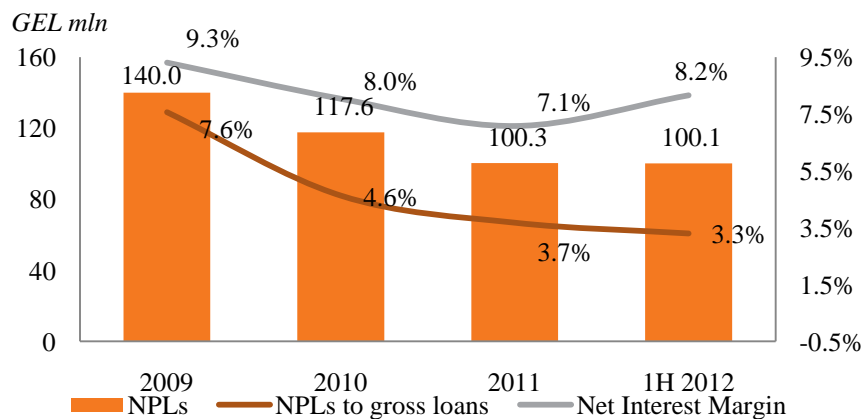
Loan portfolio



Key points

- Moderate growth of the loan book since the recovery in 2009/2010
- Positive trend in loan portfolio growth and quality improvement continues
- Net Interest Margin never below NPL to Gross Loan ratio

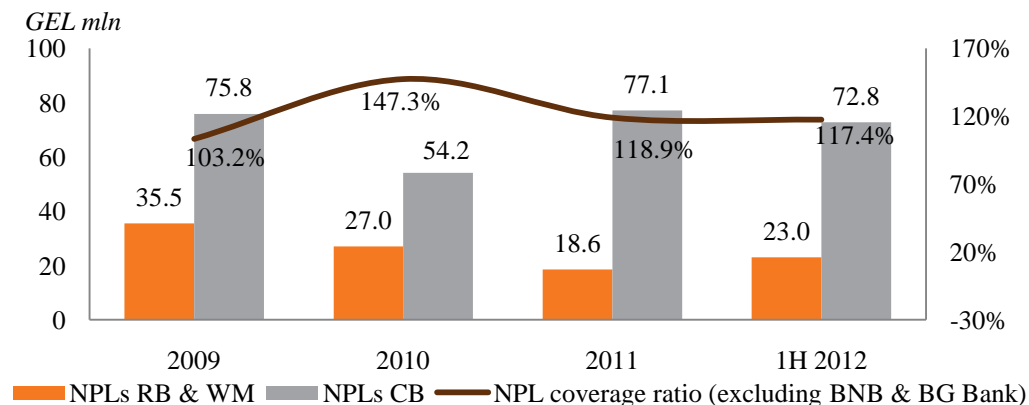
Non performing loans (NPLs)



Based on consolidated data

Conservative NPL coverage with room to decrease

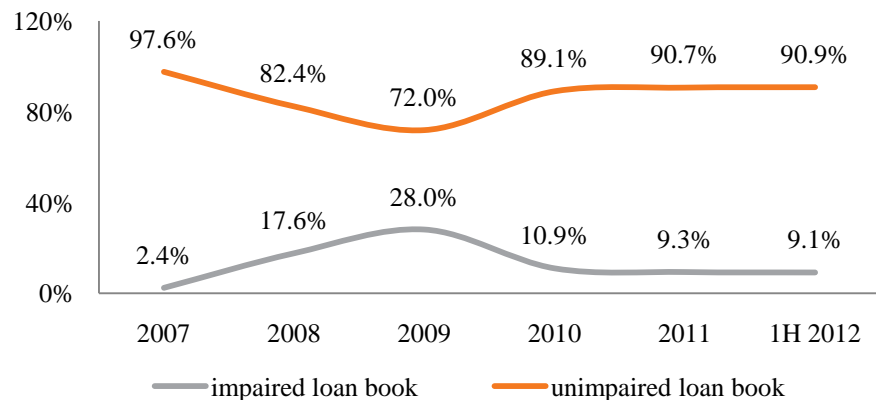
NPL composition & coverage ratio



Key points

- Decreasing NPLs
- Conservative NPL coverage with room to decrease
- Before 2011, NPL were defined as loans past due for more than 90 days. From 2011, NPLs also include loans to borrowers, which due to material deterioration of their financial performance are unable to repay the loan

