



BANK OF GEORGIA

BANKING BUSINESS PERFORMANCE AND PRIORITIES

BGEO Investor Day
9 November 2017
Tbilisi, Georgia

Speaker: **Kaha Kiknavelidze, CEO, JSC Bank of Georgia**

CONTENT

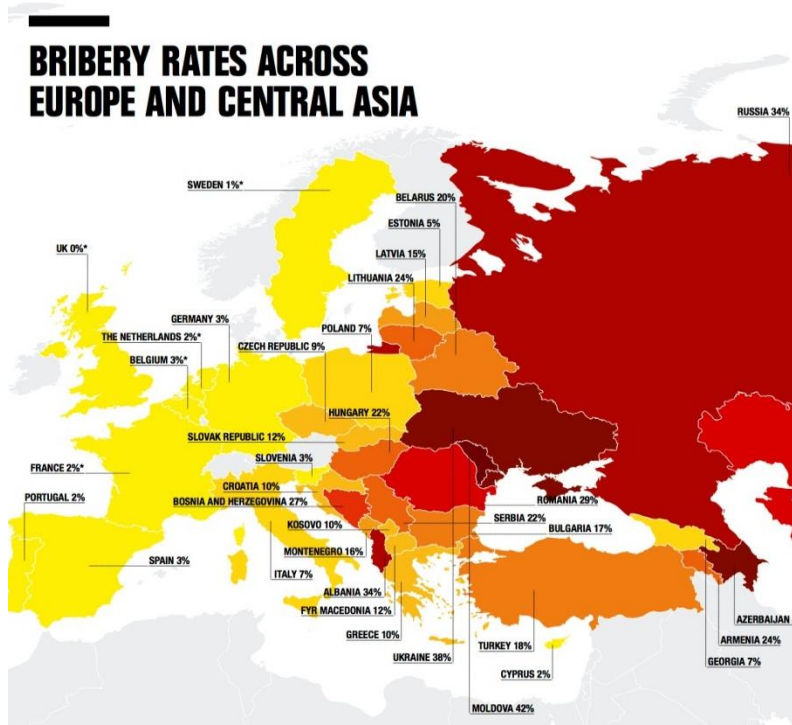


- **Macroeconomic overview**
- **Banking industry highlights**
- **Banking Business performance update – 3Q17 & 9M17**
- **Banking Business targets and priorities**
- **Q&A**

ATTRACTIVE PLACE TO DO BUSINESS

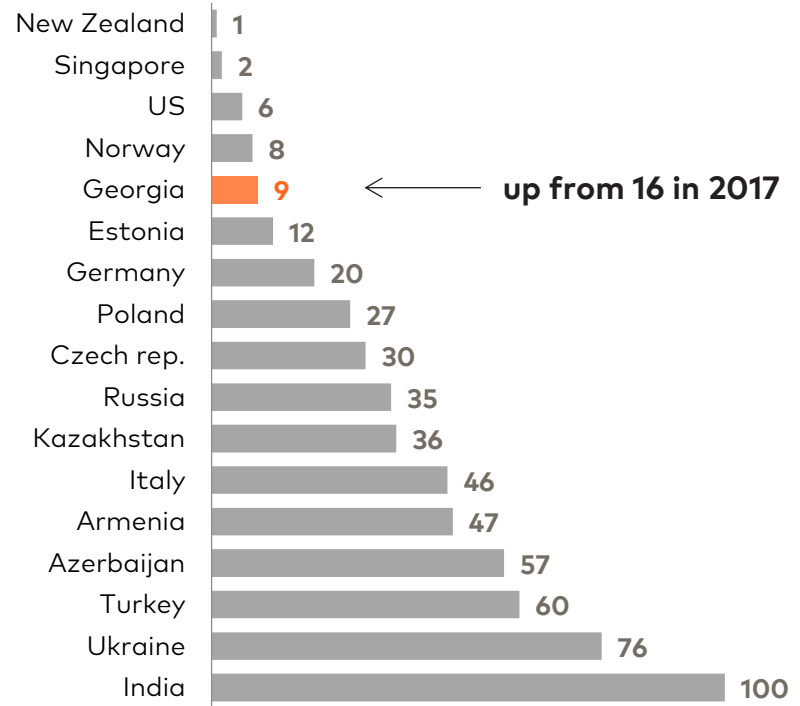


Global Corruption Barometer 2016



Source: Transparency International

Doing Business Ranking, 2018

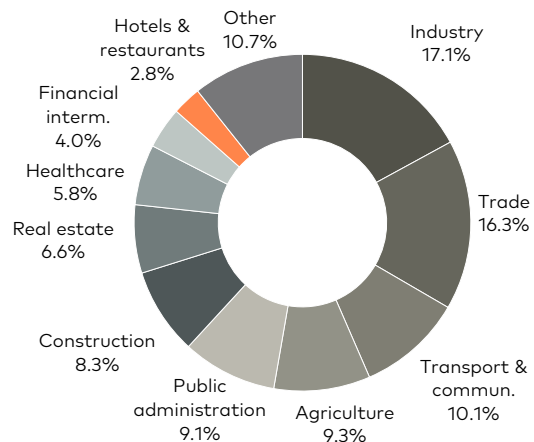


Source: The World Bank

DIVERSIFIED ECONOMY BY SECTORS AND REGIONS

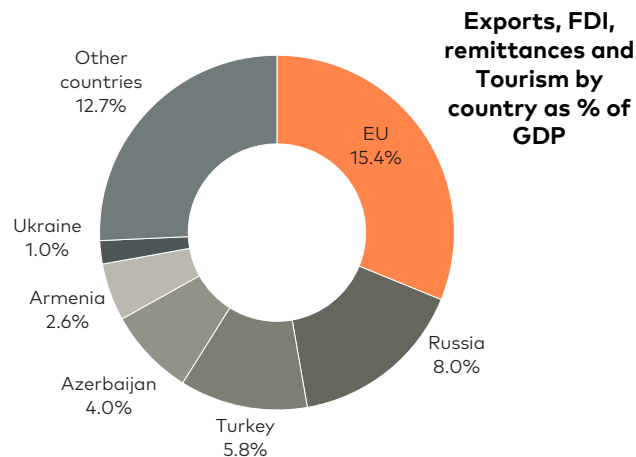


Diversified GDP structure, 2016



- Two largest sectors (trade and industry) accounting for just 33% of GDP

Diversified economic linkages, 2016



- EU accounts for one third of overall external earnings
- Deepening trade relations to new large markets (EU and China) are expected to broaden export base

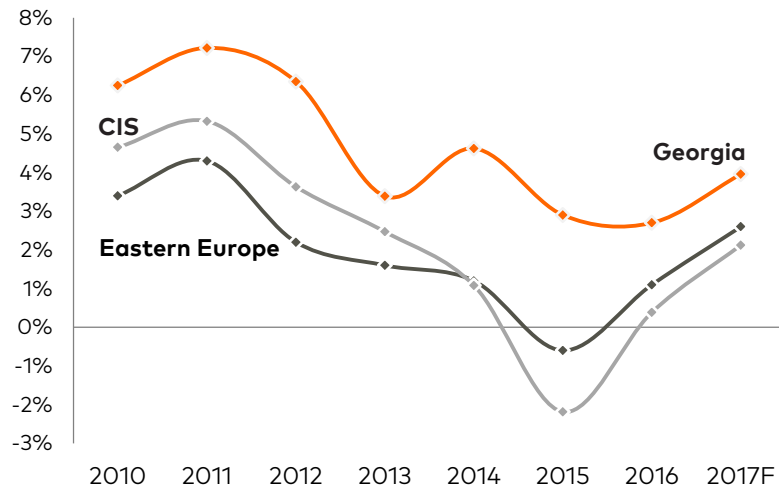
Source: GeoStat

Source: GeoStat, GNTA, NBG, G&T calculations

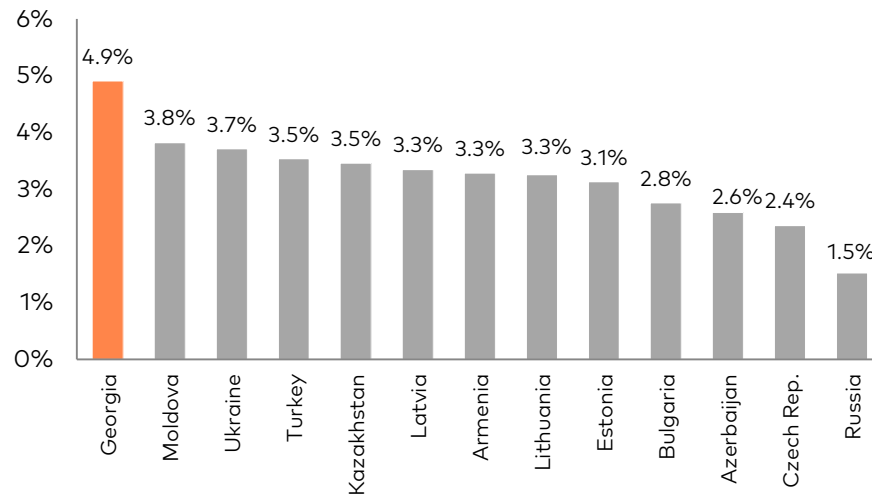
HIGHER BASELINE GROWTH OF THE ECONOMY



Historical GDP Growth, Georgia vs. Region



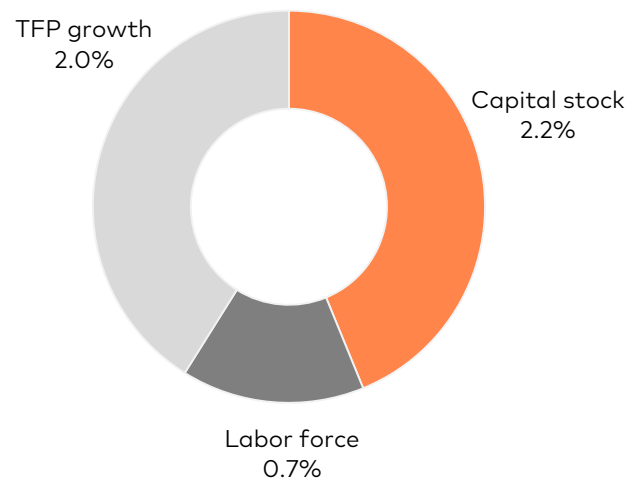
IMF's GDP growth projections, 2018-22 average



