



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

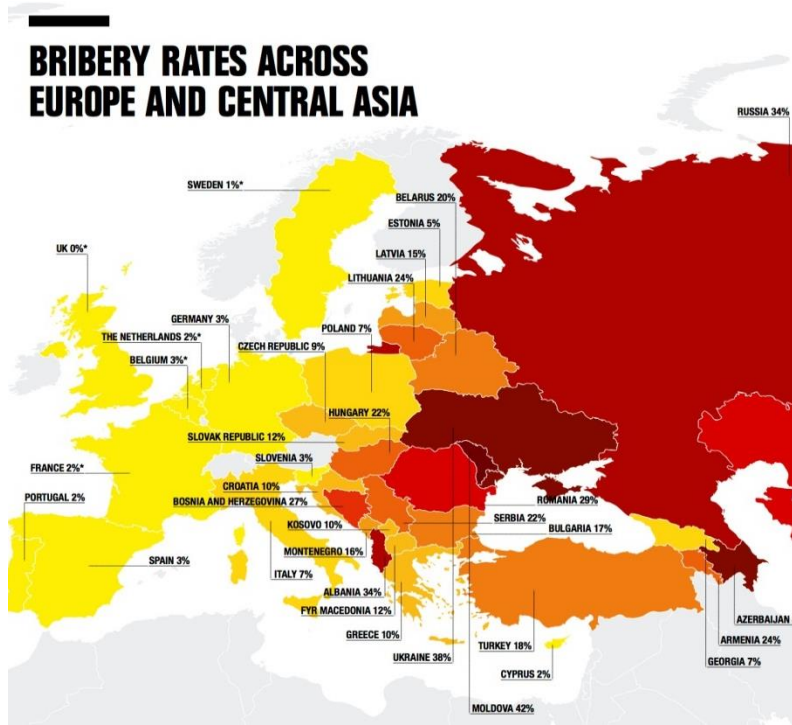


- **Macroeconomic overview**
- **Banking industry highlights**
- **Banking Business performance update – 3Q17 & 9M17**
- **Banking Business targets and priorities**
- **Q&A**

# ATTRACTIVE PLACE TO DO BUSINESS

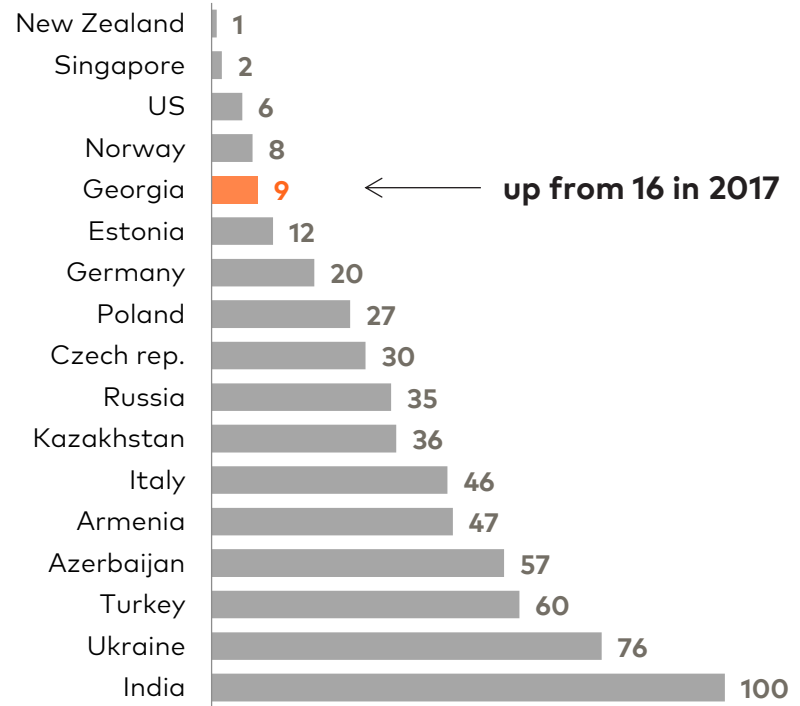


## Global Corruption Barometer 2016



Source: Transparency International

## Doing Business Ranking, 2018

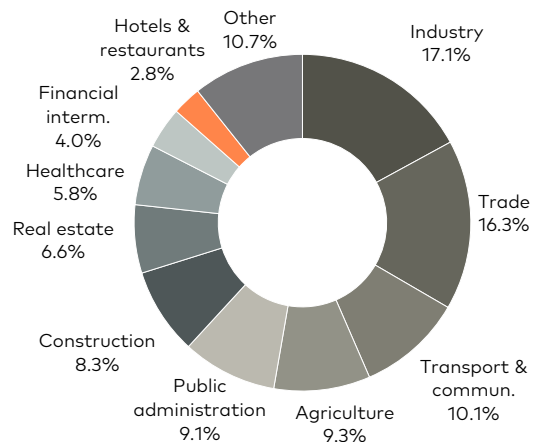


Source: The World Bank

# DIVERSIFIED ECONOMY BY SECTORS AND REGIONS

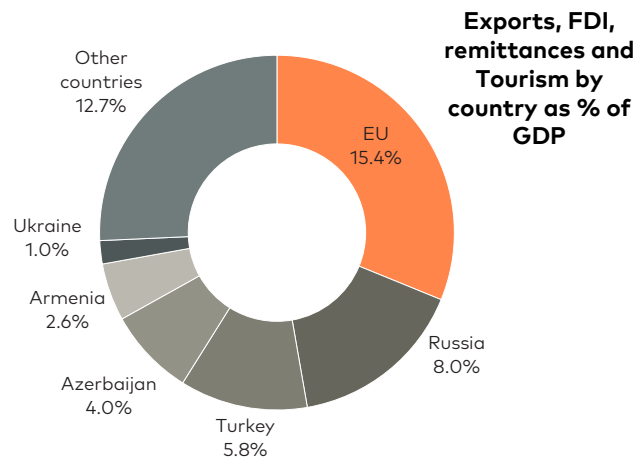


## Diversified GDP structure, 2016



- 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

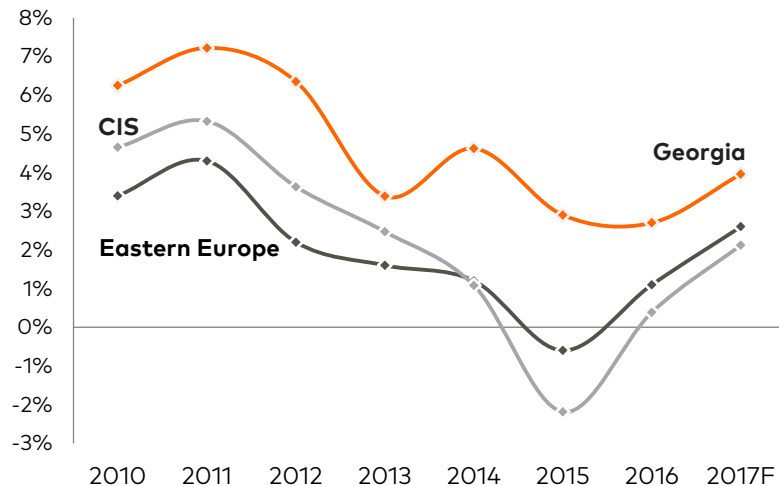
Source: GeoStat

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

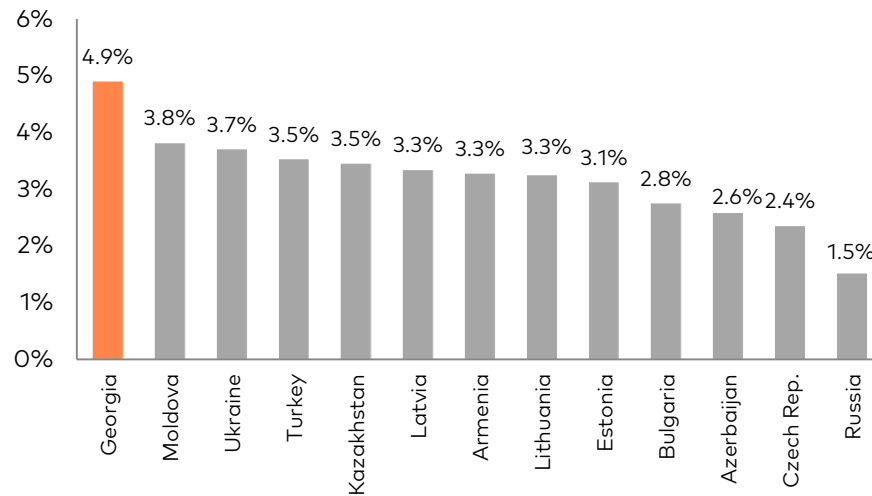
# HIGHER BASELINE GROWTH OF THE ECONOMY



## Historical GDP Growth, Georgia vs. Region



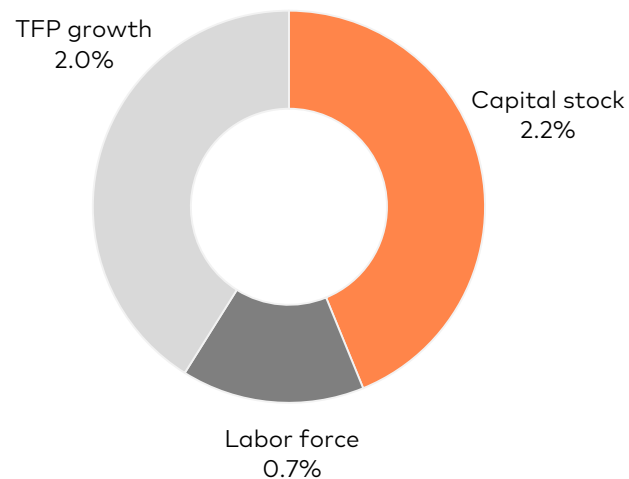
## IMF's GDP growth projections, 2018-22 average