Loan portfolio by risk group

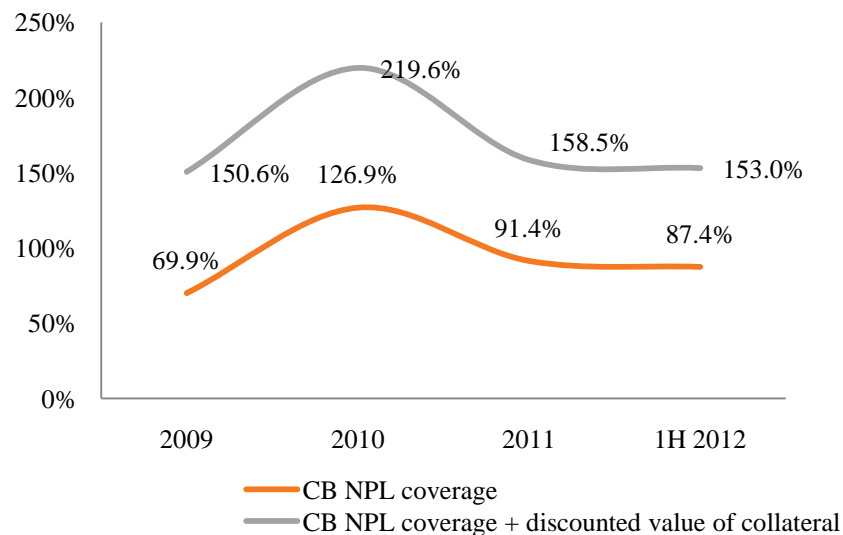


Based on consolidated data

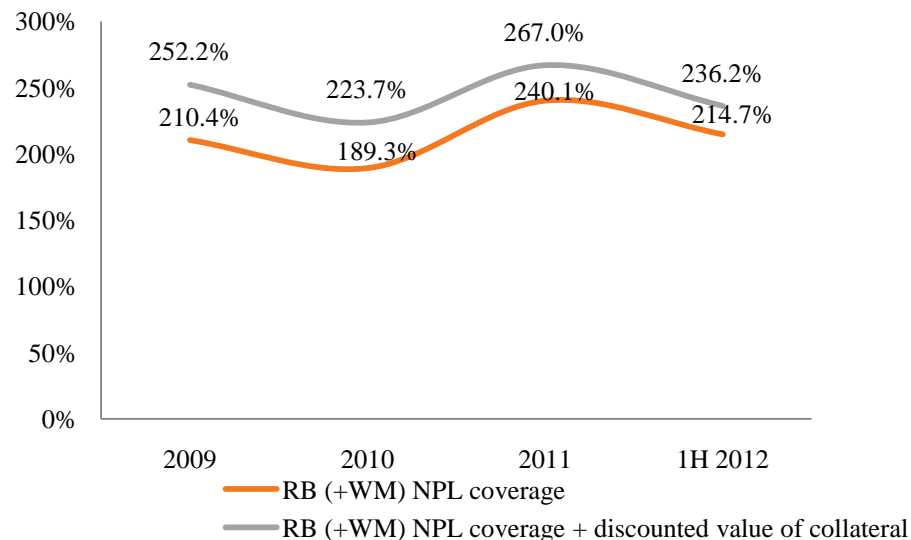
NPLs and coverage ratios exclude BNB figures and BG Bank, Ukraine (the latter prior to its disposal in 2011)

NPL coverage by CB & RB

Corporate banking NPL coverage



RB(+WM) NPL coverage



Very conservative NPL coverage by business lines

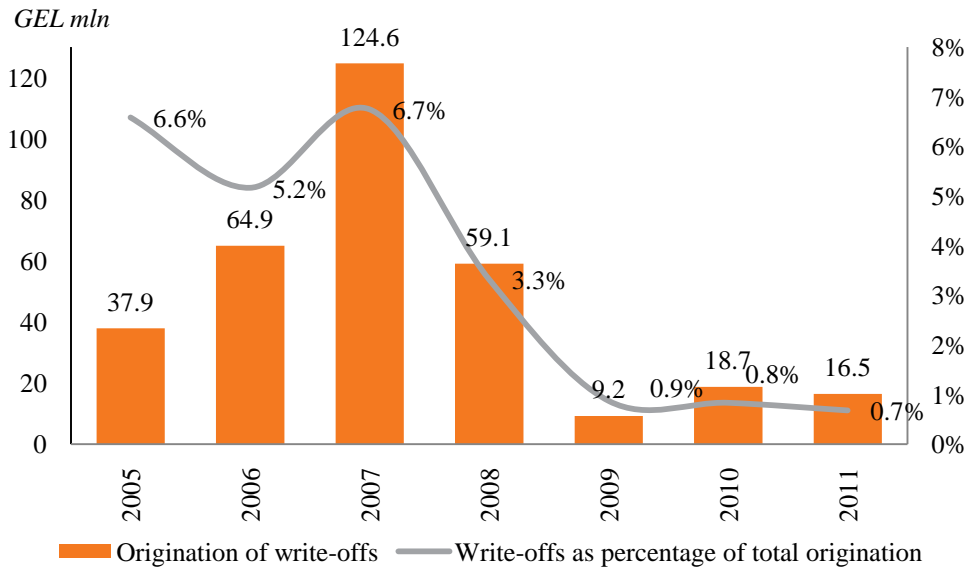
RB loan loss reserves have room for decreasing