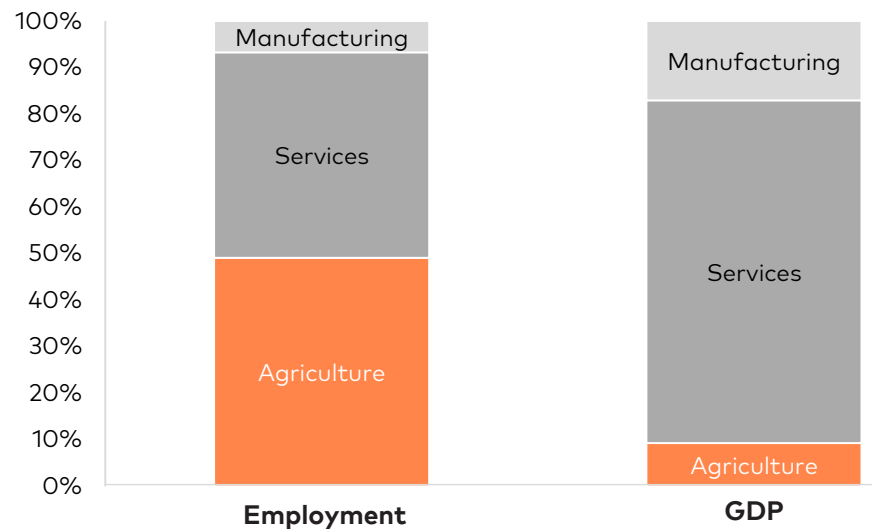
POTENTIAL FOR CONTINUED PRODUCTIVITY IMPROVEMENT



Contribution to growth, 2006-16



Employment and GDP by sector, 2016



Source: GeoStat, G&T calculations

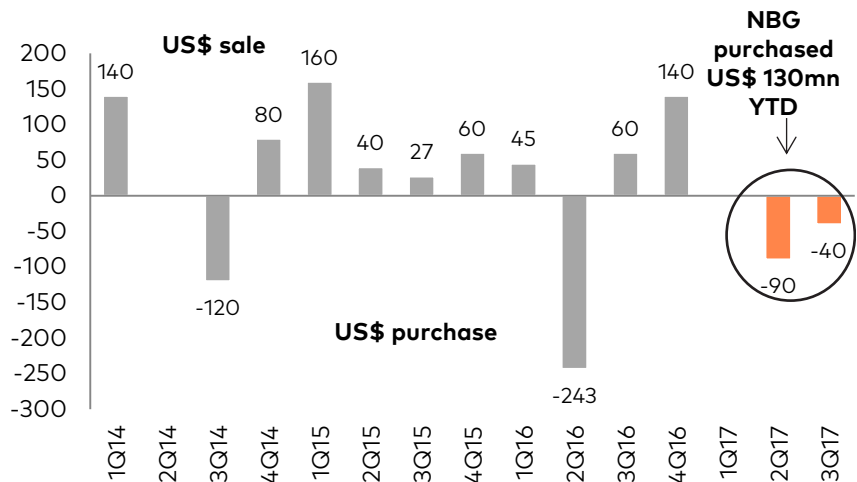
Note: Total Factor Productivity (TFP) determines how efficiently and intensely the inputs (capital, labor) are utilized in production

Source: GeoStat

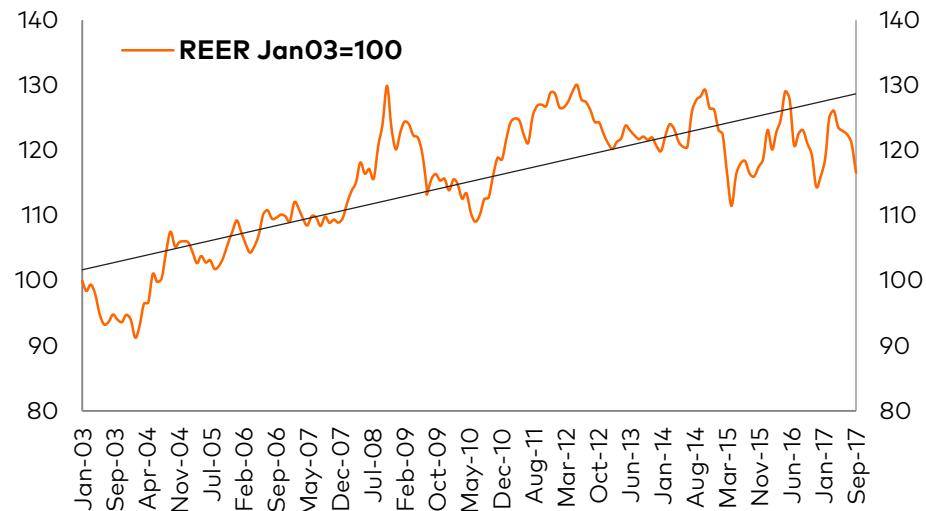
LARI'S FLEXIBLE EXCHANGE RATE REGIME



Limited and efficient FX interventions



Exchange rate remains competitive



Source: NBG

CONTENT

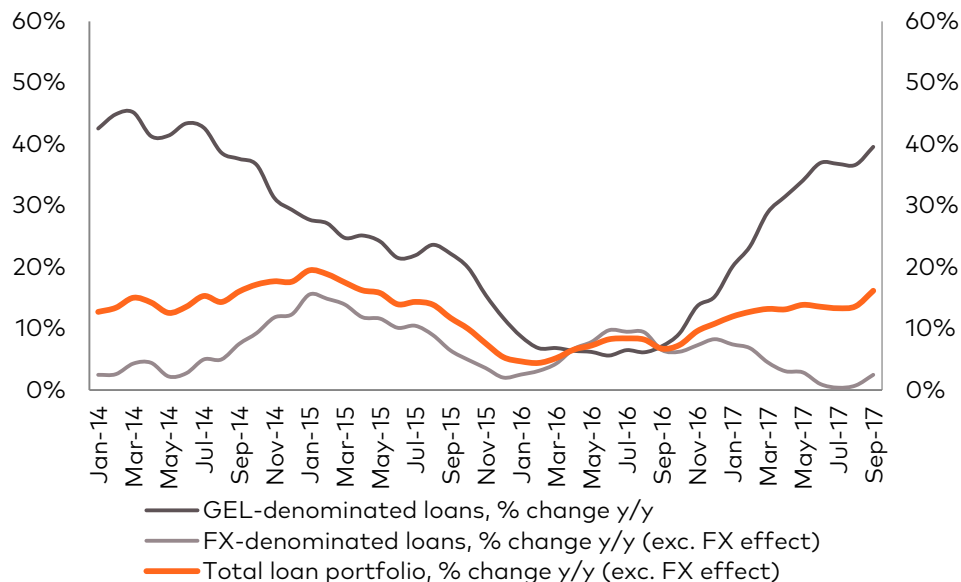


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ROOM FOR FURTHER CREDIT GROWTH



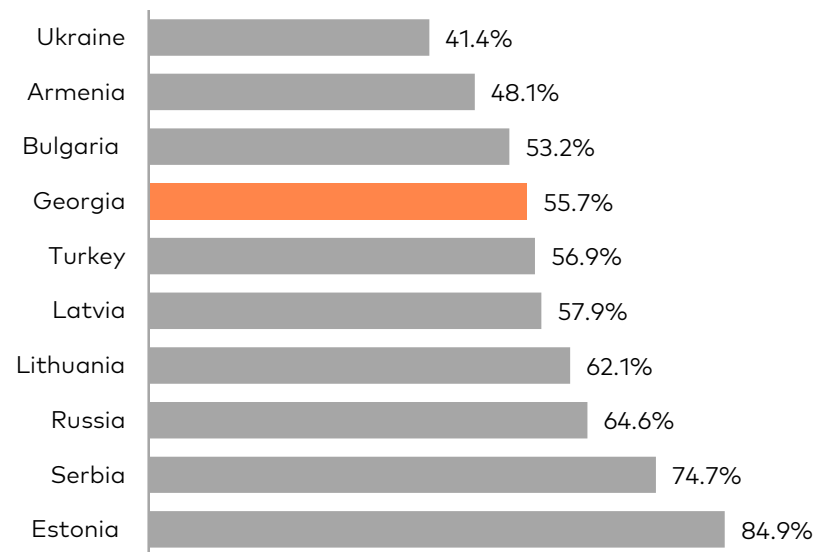
Banking sector loan portfolio growth



- Loan portfolio increased 16.0% y/y excluding FX effect in Sep-17

Source: NBG

Banking Penetration (Sector Loans to GDP)

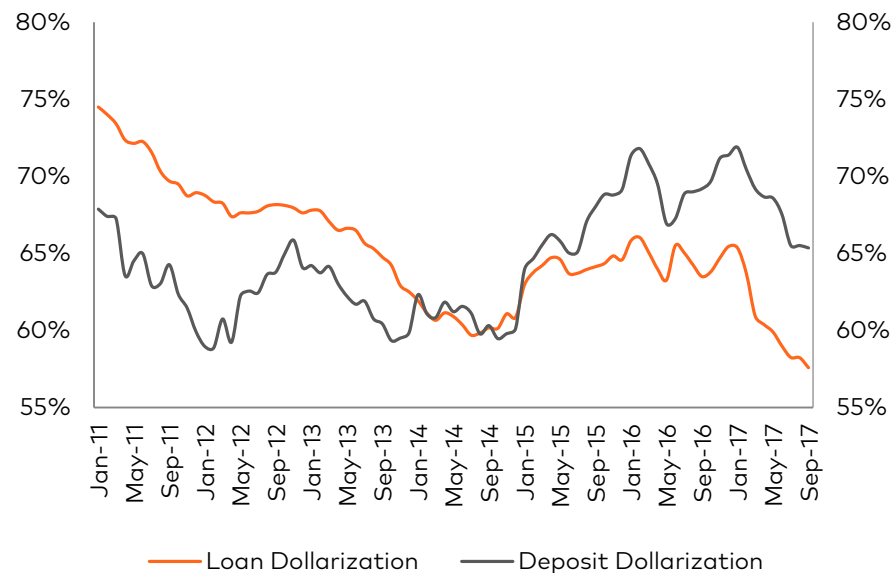


Source: Central Banks, IMF, as of 31 Dec 2016

PRUDENTLY MANAGED BANKING SECTOR

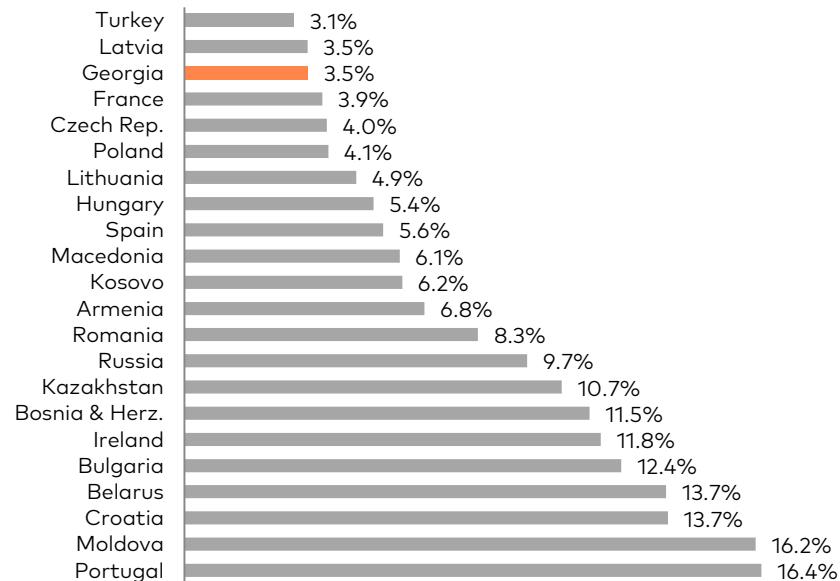


Gradual de-dollarisation with NBG's 10-point plan



Source: NBG

One of the lowest levels of NPLs worldwide (latest 2017 data)



Source: IMF

REGULATORY CHANGES (1/2)



	DESCRIPTION	IMPACT
1 Liquidity Coverage Ratio (LCR)	<ul style="list-style-type: none">- Effective from 1 September 2017- Total LCR \geq100%, LC \geq75%, FC \geq100%	<ul style="list-style-type: none">- No material impact expected
2 Basel III Macroprudential Tools	<ul style="list-style-type: none">- Effective from 10 August 2017- Caps on PTI and LTV ratios introduced	<ul style="list-style-type: none">- RWA increase in 2018: ~GEL 77mln- Tier I capital: ~7bps increase
3 Deposit Insurance Scheme	<ul style="list-style-type: none">- Effective from 1 January 2018- Insured deposits - up to GEL 5,000	<ul style="list-style-type: none">- Additional insurance expense in 2018: ~GEL 4mln- Cost of funds increase: ~4bps
4 Larisation Initiatives	<ul style="list-style-type: none">- Effective 15 January 2017- Ban on FC lending - loans up to GEL100,000	<ul style="list-style-type: none">- Local currency denominated loans up to 39% in Sep-17 from 30% a year ago



UPCOMING CHANGES IN CAPITAL ADEQUACY REQUIREMENTS

National Bank of Georgia is developing new capital adequacy requirements.

Full details expected to be announced by the end of this year.