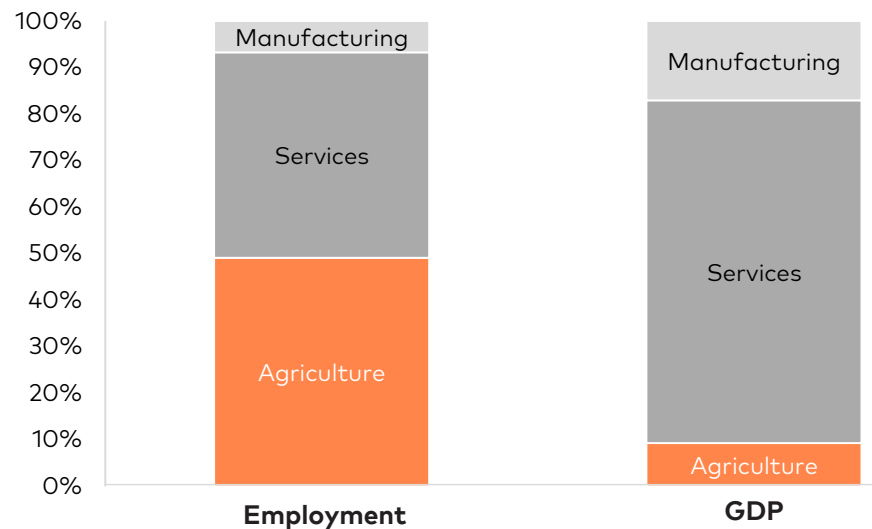
# POTENTIAL FOR CONTINUED PRODUCTIVITY IMPROVEMENT



## Contribution to growth, 2006-16



## Employment and GDP by sector, 2016



Source: GeoStat, G&T calculations

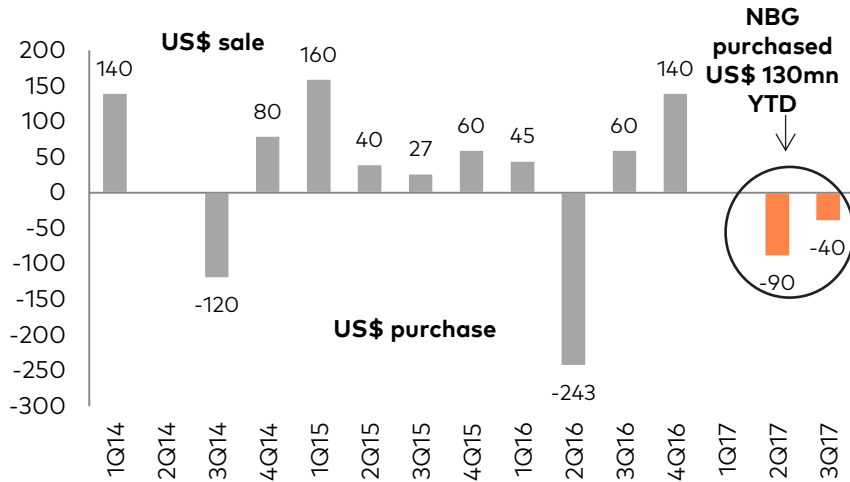
Note: Total Factor Productivity (TFP) determines how efficiently and intensely the inputs (capital, labor) are utilized in production

Source: GeoStat

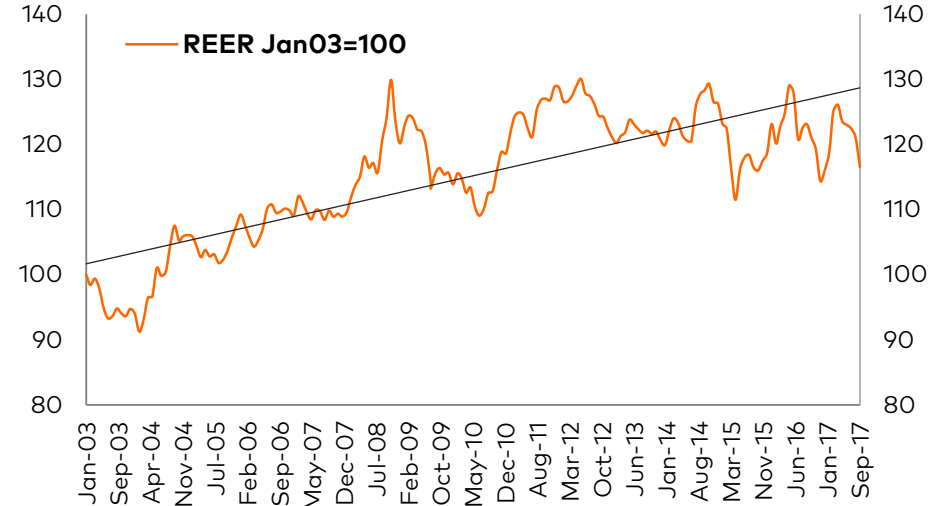
# LARI'S FLEXIBLE EXCHANGE RATE REGIME



## Limited and efficient FX interventions



## Exchange rate remains competitive



Source: NBG

# CONTENT



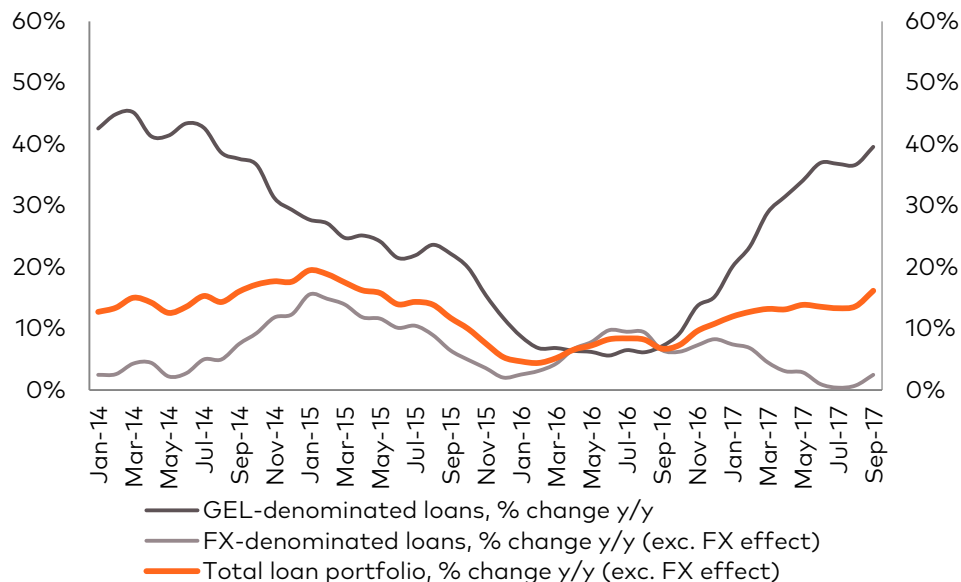
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# ROOM FOR FURTHER CREDIT GROWTH