Based on consolidated data

High recovery rate

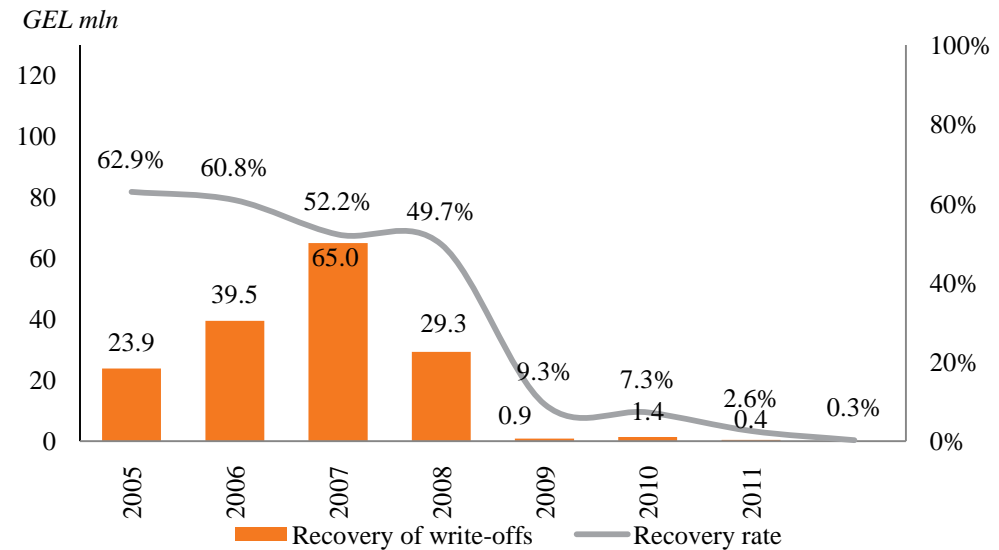
Write-offs Vintage

Total write-offs:
GEL 331 mln



Recovery Vintage

Total recoveries: GEL 160 mln,
48.5% of write-offs

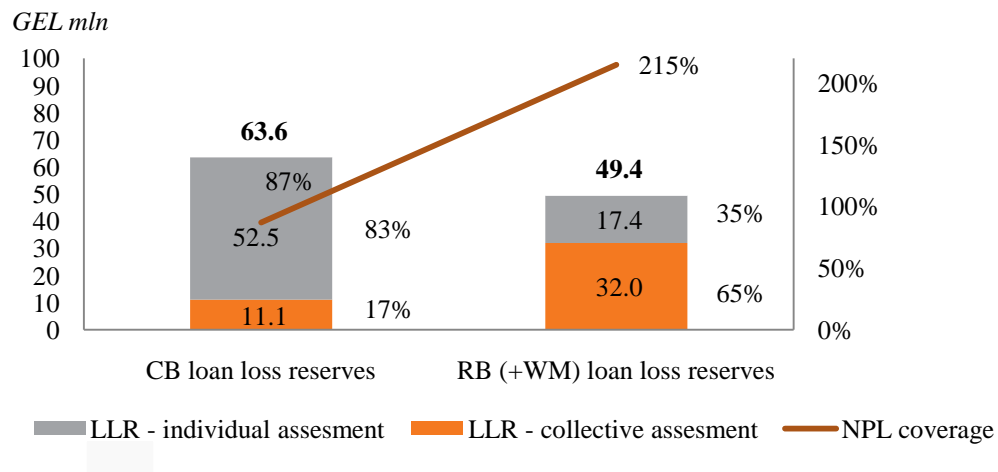


☞ Remaining accumulated off-balance sheet loans written-off since 2005 amount to GEL 171 mln

Based on standalone data

Loan loss reserve structure, 30 June 2012

LLR structure (CB, RB+WM)