- Transition to Basel III standards;
- No increase in capital requirement expected for 2018;
- Currency induced credit risk ("CICR") buffer will be set instead of current additional 75% weighting of FX denominated loans;
- Systemic Capital Surcharge in line with EU's CRD IV/CRR regulation is expected to be phased in starting from 31-Dec-2018 through 31-Dec-2022;
- In addition NBG intends to introduce supervisory review and evaluation process for individual banks on a regular basis. The methodology is currently under discussion.

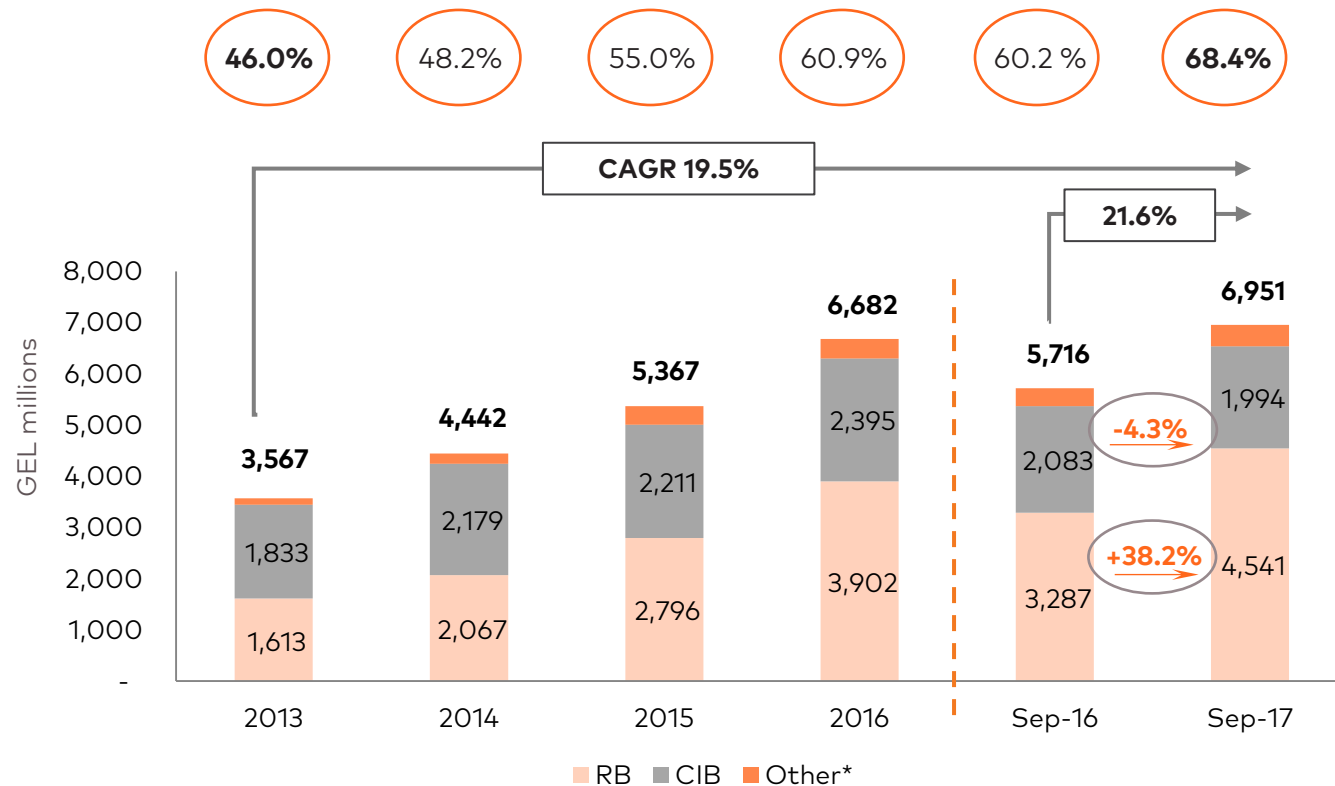
Transition to Basel III is not expected to affect our growth prospects or our ability to maintain dividends within the guided range

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STRONG LOAN BOOK GROWTH

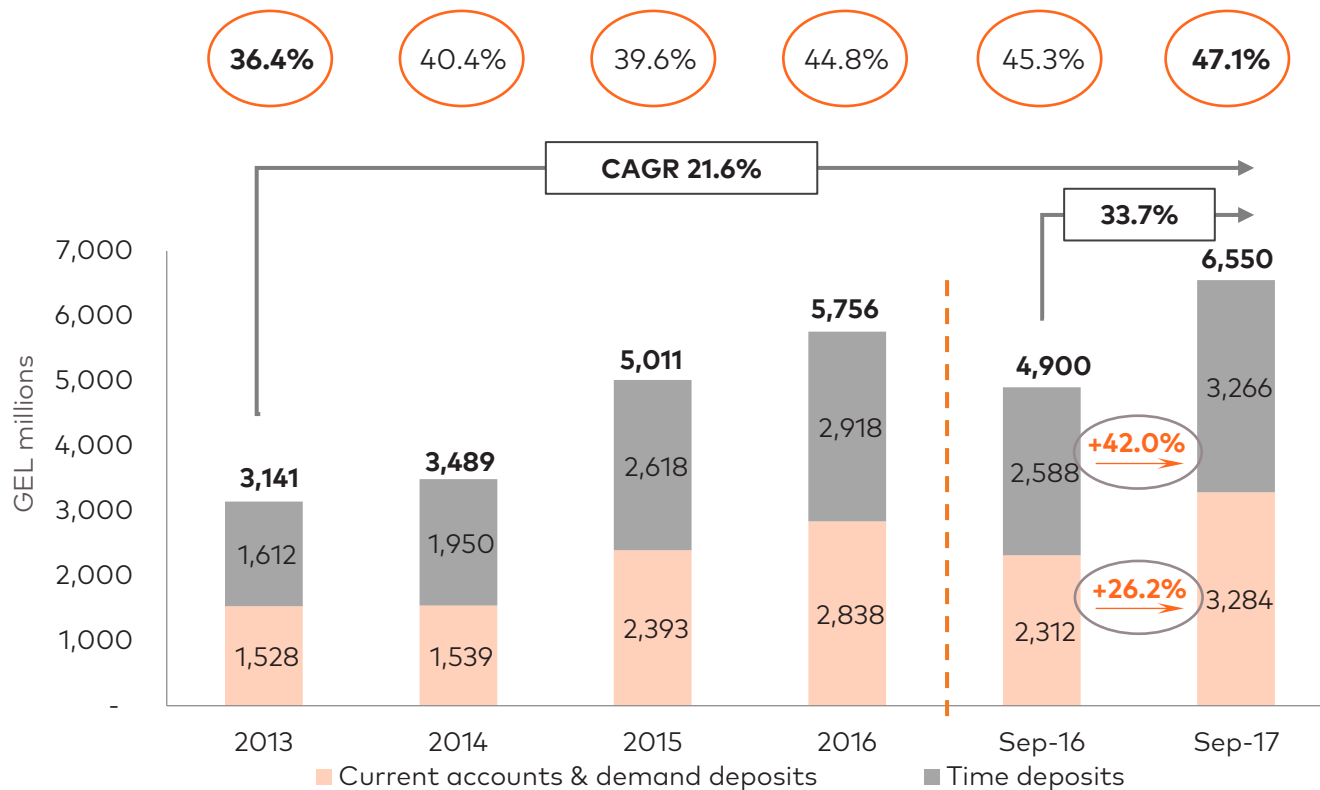


GROWING SHARE OF RB LOANS

RB LOAN BOOK'S SHARE TARGET OF 65% ACHIEVED

*Other mainly includes BNB, GLC and Banking Business eliminations

...AND DEPOSIT GENERATION

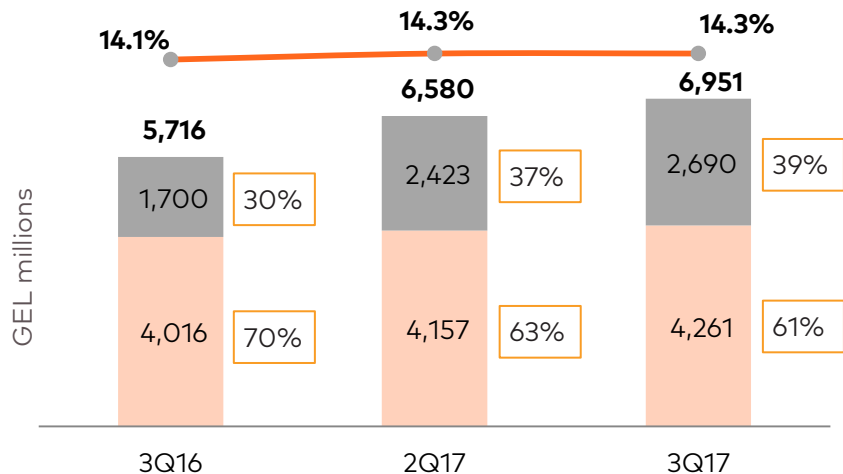


GROWING SHARE OF RB DEPOSITS

YEAR OF DE-DOLLARISATION

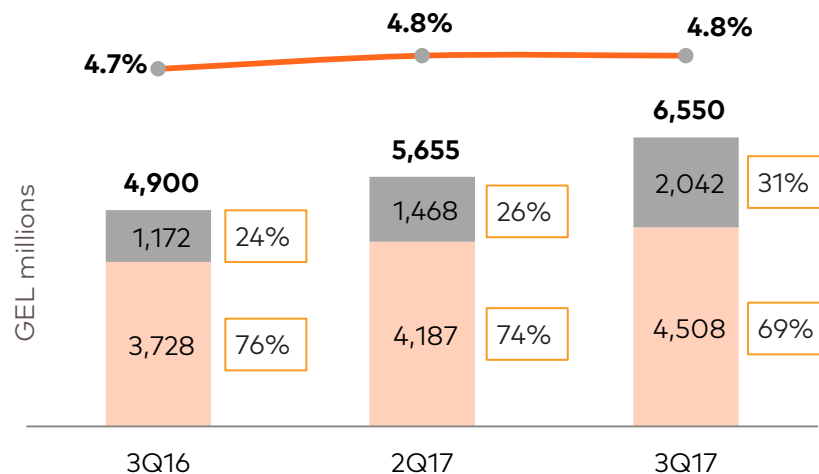


LOANS & LOAN YIELDS



- Loans to customers, GEL
- Loans to customers, FC
- Currency blended loan yield
- Share in total loan book

CLIENT DEPOSITS & COST OF FUNDS

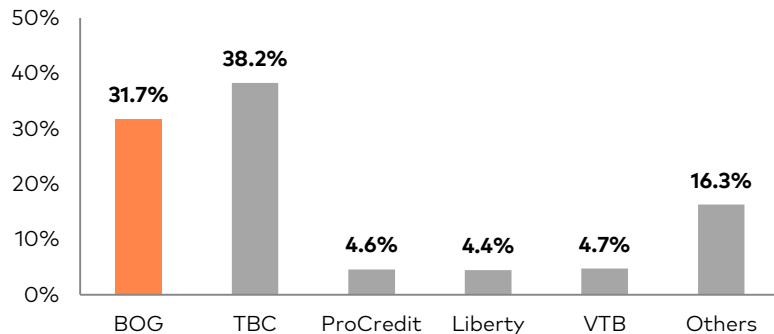


- Client deposits and notes, GEL
- Client deposits and notes, FC
- Cost of Funds, currency blended
- Share in total deposits