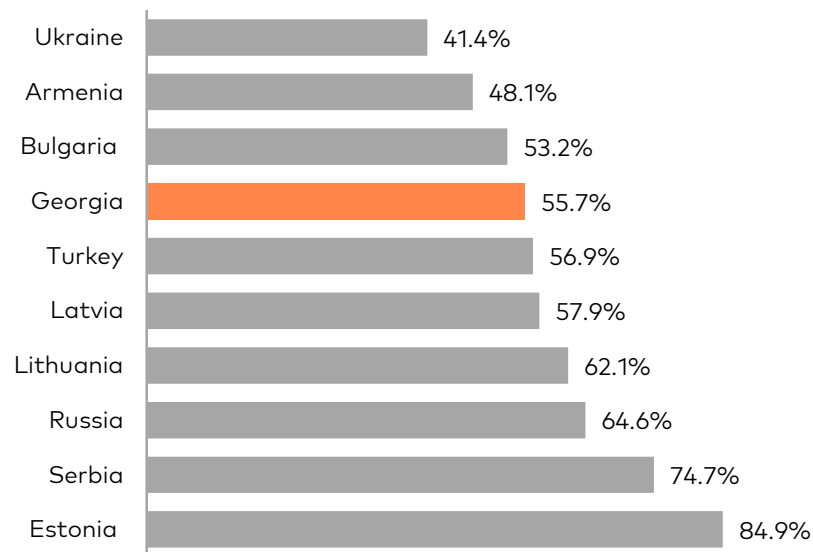
## Banking sector loan portfolio growth



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

Source: NBG

## Banking Penetration (Sector Loans to GDP)

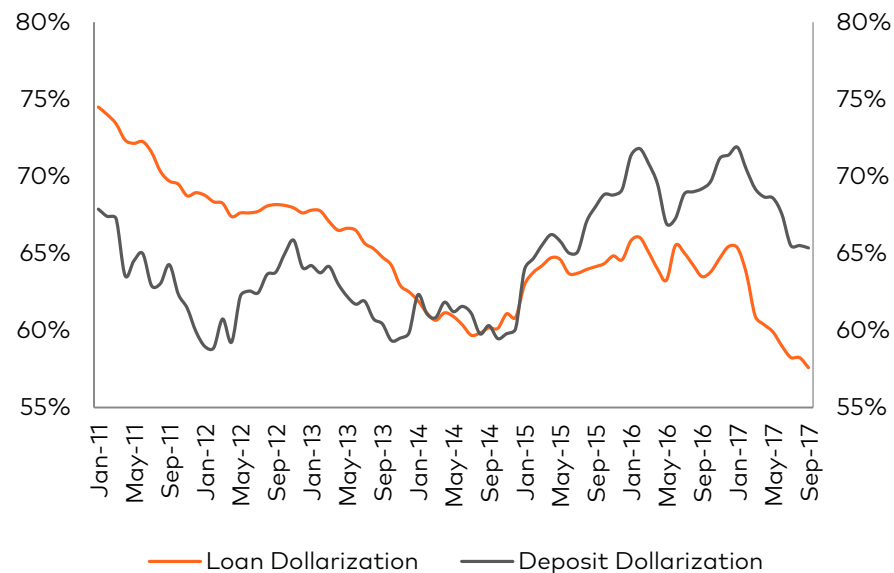


Source: Central Banks, IMF, as of 31 Dec 2016

# PRUDENTLY MANAGED BANKING SECTOR

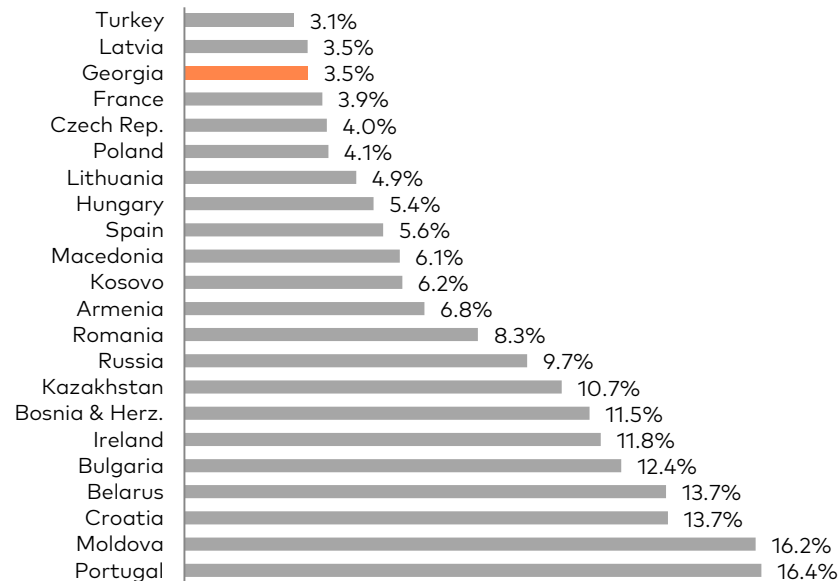


## Gradual de-dollarisation with NBG's 10-point plan



Source: NBG

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



Source: IMF

# REGULATORY CHANGES (1/2)



	DESCRIPTION	IMPACT
1 <b>Liquidity Coverage Ratio (LCR)</b>	<ul style="list-style-type: none"><li>- Effective from 1 September 2017</li><li>- Total LCR <math>\geq</math>100%, LC <math>\geq</math>75%, FC <math>\geq</math>100%</li></ul>	<ul style="list-style-type: none"><li>- No material impact expected</li></ul>
2 <b>Basel III Macroprudential Tools</b>	<ul style="list-style-type: none"><li>- Effective from 10 August 2017</li><li>- Caps on PTI and LTV ratios introduced</li></ul>	<ul style="list-style-type: none"><li>- RWA increase in 2018: ~GEL 77mln</li><li>- Tier I capital: ~7bps increase</li></ul>
3 <b>Deposit Insurance Scheme</b>	<ul style="list-style-type: none"><li>- Effective from 1 January 2018</li><li>- Insured deposits - up to GEL 5,000</li></ul>	<ul style="list-style-type: none"><li>- Additional insurance expense in 2018: ~GEL 4mln</li><li>- Cost of funds increase: ~4bps</li></ul>
4 <b>Larisation Initiatives</b>	<ul style="list-style-type: none"><li>- Effective 15 January 2017</li><li>- Ban on FC lending - loans up to GEL100,000</li></ul>	<ul style="list-style-type: none"><li>- Local currency denominated loans up to 39% in Sep-17 from 30% a year ago</li></ul>



## 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.

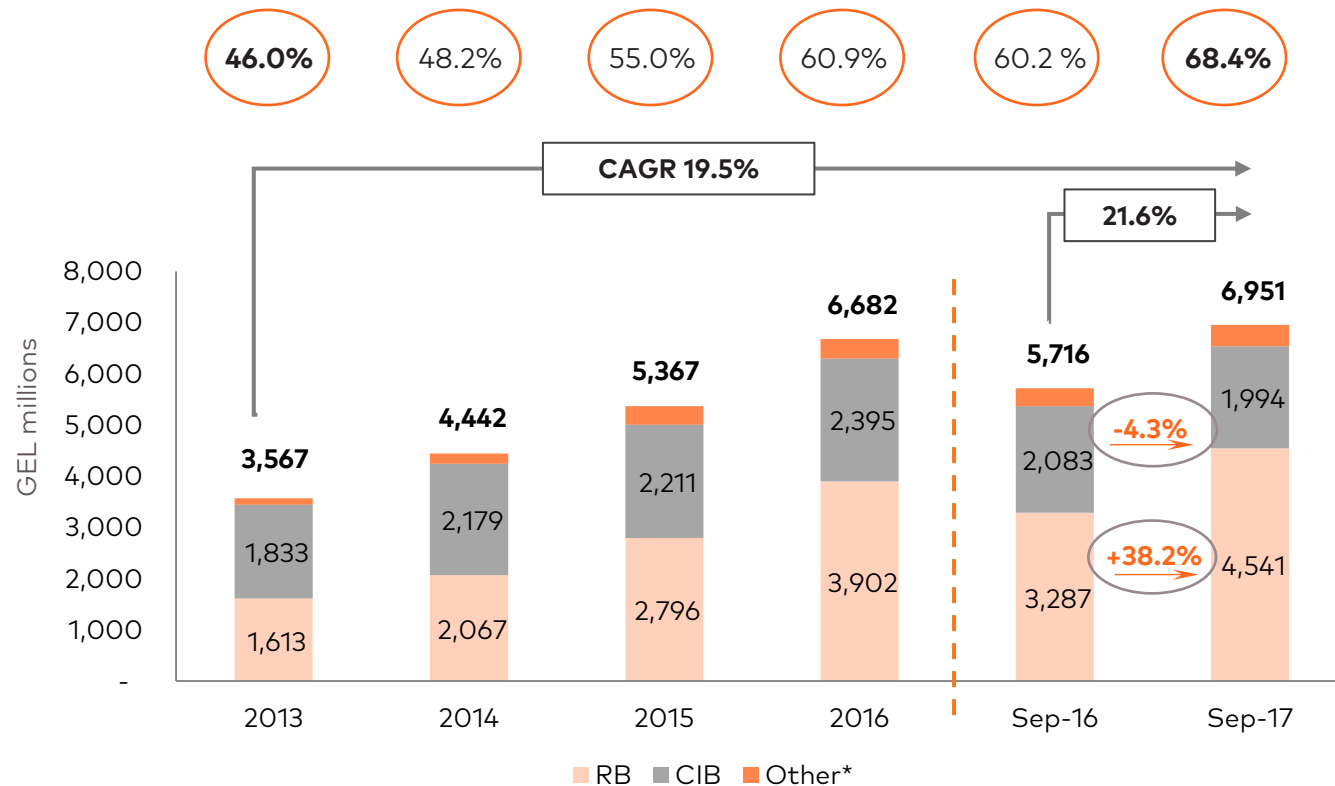
**Transition to Basel III is not expected to affect our growth prospects or our ability to maintain dividends within the guided range**