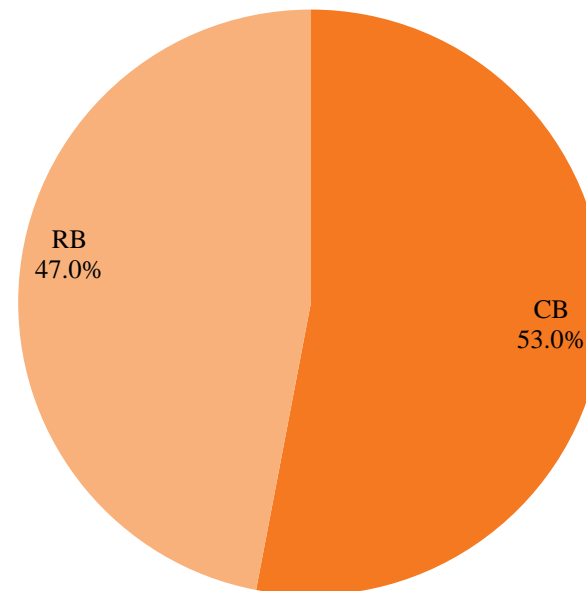
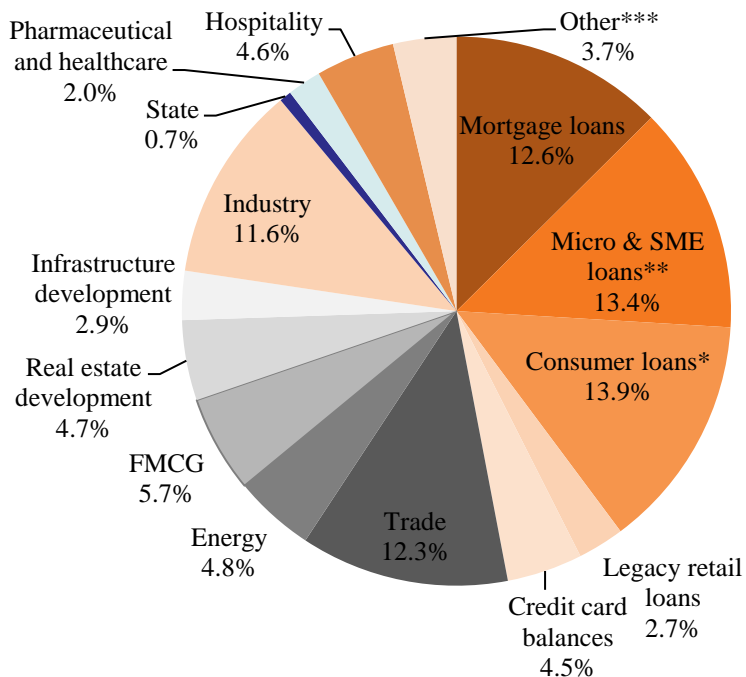


- 📌 83% of CB LLR – individual assessment
- 📌 64% of RB LLR –collective assessment
- 📌 Stress period data are not eliminated

Based on consolidated data

Diversified loan book, 30 June 2012

**Total loan book:
GEL 3,038 mln**



- Diversified loan portfolio (53% CB & 47% RB+WM)
- No industry or product accounts for more than 15% of total loan portfolio

Based on consolidated data

*Incl. consumer loans, POS loans, car loans, card overdrafts ** Incl. entire BNB loan portfolio *** Incl. finance lease receivable

Corporate loan book loan loss reserves, 30 June 2012

<i>GEL '000s</i>	Size	% of total loan book	LLR%
Real estate development	143,708	8.4%	11.4%
Infrastructure development	87,655	5.1%	8.3%
Trade	372,891	21.7%	5.9%
FMCG	173,544	10.1%	4.0%
Energy	144,714	8.4%	2.1%
Others	217,473	12.7%	1.7%
Pharmaceutical and healthcare	60,702	3.5%	1.2%
Hospitality	141,153	8.2%	1.1%
State	21,381	1.2%	0.8%
Industry	351,847	20.5%	0.8%
CB loans	1,715,069		3.8%

Based on standalone data

Case study of 2008 and 2009 stress tests

Loan quality under the following stress tests

- 🏠 Global financial crisis in 2008
- 🏠 Conflict with Russia
- 🏠 17% devaluation of Lari against US\$ in one day in November 2008