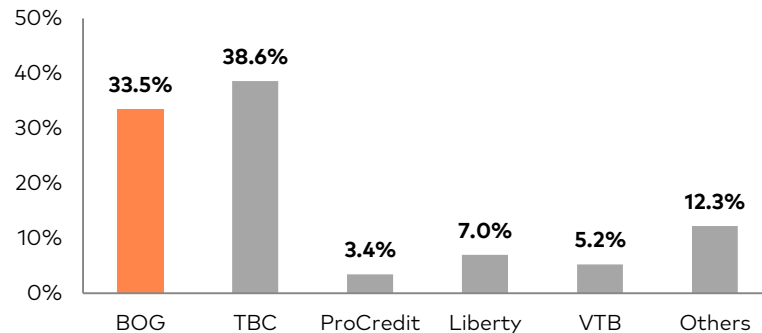
STRONG COMPETITIVE POSITION



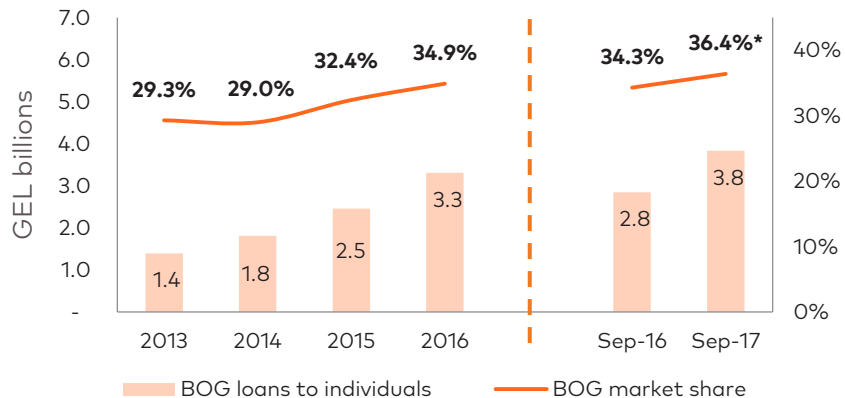
GROSS LOANS



CLIENT DEPOSITS

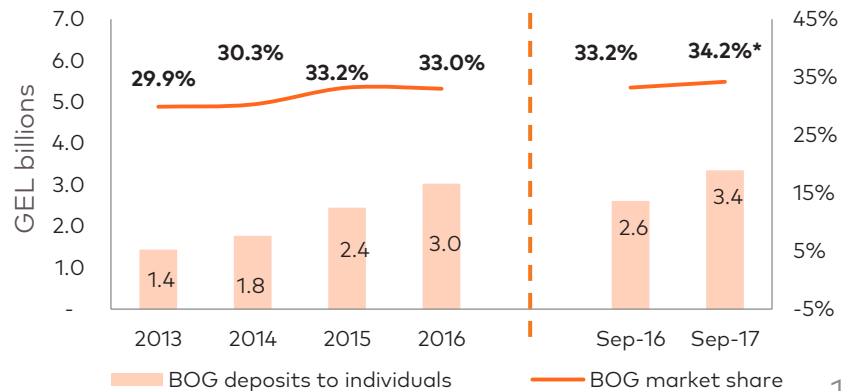


LOANS TO INDIVIDUALS



* Excluding Credo Bank, which registered as a bank in 1Q 2017

DEPOSITS TO INDIVIDUALS

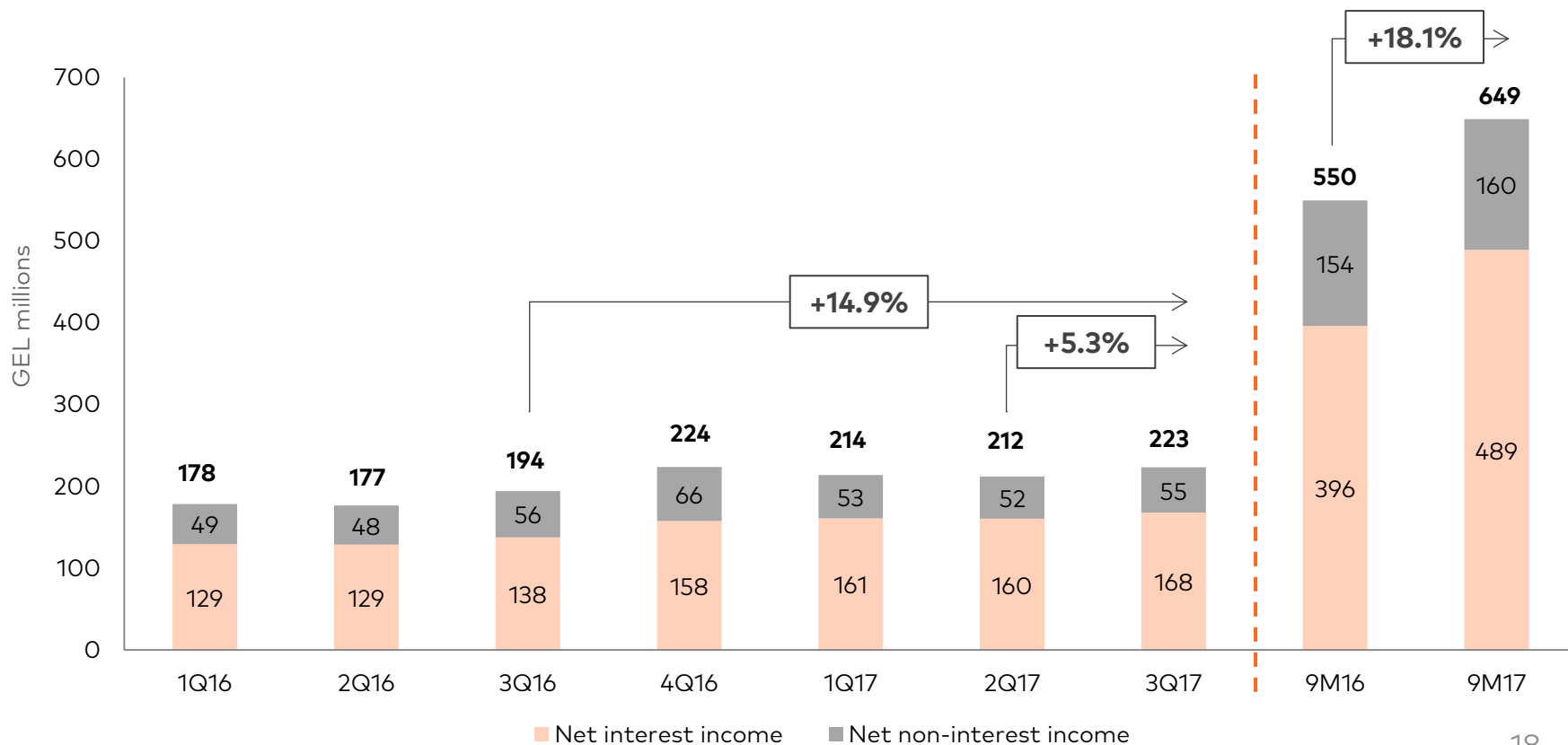


Source: NBG

SOLID BANKING REVENUE GROWTH



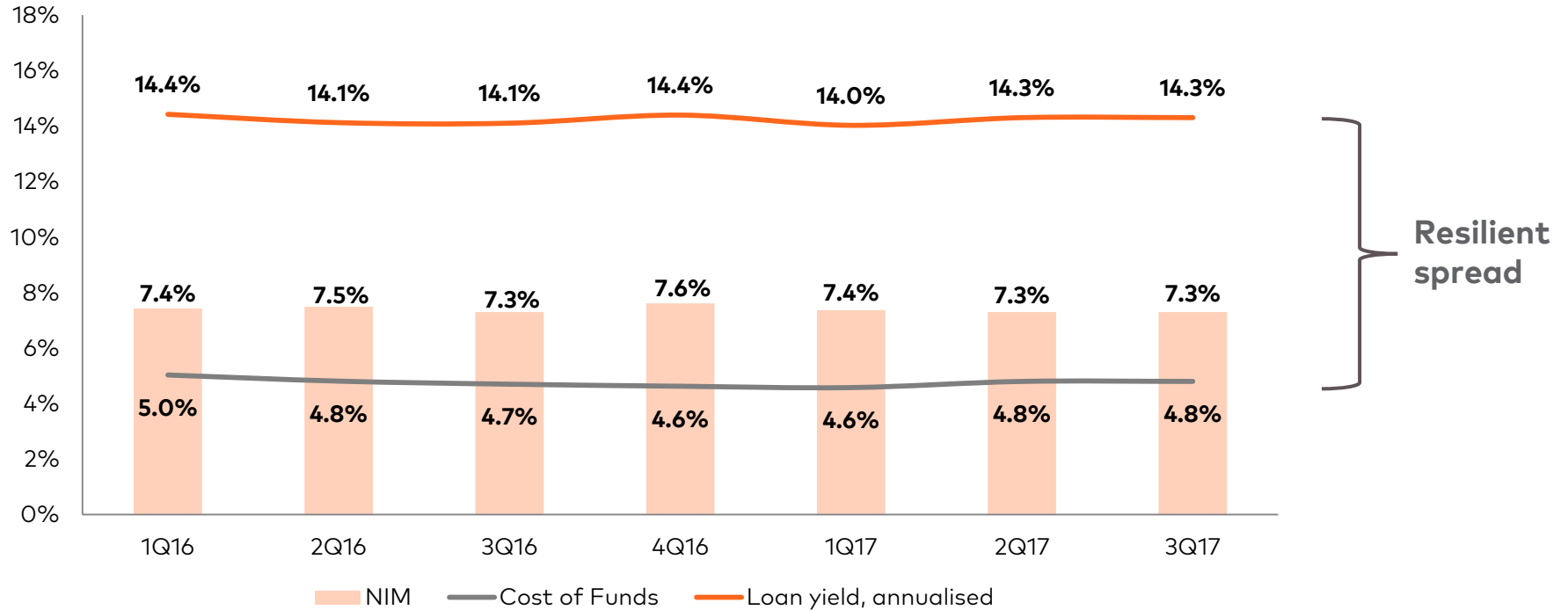
REVENUE