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# STRONG LOAN BOOK GROWTH

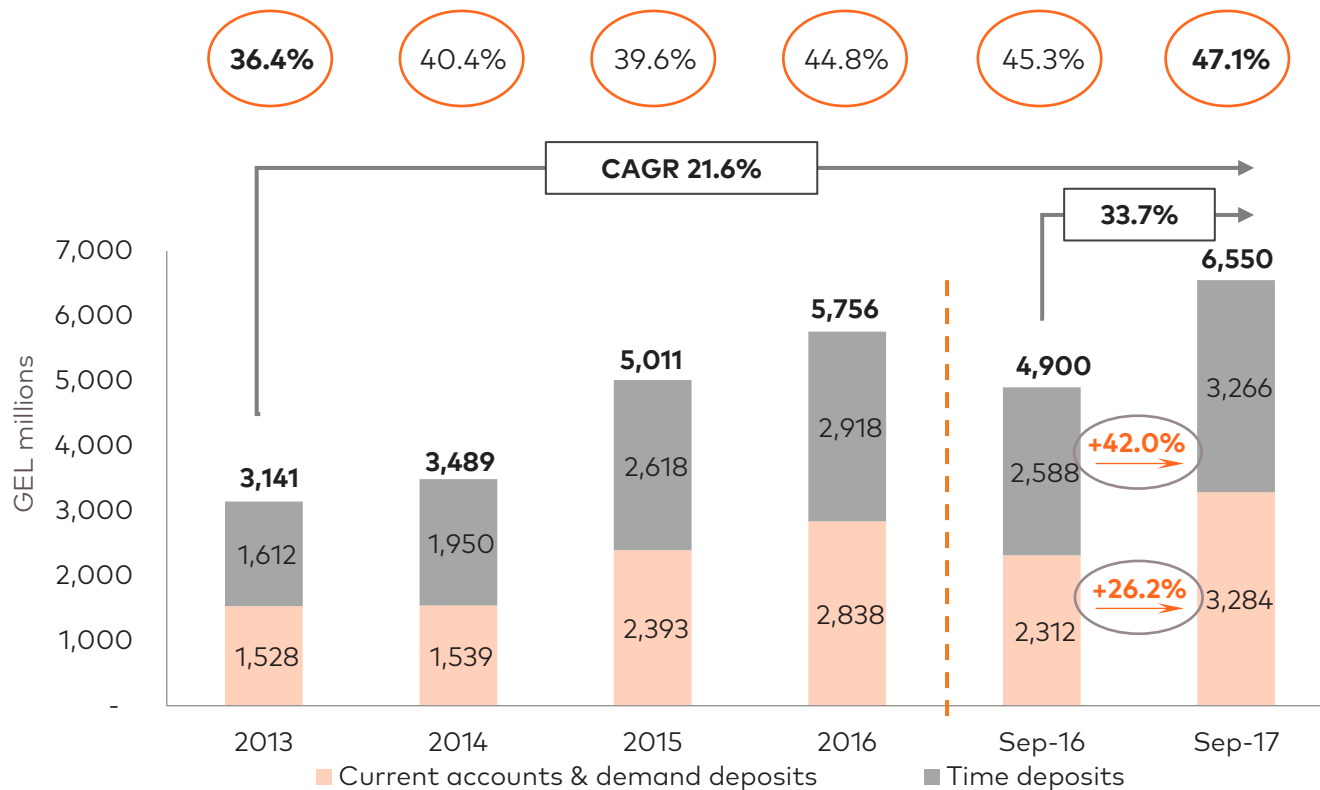


GROWING SHARE OF RB LOANS

RB LOAN BOOK'S SHARE TARGET OF 65% ACHIEVED

\*Other mainly includes BNB, GLC and Banking Business eliminations

# ...AND DEPOSIT GENERATION

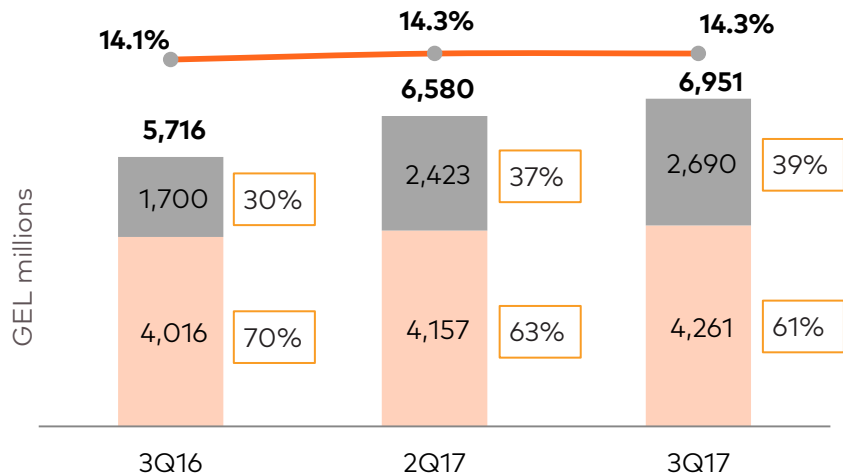


GROWING SHARE OF RB DEPOSITS

# YEAR OF DE-DOLLARISATION

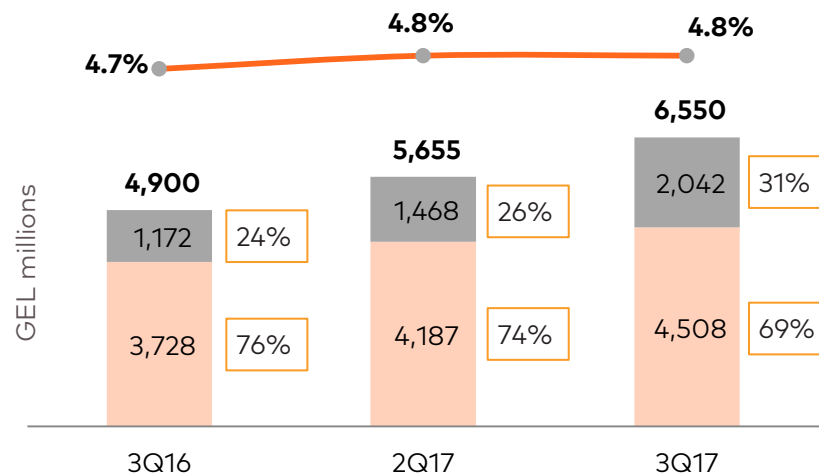


## LOANS & LOAN YIELDS



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

## CLIENT DEPOSITS & COST OF FUNDS



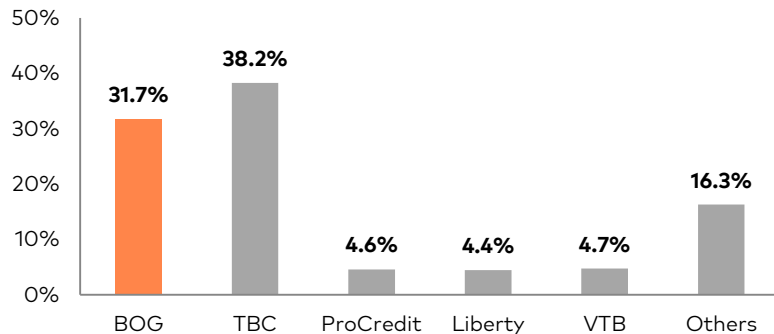
- Client deposits and notes, GEL
- Client deposits and notes, FC
- Cost of Funds, currency blended
- Share in total deposits



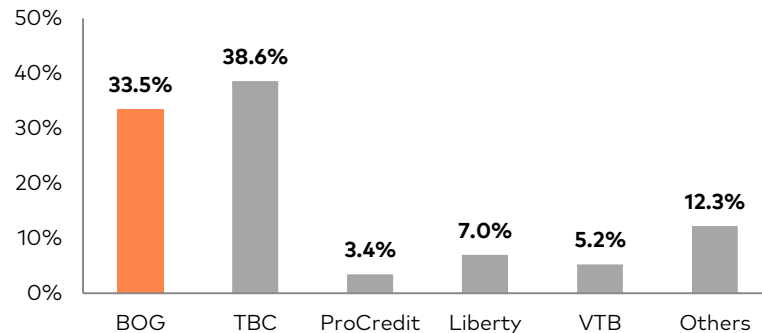
# STRONG COMPETITIVE POSITION



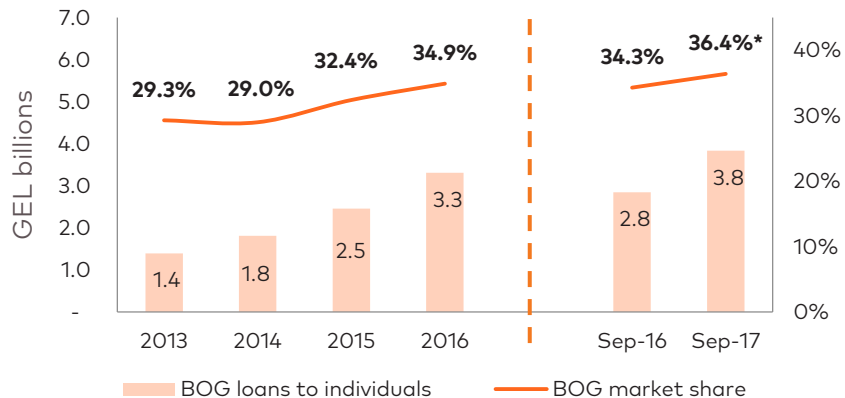
## GROSS LOANS



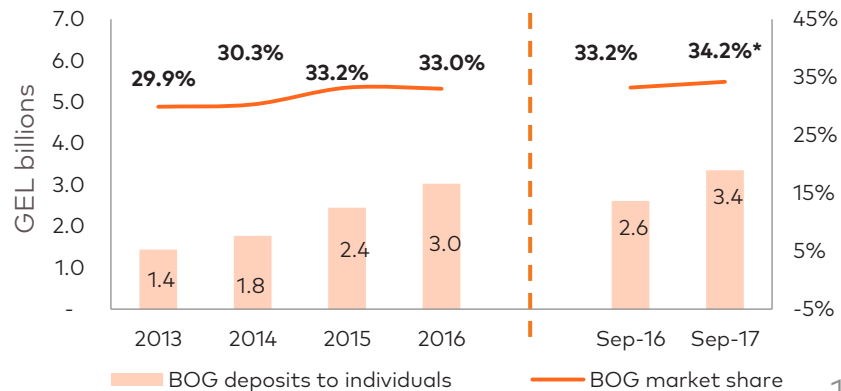
## CLIENT DEPOSITS



## LOANS TO INDIVIDUALS



## DEPOSITS TO INDIVIDUALS



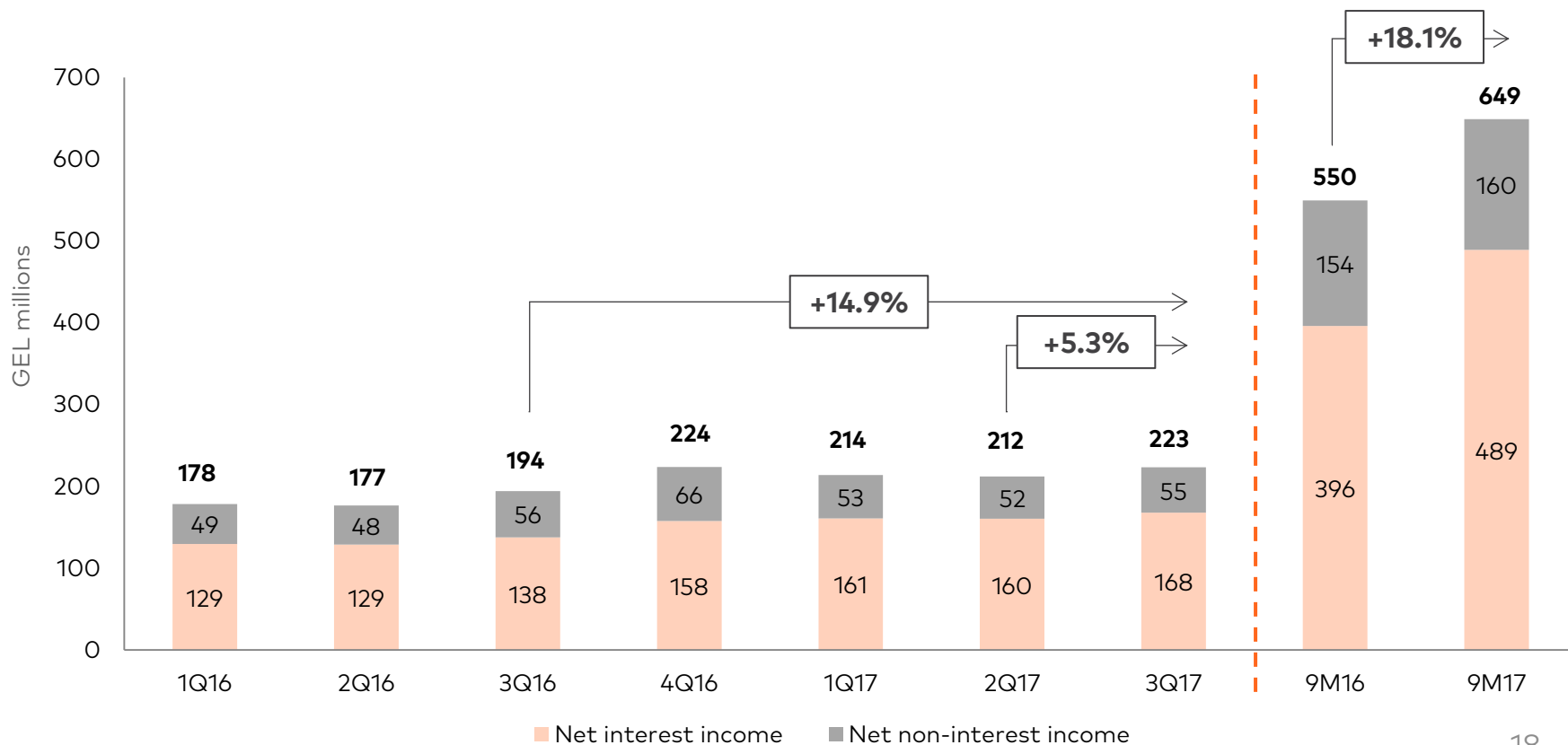
\* Excluding Credo Bank, which registered as a bank in 1Q 2017