	Actual Stress Case		
	Default Rate	Loss on Defaults	Actual Loss
<u>Local Currency</u>			
<i>Micro Loans</i>	3.6%	64.1%	2.3%
<i>Mortgage Loans</i>	3.8%	24.2%	0.9%
<i>Consumer & Credit Cards</i>	11.9%	76.9%	9.2%
Total Local Currency	9.8%	75.4%	7.4%
<u>Foreign Currency</u>			
<i>Micro Loans</i>	4.1%	57.1%	2.3%
<i>Mortgage Loans</i>	6.4%	68.5%	4.4%
<i>Consumer & Credit Cards</i>	16.0%	66.9%	10.7%
Total Foreign Currency	9.2%	66.9%	6.1%
Total RB	9.4%	70.3%	6.6%

🏠 Micro loans showed best performance

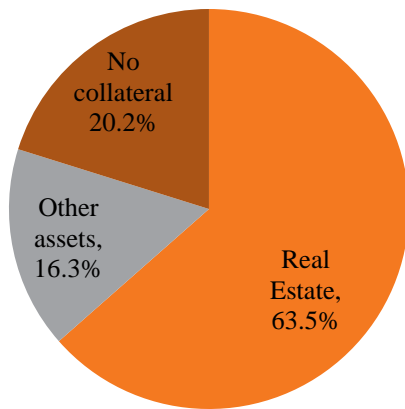
🏠 Mortgage in local currency statistically insignificant

🏠 Low sensitivity to FX risk in stress

Based on standalone data

Collateralisation by type, 30 June 2012

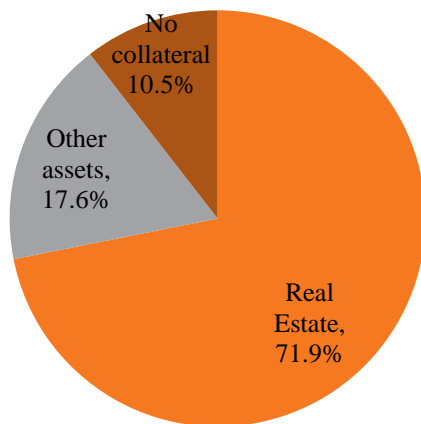
Total loan book



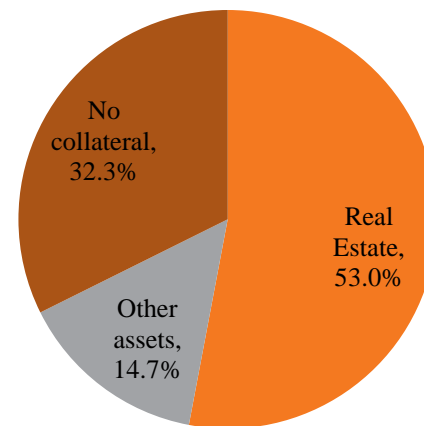
Key highlights

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

CB loan book



RB & WM



Based on standalone data

Discussion topics

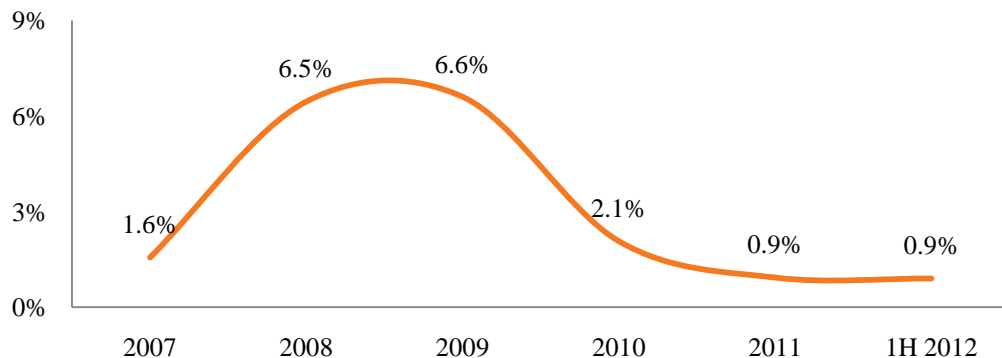
Selected economic trends

Loan portfolio overview

Cost of Risk

Cost of Risk in a stronger environment

Cost of risk dynamics



Internal risk management system

- Continued adherence to cash flow based lending, not asset based lending approach; majority of amortised loans in Loan Portfolio (circa 80%)
- Scoring system since 2006, approximately 2 mln applications scored
- Better insight into consumer behaviour
- Differentiated approach to Lari and US\$ lending
- Differentiated approach to PMT (payment per period) and collateral

Based on consolidated data

Main reasons for improvement

External factors

- Overall improvement of the economy
- 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

Q&A

Forward Looking Statements

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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