STABLE MARGINS



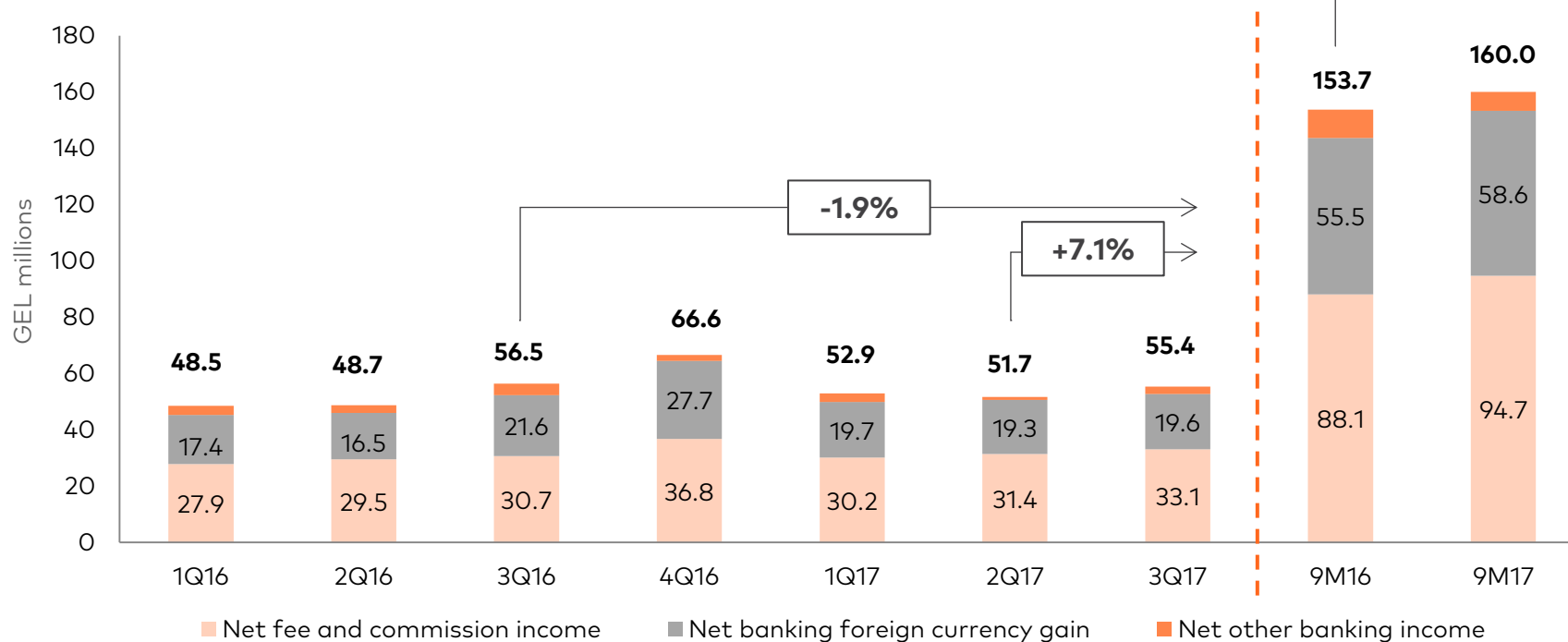
NIM, LOAN YIELD & COST OF FUNDING



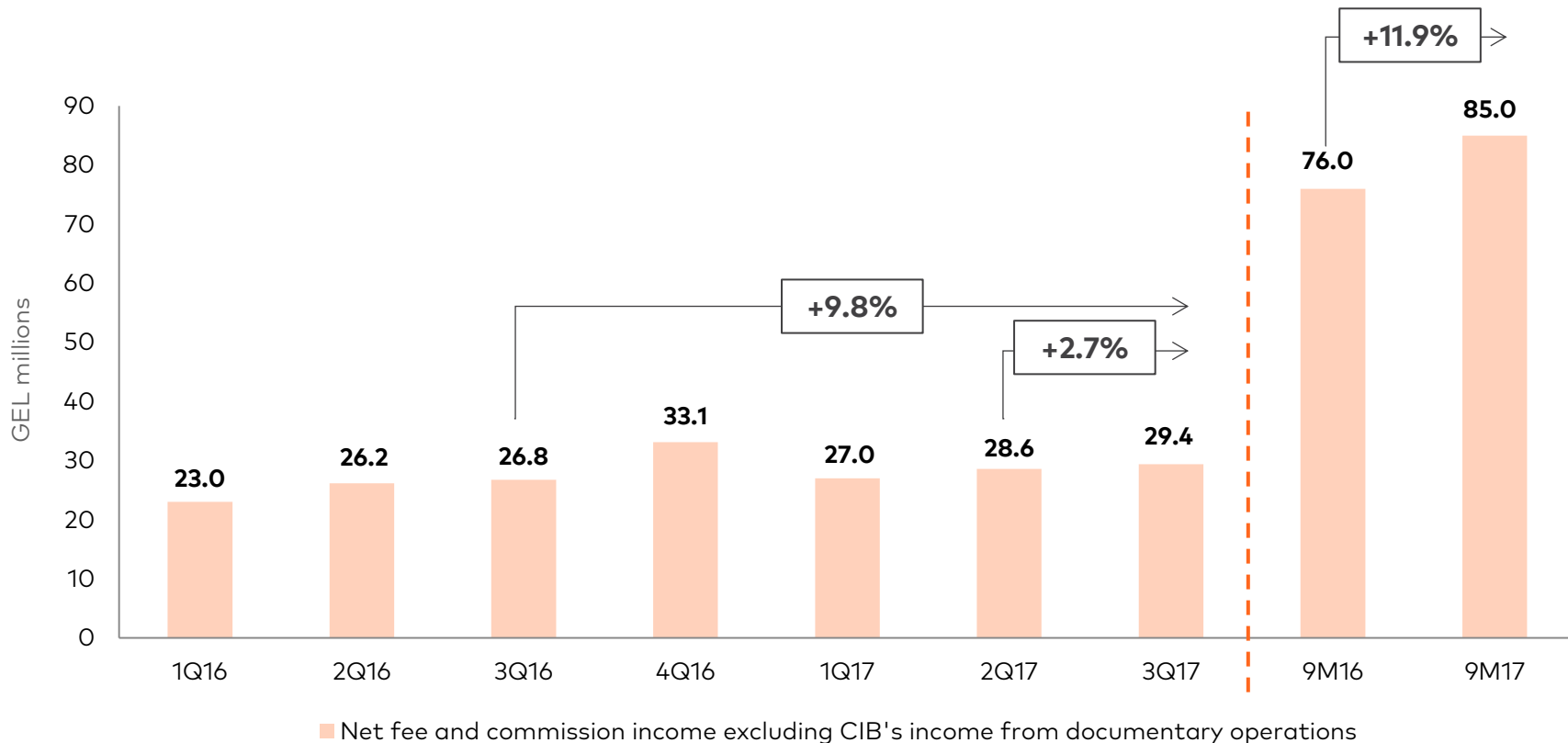
SOLID BANKING REVENUE GROWTH



NET NON-INTEREST INCOME



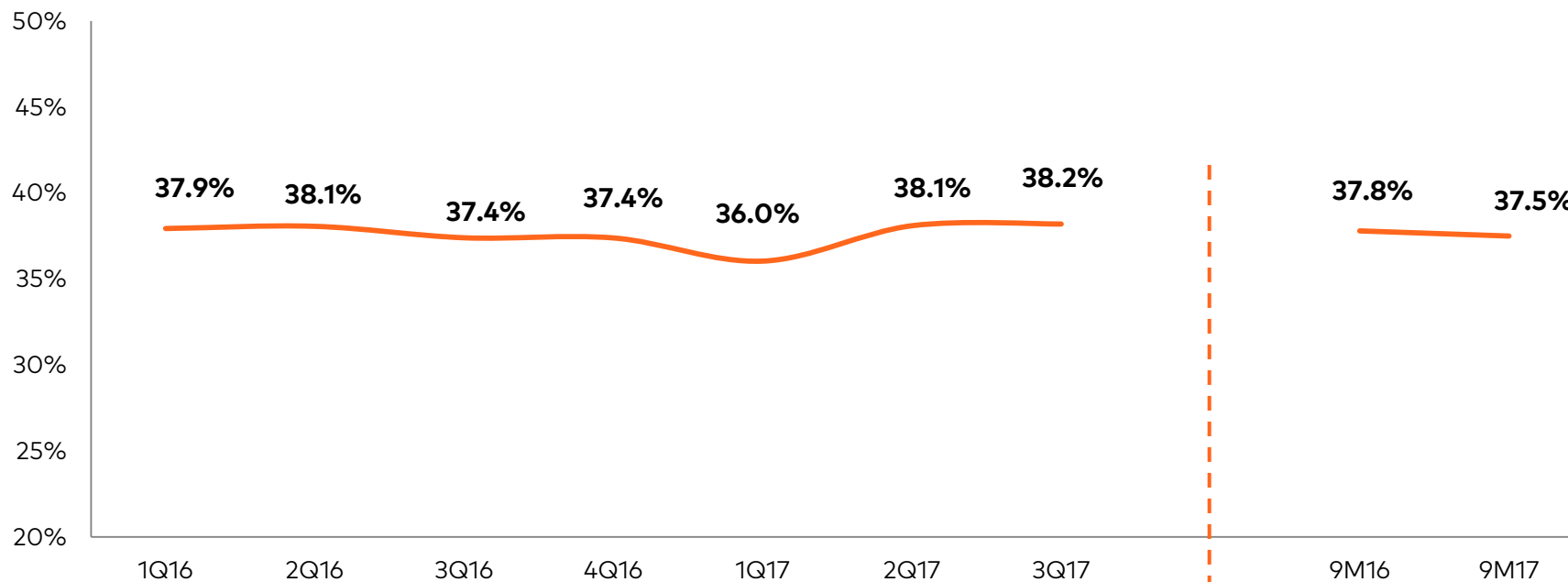
SOLID NET FEE AND COMMISSION INCOME GROWTH



FOCUS ON EFFICIENCY



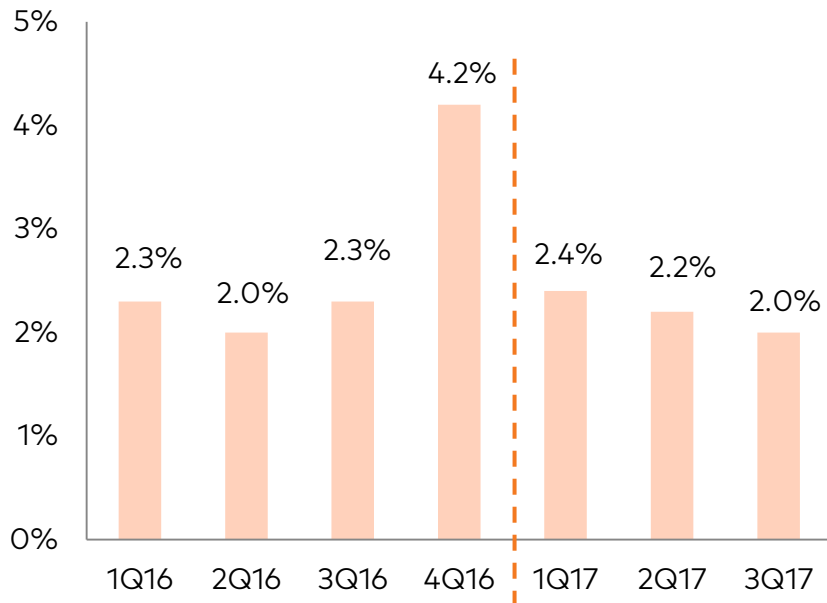
COST / INCOME RATIO



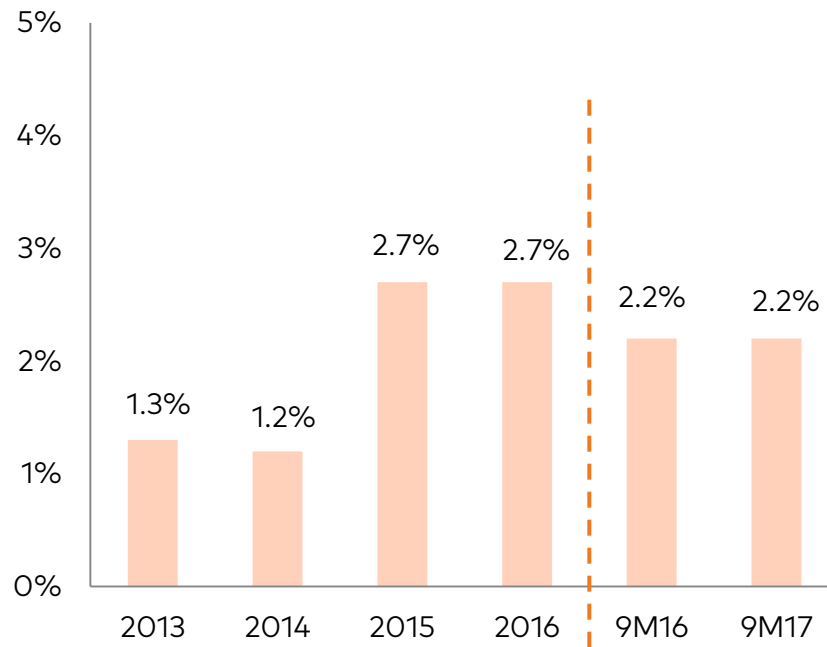
IMPROVED LOAN PORTFOLIO QUALITY (1/2)