Source: NBG

# SOLID BANKING REVENUE GROWTH



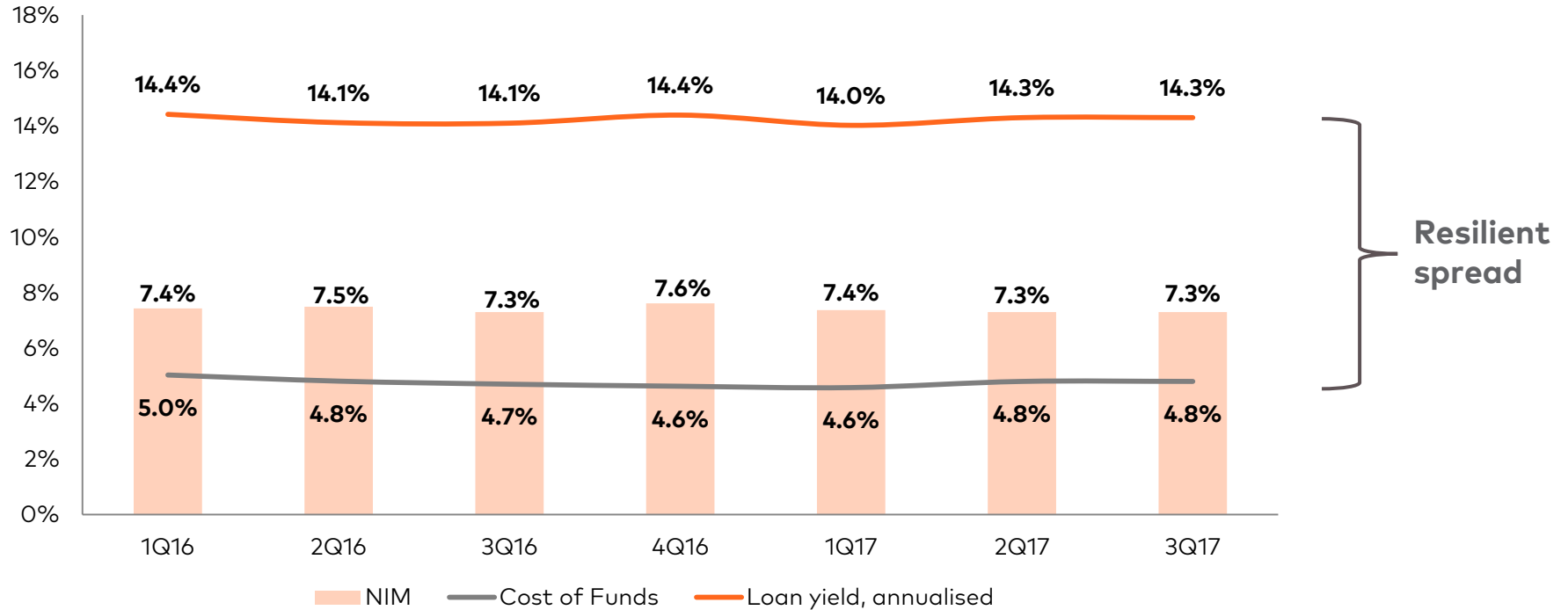
## REVENUE



# STABLE MARGINS



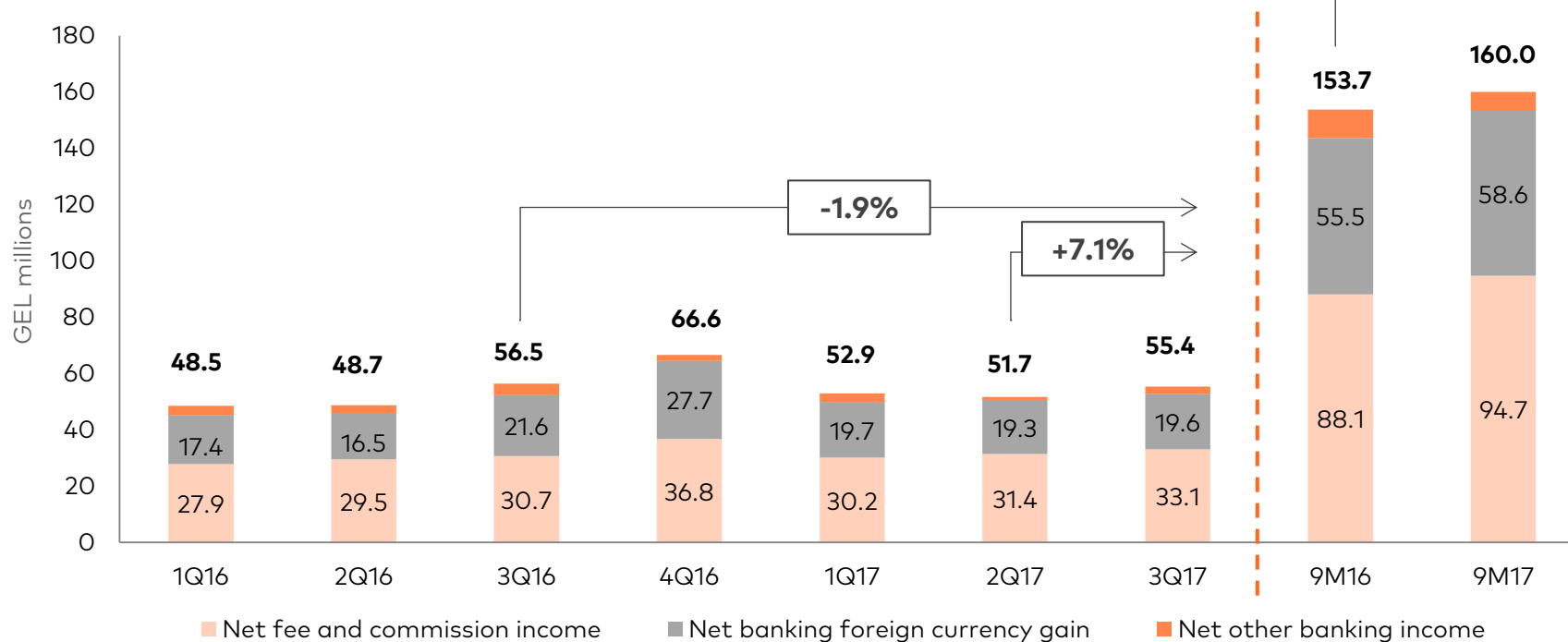
## NIM, LOAN YIELD & COST OF FUNDING



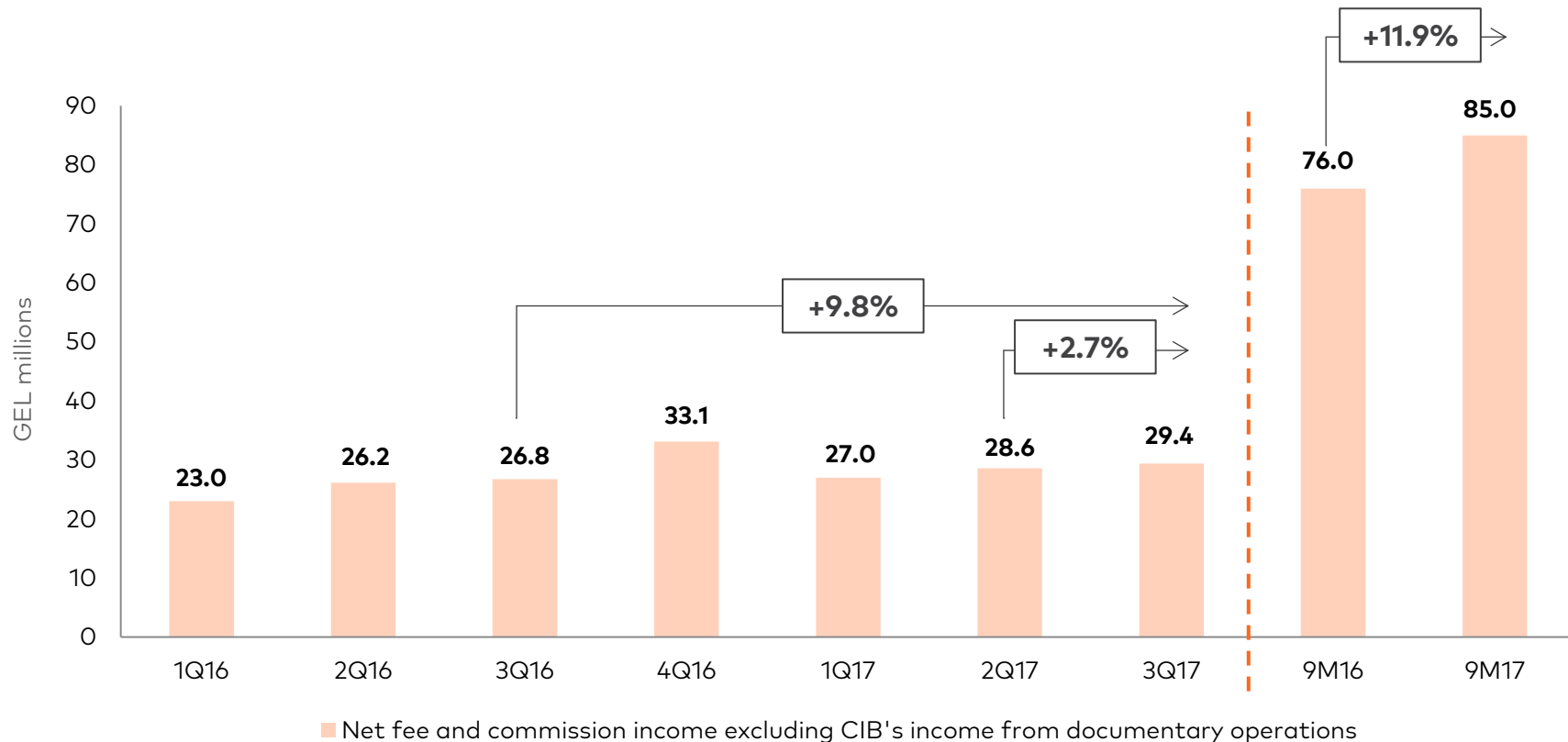
# SOLID BANKING REVENUE GROWTH



## NET NON-INTEREST INCOME



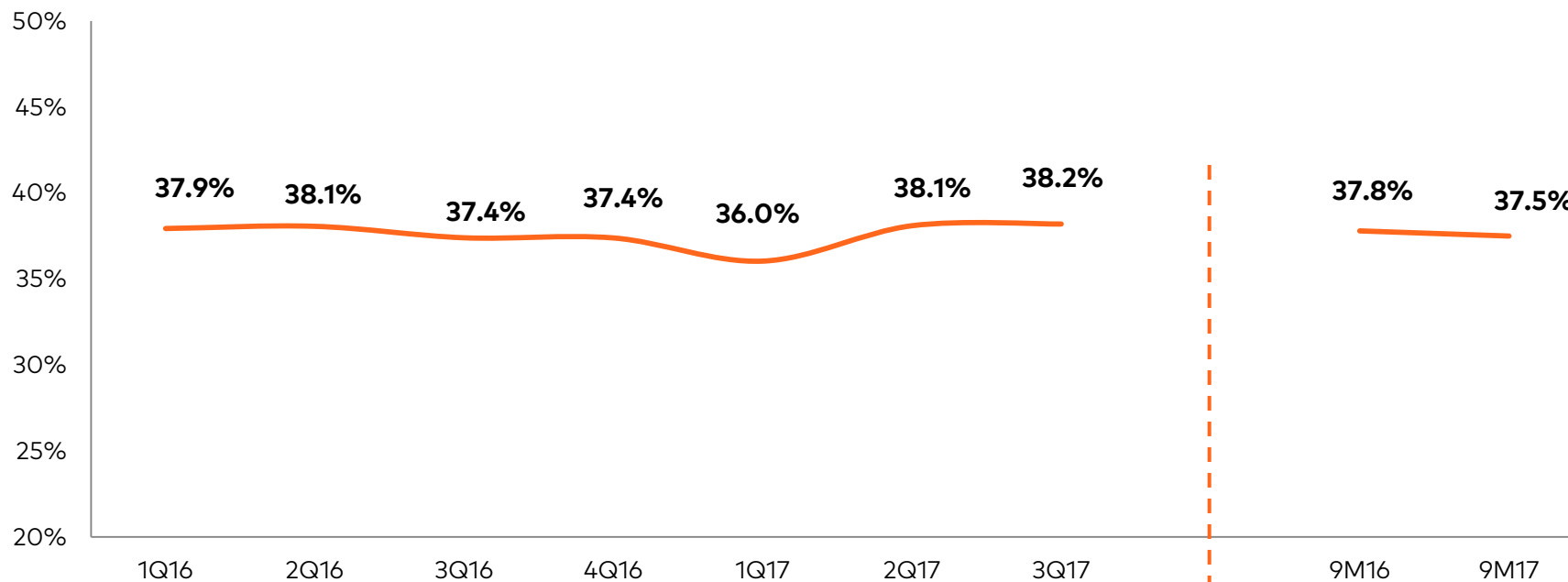
# SOLID NET FEE AND COMMISSION INCOME GROWTH



# FOCUS ON EFFICIENCY



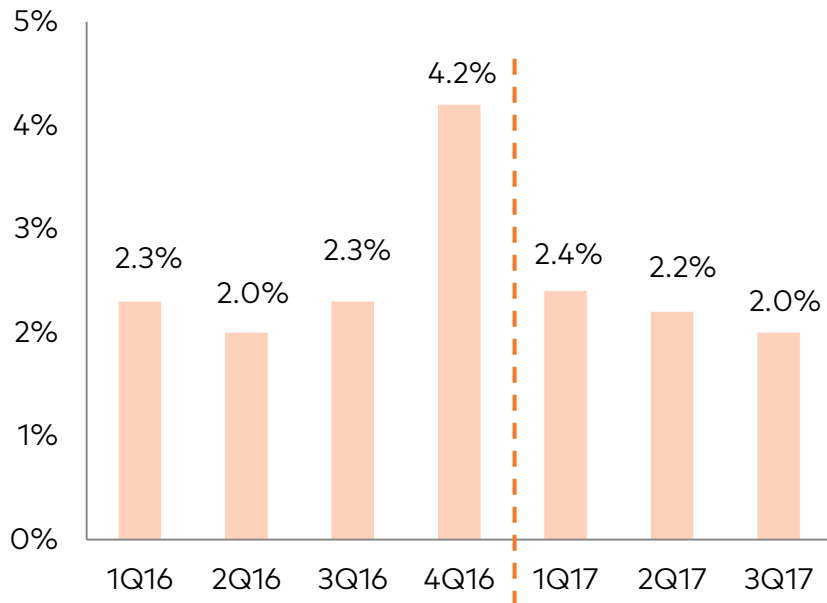
## COST / INCOME RATIO



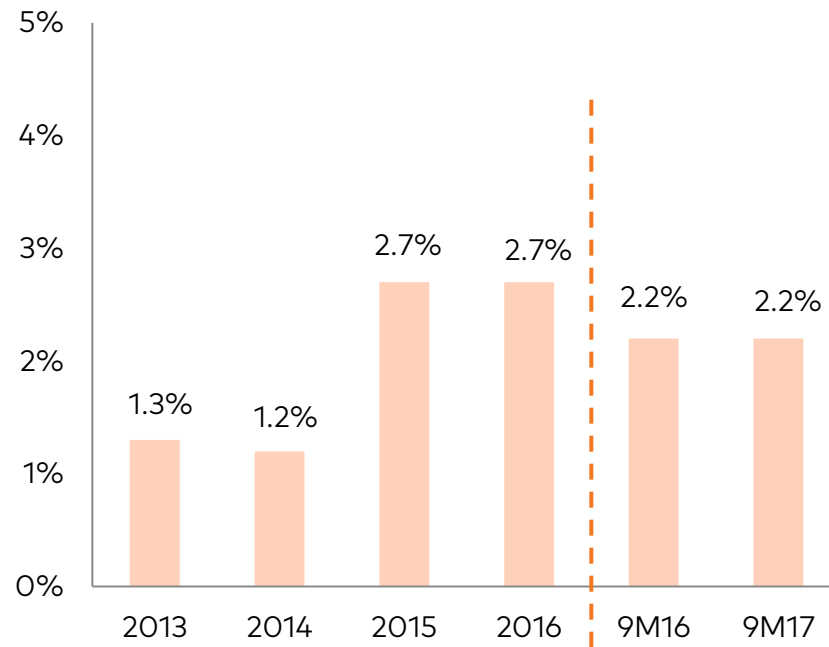