COST OF RISK RATIO, QUARTERLY



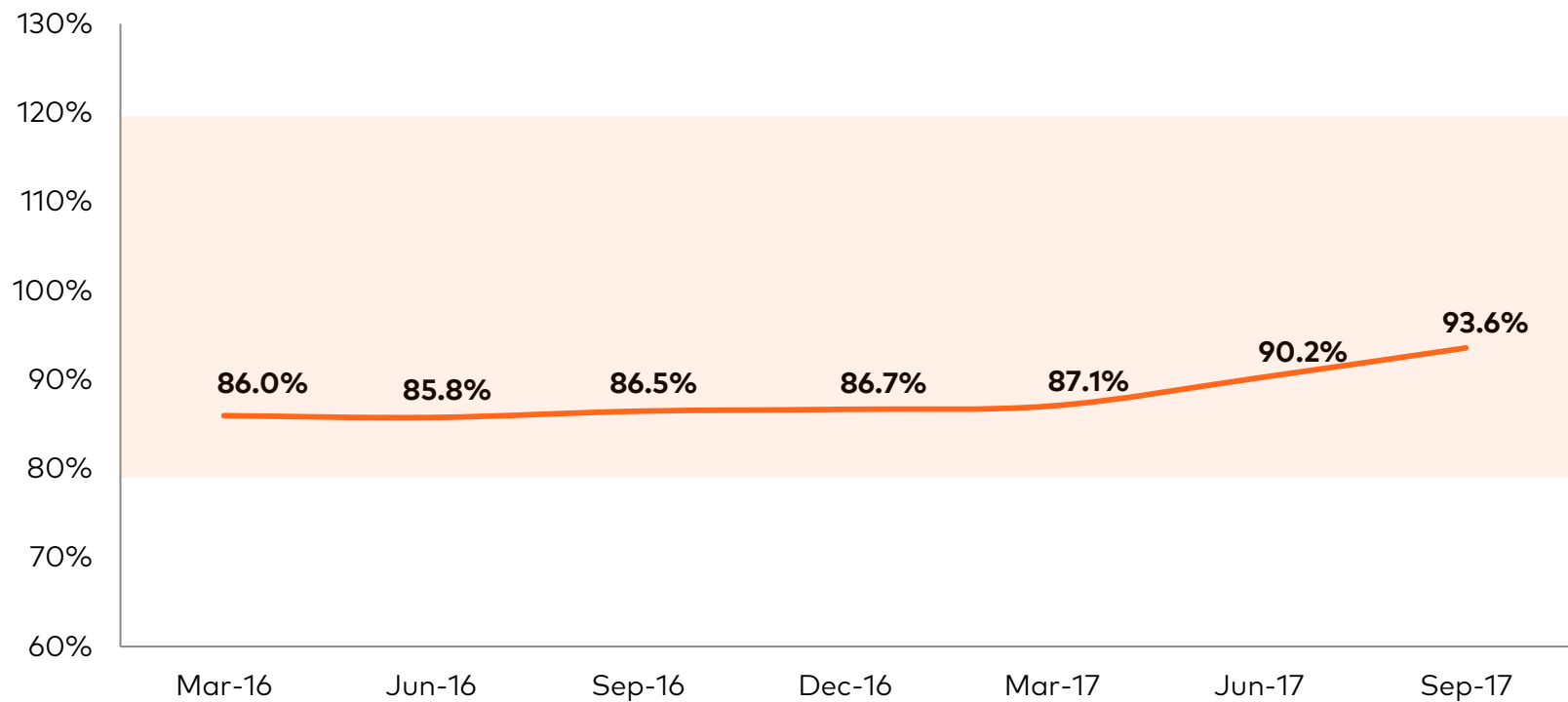
COST OF RISK RATIO, YEAR TO DATE



IMPROVED LOAN PORTFOLIO QUALITY (2/2)



NPL COVERAGE RATIO

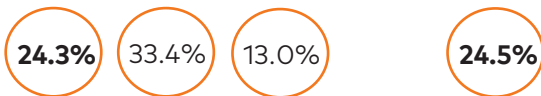


RETAIL BANKING DRIVING GROWTH AND PROFITABILITY



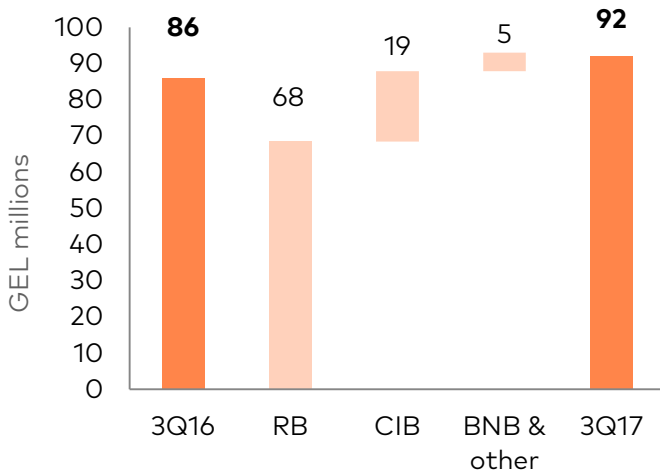
Quarterly

ROAE:

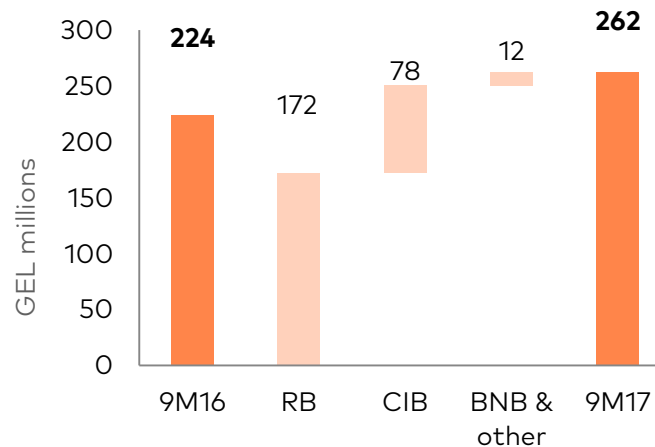
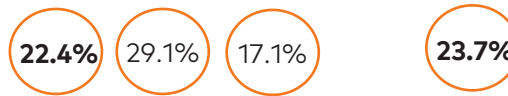


PROFIT:

Growth (y-o-y):



Nine-month

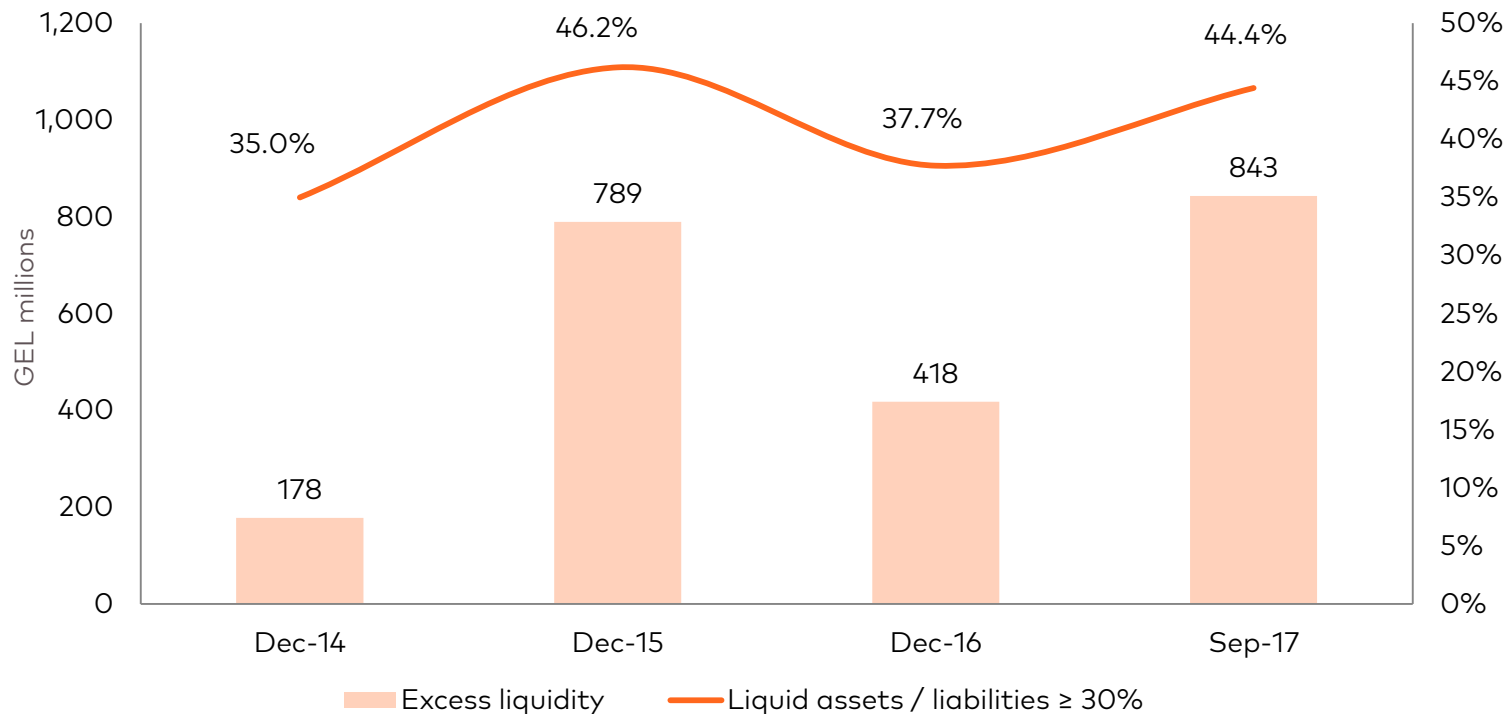


STRONG LIQUIDITY



LIQUIDITY RATIO

BOG Standalone

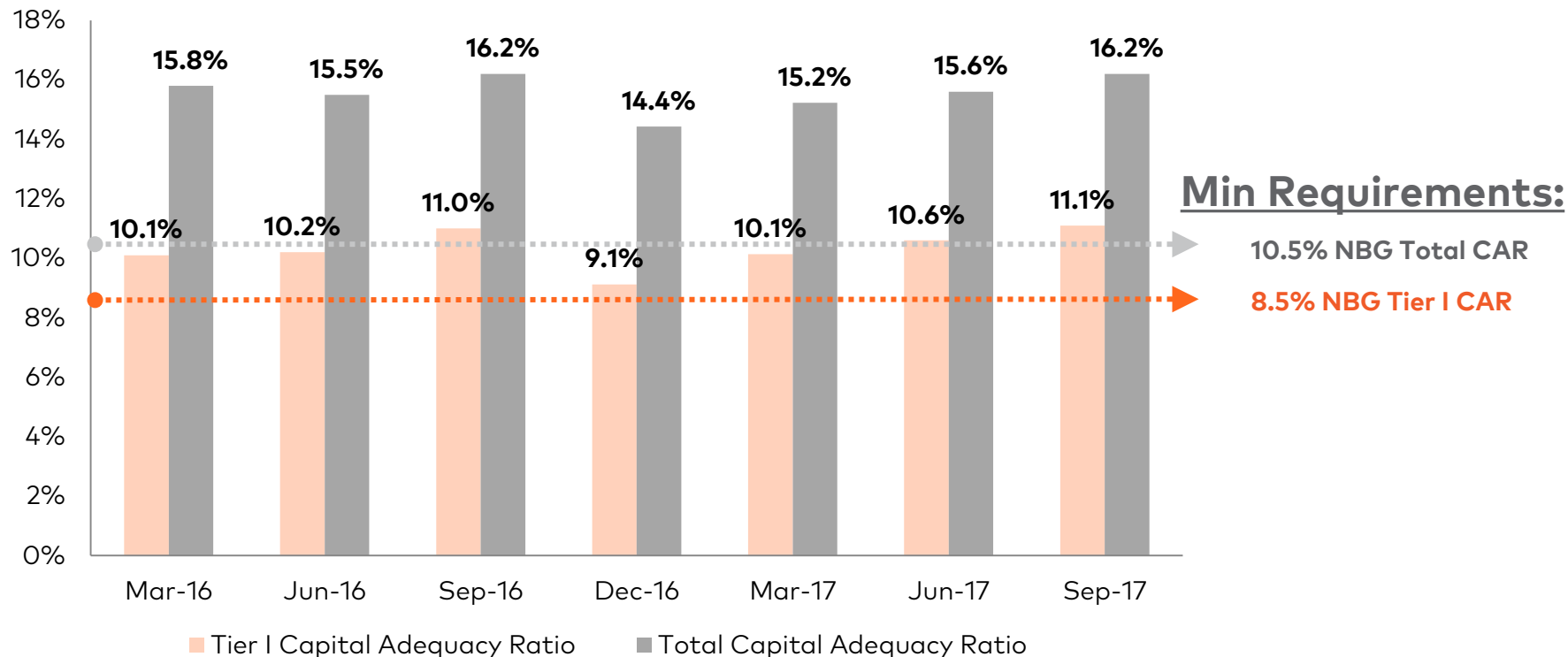


EXCELLENT CAPITAL ADEQUACY POSITION



CAPITAL ADEQUACY RATIOS

BOG Standalone



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RESULTS IN 2017 vs. OUR TARGETS & PRIORITIES



		Targets	9M16	9M17	Progress
KEY TARGETS	1 ROAE	20%+	22.4%	23.7%	✓
	2 Retail banking growth	20%+	19.5%	38.2%	✓
PRIORITIES	1 Grow retail share in loan book	65%	60.2%	68.4%	✓
	2 Increase Mass Retail product to client ratio	3.0	1.7	1.8	➡
	3 Increase number of Solo clients	To 40,000	16,964	28,492	✓
	4 De-concentrate corporate loan book	Top-10 borrowers: 10%	11.9%	10.4%	✓
	5 Become a regional private banking hub	AUM: GEL 2.5bln	GEL 1.4bln	GEL 1.8bln	➡
FINANCIAL METRICS	1 NIM	7.25% - 7.75%	7.4%	7.3%	✓
	2 Cost / income	c. 35%	37.8%	37.5%	➡
	3 NPL coverage ratio	80-120%	86.5%	93.6%	✓
	4 Cost of risk	c.2.0%	2.2%	2.2%	✓

KEY MILESTONES IN 2017 (1/4)



Retail Transformation

- **Optimised branch operating model** - effective client-centric service
 - Reduced number of mass retail branches from **141** before transformation to **114** currently
- Pro-active interaction with clients
 - **141% increase** in the number of products sold
 - **5.6% increase** in number of transactions per month through flagship branches



Plus Loyalty Programme

- **Status levels** achieved by using multiple banking products, which translates into **exclusive benefits**
- **More than 400,000 programme members** since launch in July 2017
- **22.9%** of enrolled customers have **upgraded** vs. the 10% initial target

KEY MILESTONES IN 2017 (2/4)



Public Transportation Contract

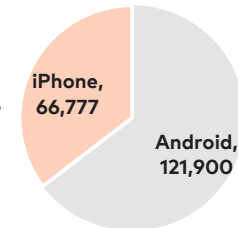
- **Sole provider** of payment support services to the public transportation network for another **ten years**
- **+2.1 million** transactions per month
- **Additional revenue** stream from **other banks'** card transactions



New Mobile Banking App

- Volume of transactions: **+55%** q-o-q
- Number of transactions: **+47%** q-o-q
- Number of active users: **+15%** q-o-q

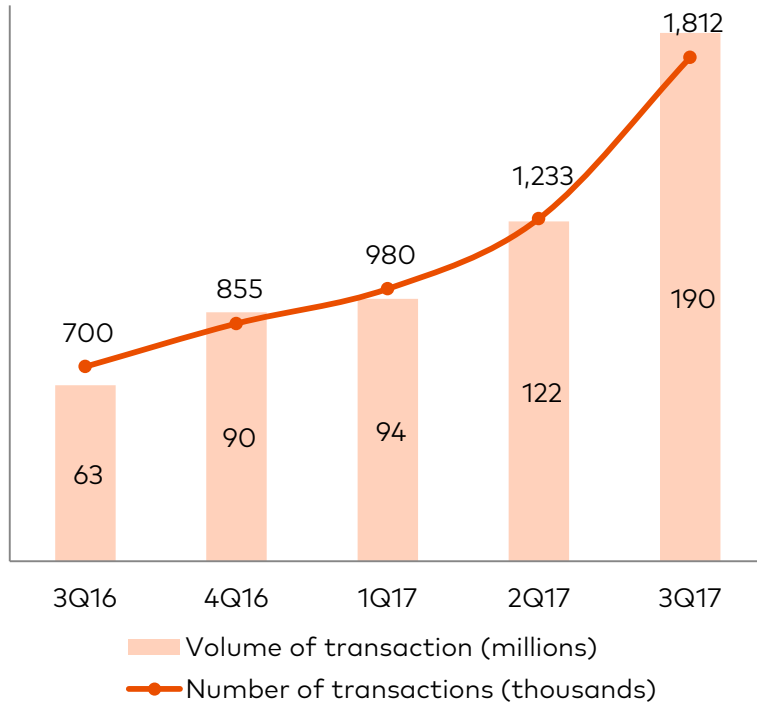
188,677 mBank
downloads since
June



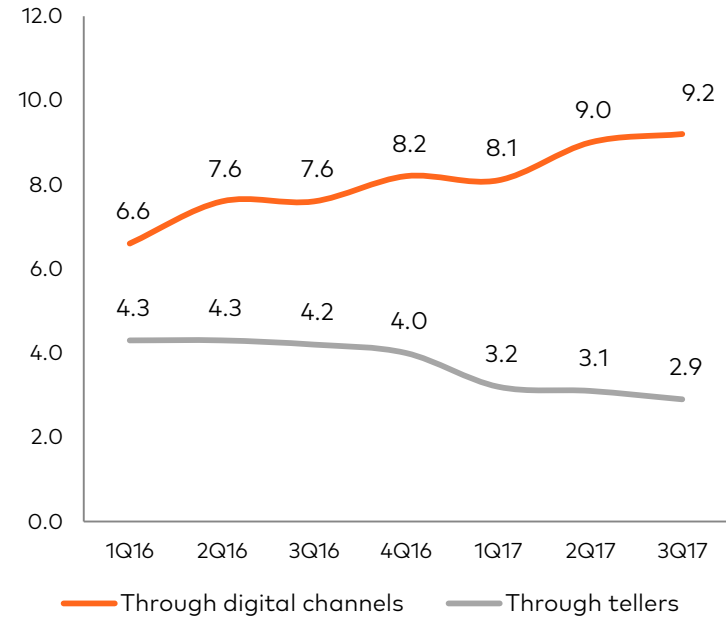
DIGITAL PENETRATION



TRANSACTIONS THROUGH NEW mBANK



DIGITAL VS NON-DIGITAL TRANSACTIONS



KEY MILESTONES IN 2017 (3/4)



Solo Club

- **A membership group within Solo** offering exclusive access to Solo's products ahead of other Solo clients at a higher fee
- Premium banking lifestyle
- Launched in **2Q17** – currently **1,527 members**
- **American Express Platinum** credit card exclusive offering



Data Analytics

- Switch from traditional statistical models to **machine learning**
- **Underwriting**
 - ▶ **77%** fully automated decisions
 - ▶ **<5min** for 85% of applications processed
 - ▶ **105,000** applications processed per month
- **Targeted campaigns** through different channels
 - ▶ **116** campaigns
 - ▶ **205,000** sold products

KEY MILESTONES IN 2017 (4/4)

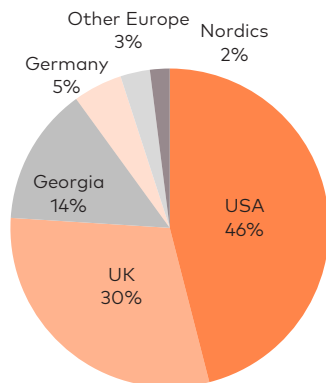


BANK OF GEORGIA 500MLN GEL INNAUGURAL LARI EUROBOND ISSUANCE

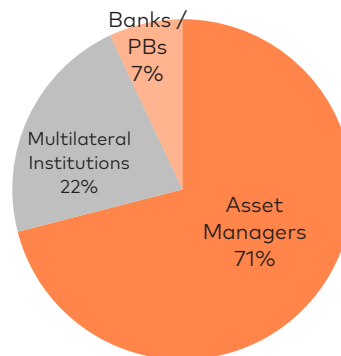


Notes	GEL 500 million, 3 year, 11.00% Eurobonds payable in U.S.\$
Listing	Irish Stock Exchange
Notes rating	Moody's Ba3 / Fitch BB-
Joint Lead Managers / Bookrunners	J.P. Morgan, Renaissance Capital
Co-Manager	JSC Galt & Taggart