# IMPROVED LOAN PORTFOLIO QUALITY (1/2)



## COST OF RISK RATIO, QUARTERLY



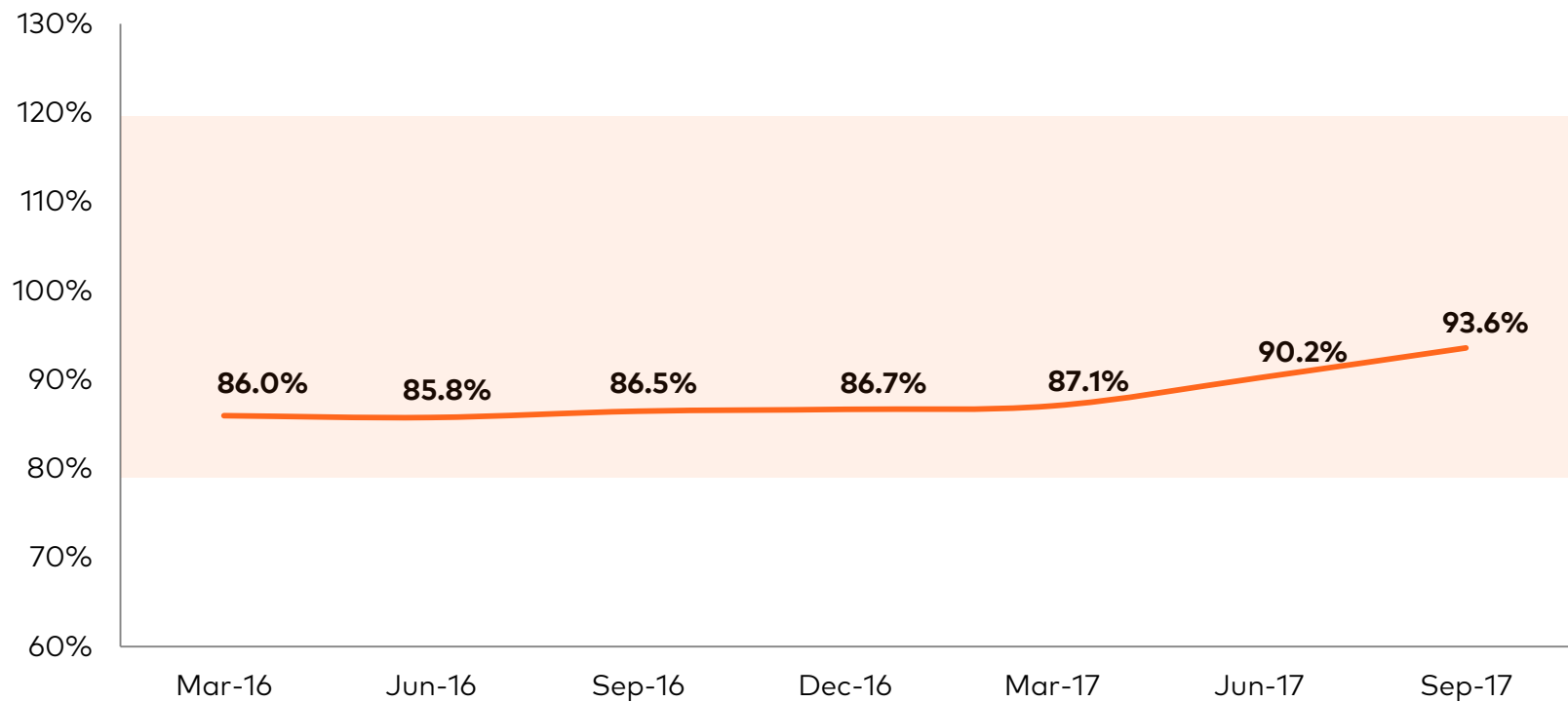
## COST OF RISK RATIO, YEAR TO DATE



# IMPROVED LOAN PORTFOLIO QUALITY (2/2)



## NPL COVERAGE RATIO



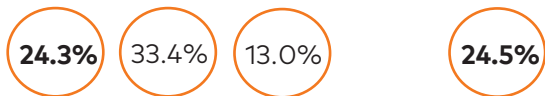


# RETAIL BANKING DRIVING GROWTH AND PROFITABILITY



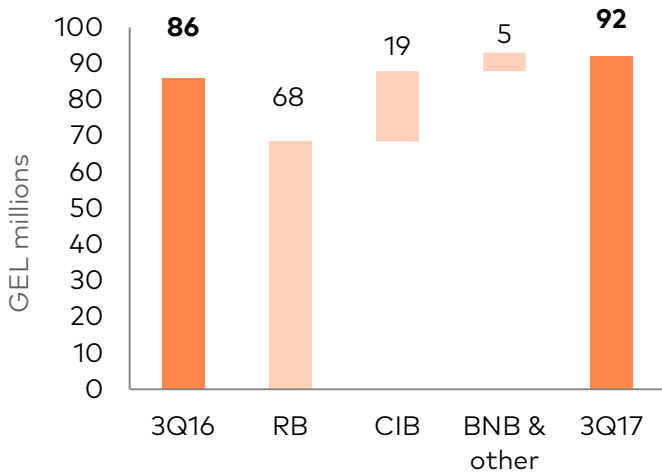
## Quarterly

ROAE:

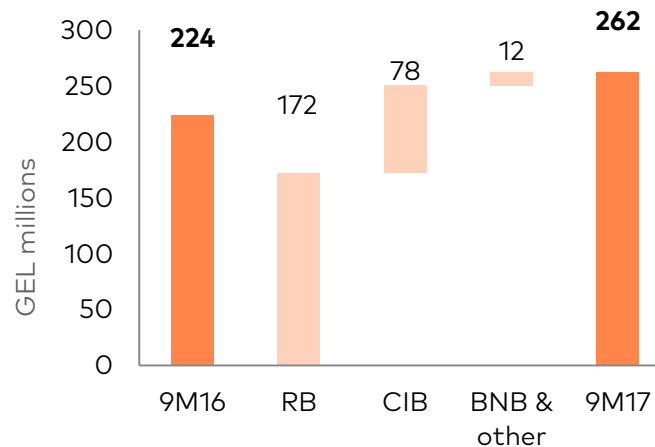
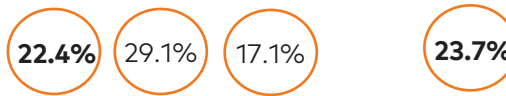