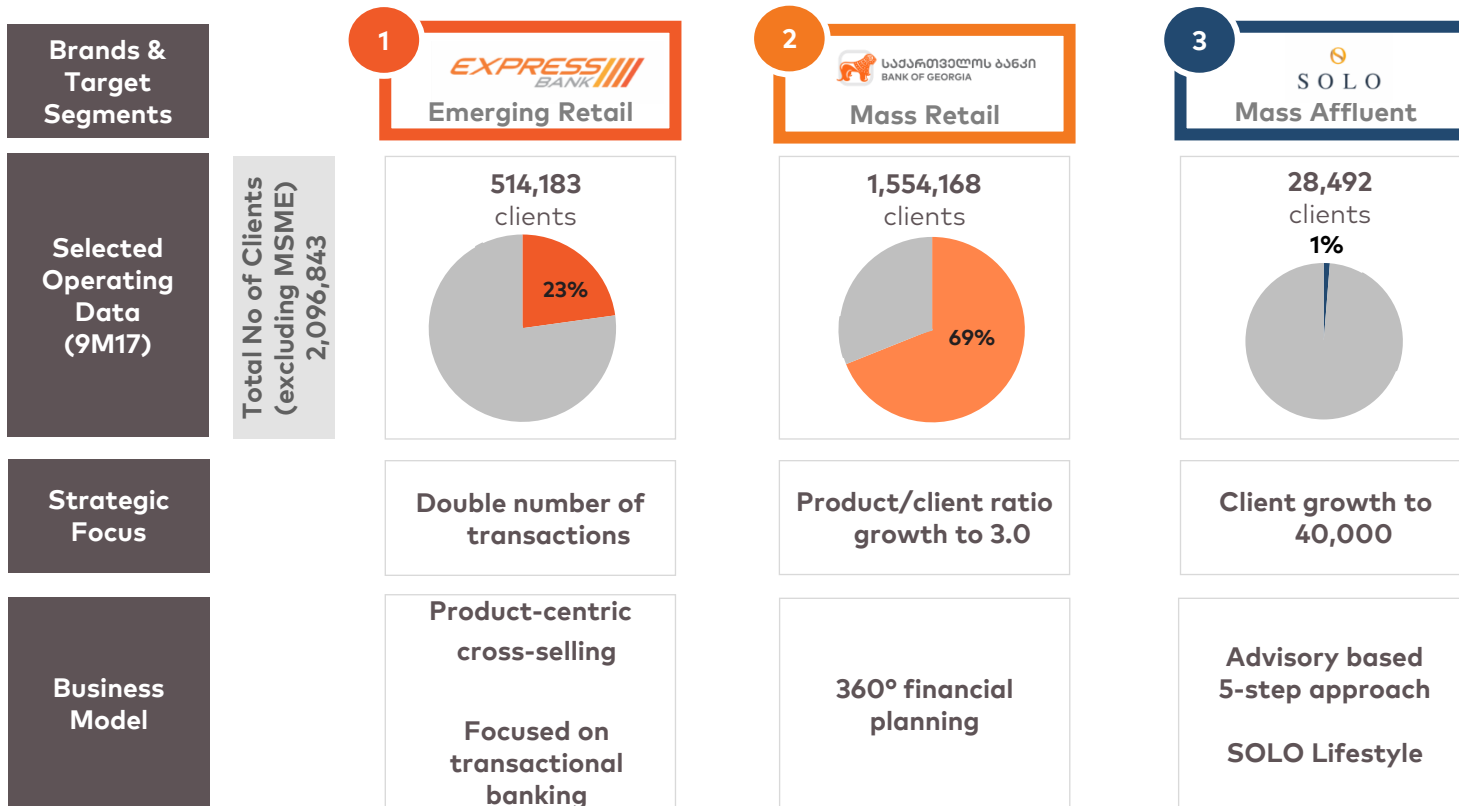
ALLOCATION BY GEOGRAPHY



ALLOCATION BY INVESTOR TYPE



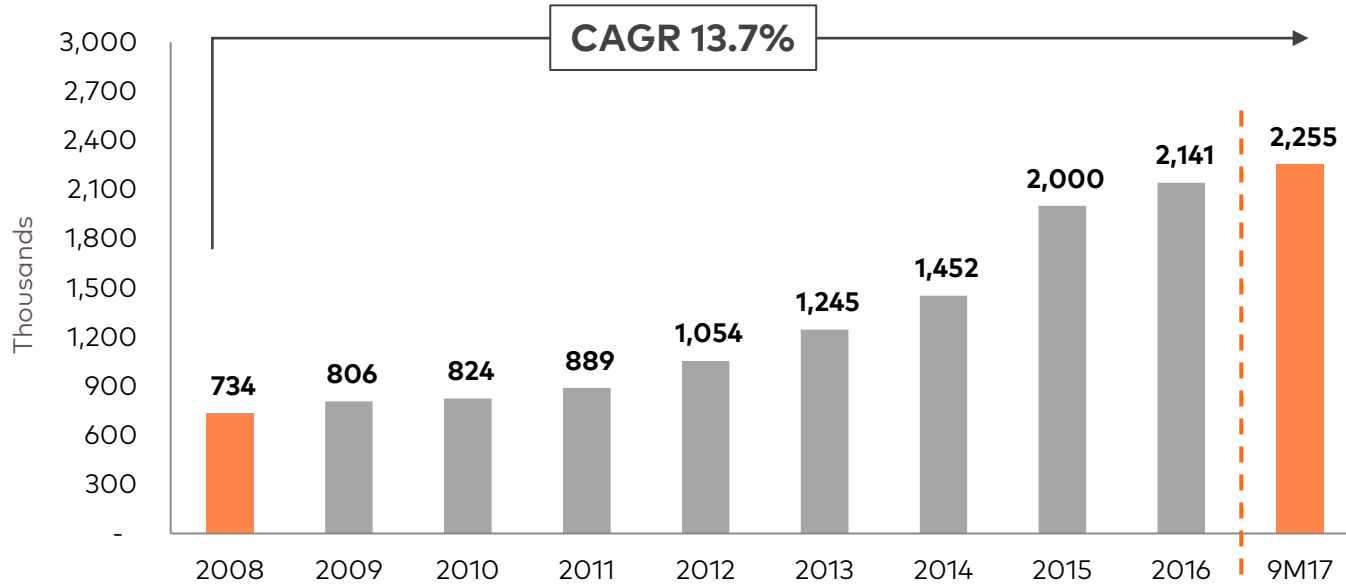
RETAIL BANKING CLIENT-CENTRIC, MULTI-BRAND STRATEGY



OVER 2 MILLION RETAIL CLIENTS



NUMBER OF RETAIL BANKING CLIENTS



Aggressive client acquisition phase is over
We target growth through increasing engagement of existing clients

MSME & CORPORATE BANKING STRATEGIC HIGHLIGHTS



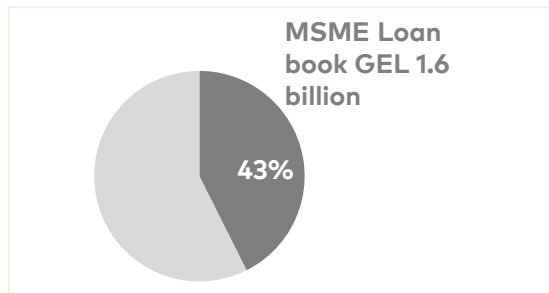
**Brands &
Target
Segments**

**Selected
Operating
Data
(9M17)**

**Strategic
Focus**

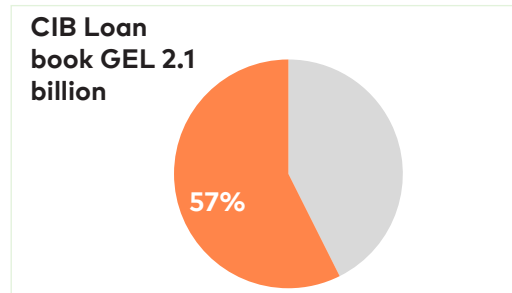
**MSME & CIB Loan
Book
GEL 3.7 billion**

4
MSME
Micro, Small and Medium
Business



- Increase number of clients
- Increase profitability per client
- Organise SME around customers instead of products
- New products and services for SME clients

5
**Corporate Investment
Banking Business**



- Resume loan portfolio growth
- Manage concentration risk
- Grow fee business
- Attract new talents

BUILDING BLOCKS TO BECOME THE FINANCIAL SERVICES HUB



Wealth Management

- **Strong international presence:** Israel (since 2008), UK (2010), Hungary (2012), Turkey (2013) and Cyprus (2017)
- **AUM of GEL 1,818 million**, up 29.1% y-o-y
- **Diversified funding sources:**
 - Georgia 35%
 - Israel 14%
 - UK 4%
 - Germany 2%
 - Other 45%



Brokerage

- **Wide product coverage**



- **Exclusive partner of SAXO Bank** via While Label structure, that provides highly adaptive trading platform with professional tools, insights and world-class execution



Research

- Sector, macro and fixed income coverage
- International distribution



Corporate Advisory

- **Bond placements**
 - "First in corporate bond placements in the Caucasus Region in 2016" – Cbonds
 - More than **GEL 260mIn** local bonds placed in 2017

Sample Transactions



- **Corporate advisory platform**
 - Proven track record of more than 15 completed transactions over the past 8 years

UPDATED GUIDANCE



		Targets
KEY TARGETS	1 ROAE	20%+
	2 Total Banking Business loan book growth	15% - 20%
PRIORITIES	1 Increase Mass Retail product to client ratio	3.0
	2 Increase number of Solo clients	To 40,000
	3 Become a regional private banking hub	AUM: GEL 2.5bln
FINANCIAL METRICS	1 NIM	7%+
	2 Cost / income	~35%
	3 NPL coverage ratio	80-120%
	4 Cost of risk (through the cycle)	2.0%
	5 Dividend payout ratio	25-40%

BANKING BUSINESS SUMMARY



#1 in terms of Net Interest Income

#1 in terms of Net Fee and Commission Income

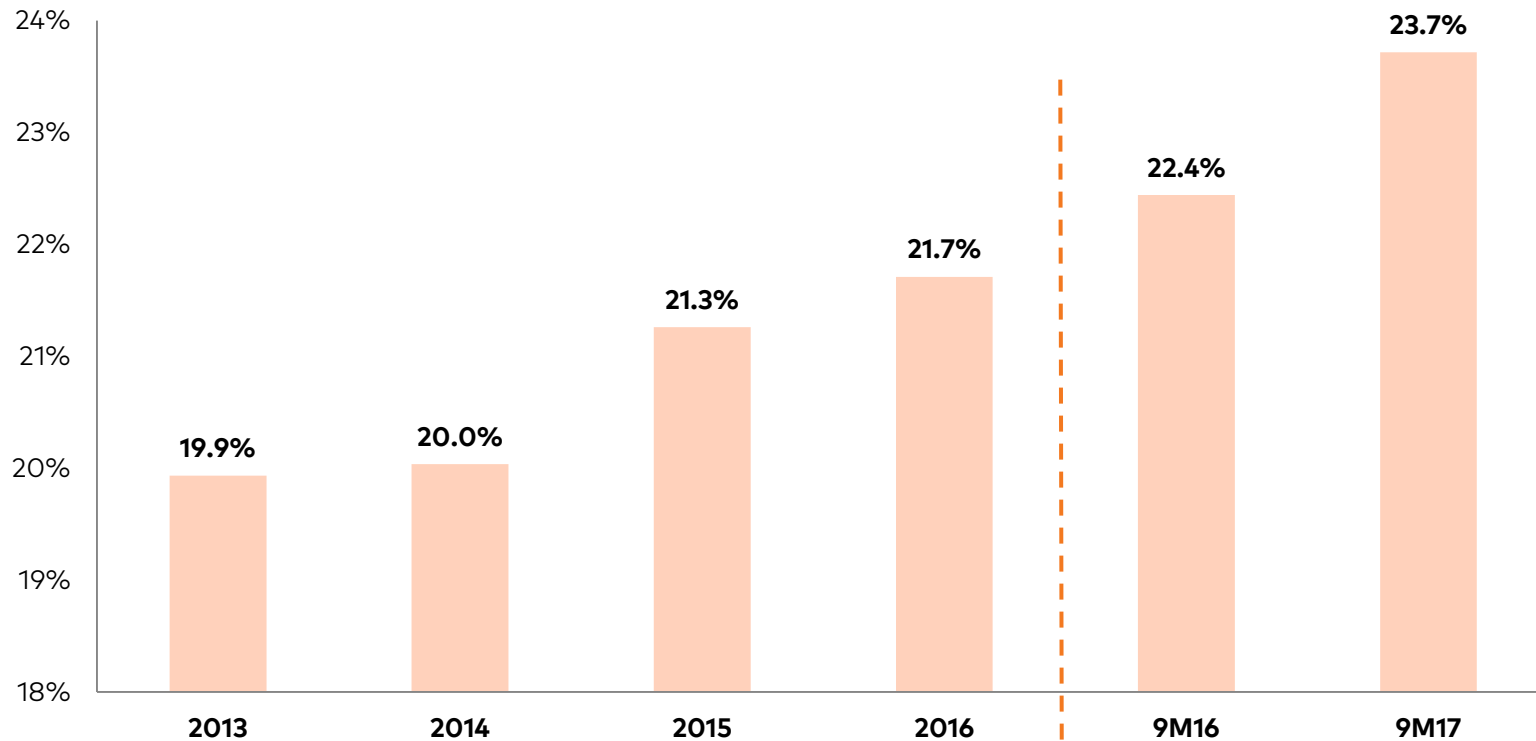
#1 most cost efficient with 37.5% Cost/Income ratio

#1 in terms of Net Income

OUTSTANDING ROAE



ROAE





BANK OF GEORGIA

QUESTIONS?

BGEO Investor Day
9 November 2017
Tbilisi, Georgia

DISCLAIMER – FORWARD LOOKING STATEMENTS



This presentation contains forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although BGE Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, include, among other things: currency fluctuations, including depreciation of the Georgian Lari, and macroeconomic risk; corporate loan portfolio exposure risk; regional tensions; regulatory risk; cyber security, information systems and financial crime risk; investment business strategy risk; and other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this presentation and in our past and future filings and reports, including the 'Principal Risks and Uncertainties' included in BGE Group PLC's Annual Report and Accounts 2016 and in its Half Year 2017 Results announcement. No part of this presentation constitutes, or shall be taken to constitute, an invitation or inducement to invest in BGE Group PLC or any other entity, including any future entity such as BGE Investments PLC or Bank of Georgia PLC, and must not be relied upon in any way in connection with any investment decision. BGE Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this presentation should be construed as a profit forecast.