PROFIT:

Growth (y-o-y):



## Nine-month

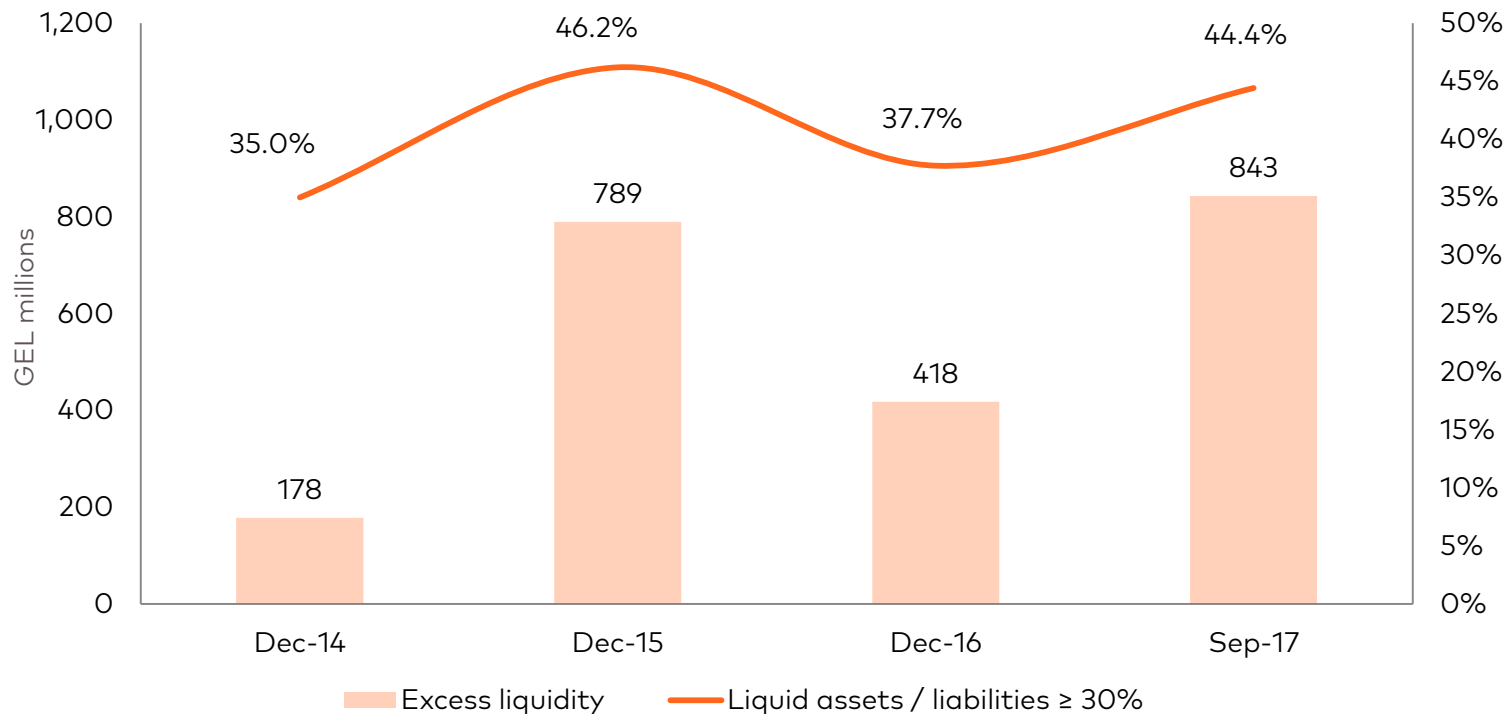


# STRONG LIQUIDITY



## LIQUIDITY RATIO

BOG Standalone

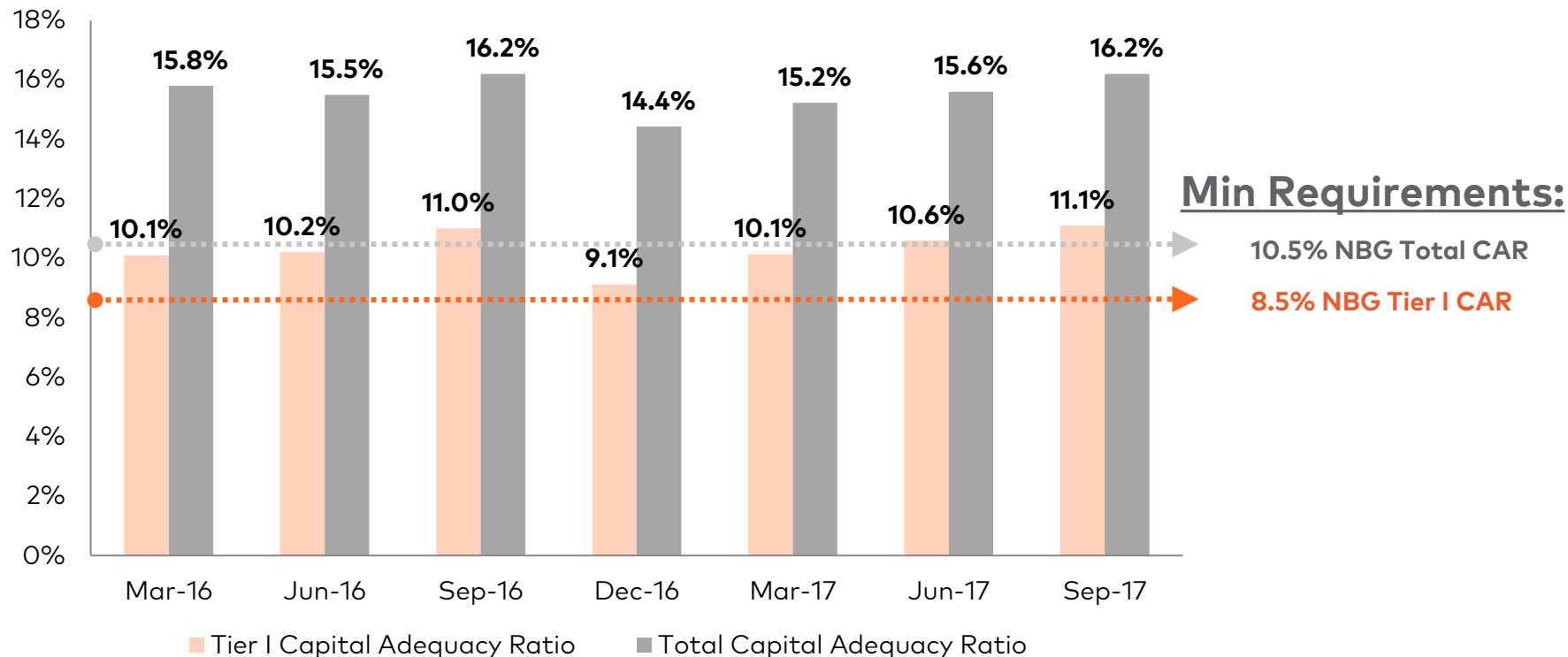


# EXCELLENT CAPITAL ADEQUACY POSITION



## CAPITAL ADEQUACY RATIOS

BOG Standalone



# CONTENT



- **Macroeconomic overview**
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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

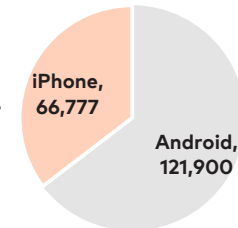
- **Sole provider** of payment support services to the public transportation network for another **ten years**
- **+2.1 million** transactions per month
- **Additional revenue** stream from **other banks'** card transactions



### 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

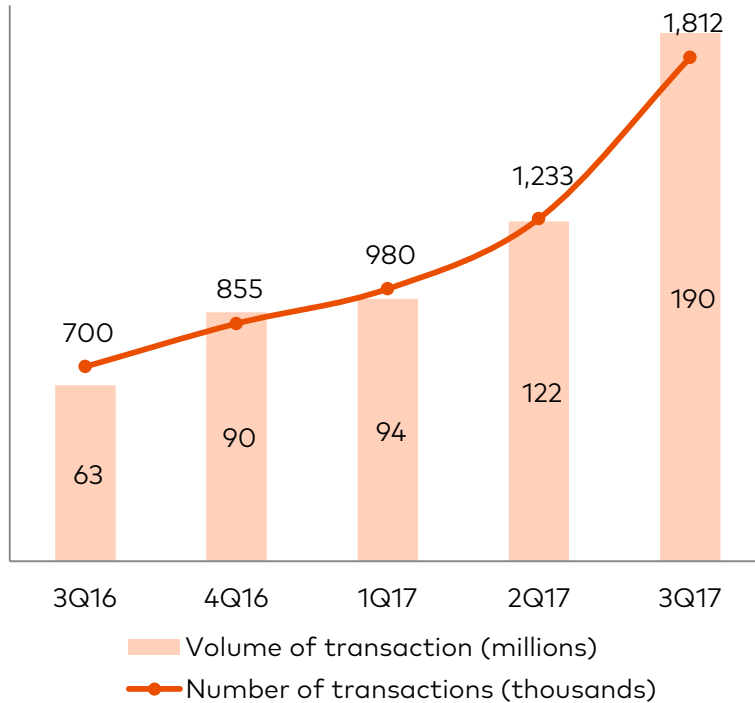
**188,677** mBank  
downloads since  
June



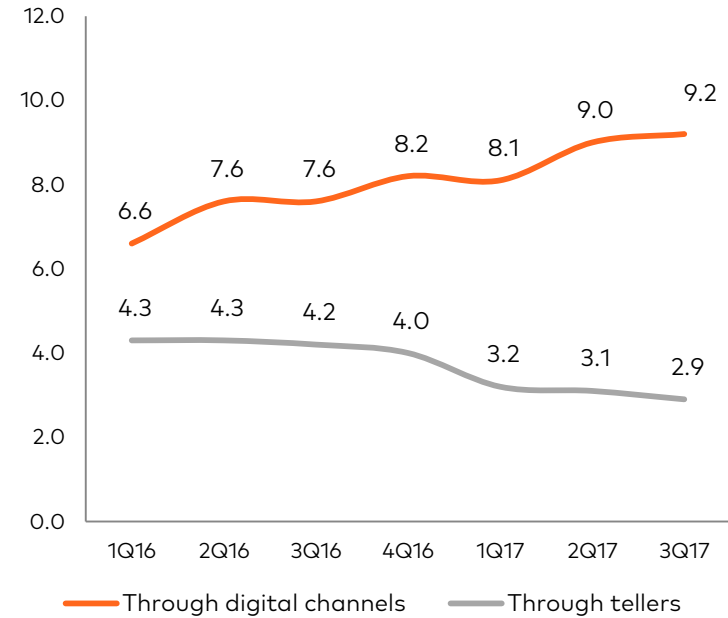
# DIGITAL PENETRATION



## 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)

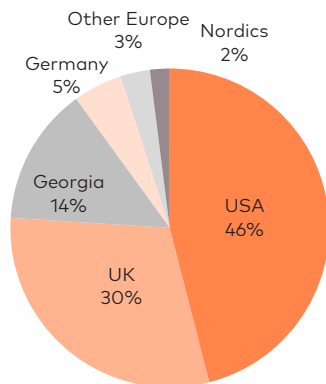


## BANK OF GEORGIA 500MLN GEL INNAUGURAL LARI EUROBOND ISSUANCE

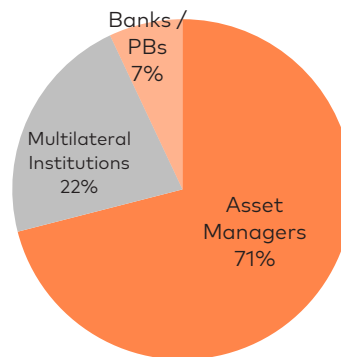


<b>Notes</b>	GEL 500 million, 3 year, 11.00% Eurobonds payable in U.S.\$
<b>Listing</b>	Irish Stock Exchange
<b>Notes rating</b>	Moody's Ba3 / Fitch BB-
<b>Joint Lead Managers / Bookrunners</b>	J.P. Morgan, Renaissance Capital
<b>Co-Manager</b>	JSC Galt & Taggart

### ALLOCATION BY GEOGRAPHY



### ALLOCATION BY INVESTOR TYPE



# RETAIL BANKING CLIENT-CENTRIC, MULTI-BRAND STRATEGY



Brands & Target Segments

Selected Operating Data (9M17)

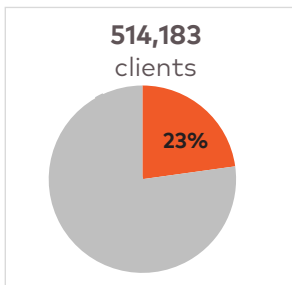
Strategic Focus

Business Model

Total No of Clients (excluding MSME) 2,096,843

1

**Emerging Retail**



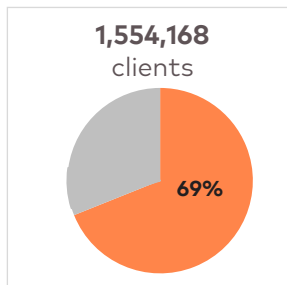
Double number of transactions

Product-centric cross-selling

Focused on transactional banking

2

**Mass Retail**

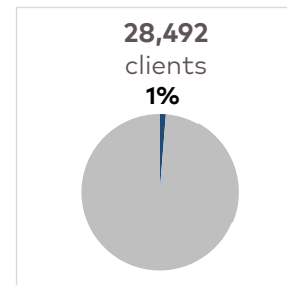


Product/client ratio growth to 3.0

360° financial planning

3

**SOLO Mass Affluent**



Client growth to 40,000

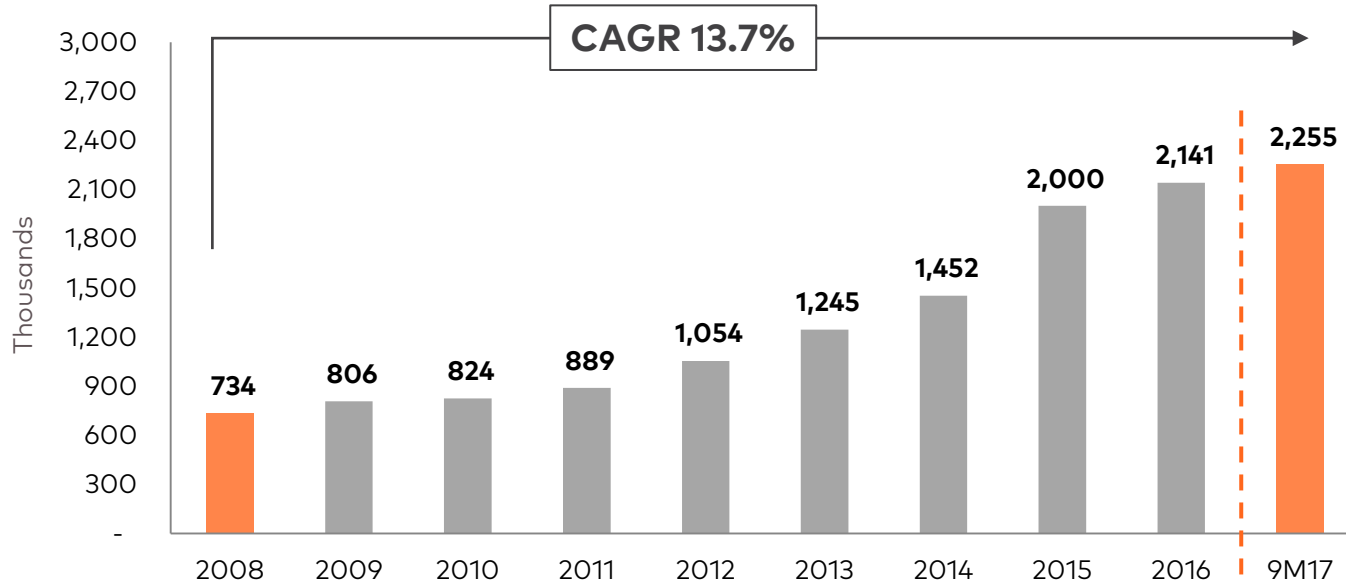
Advisory based 5-step approach

SOLO Lifestyle

# 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**

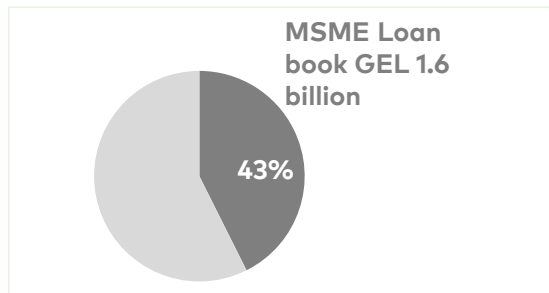
**Selected  
Operating  
Data  
(9M17)**

**Strategic  
Focus**

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

**4**

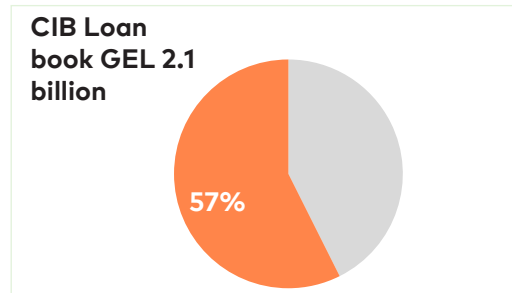
**MSME**  
Micro, Small and Medium  
Business



- 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

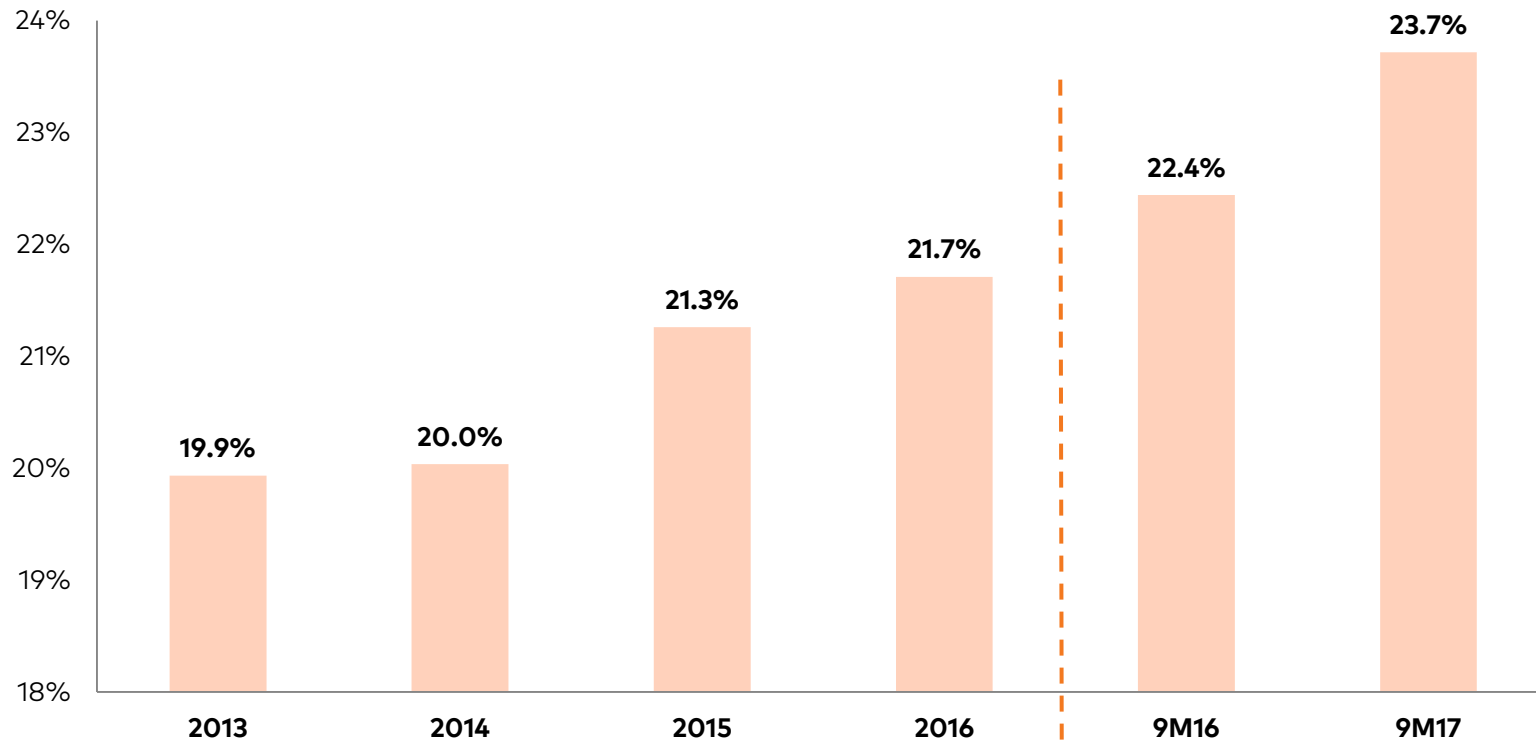
**#1** in terms of Net Income



# OUTSTANDING ROAE



## ROAE





BANK OF GEORGIA

# QUESTIONS?

BGEO Investor Day  
9 November 2017  
Tbilisi, Georgia

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