# Bank of Georgia Group PLC

4th quarter and full year 2018 preliminary results

**Name of authorised official of issuer responsible for making notification:**
**Natia Kalandarishvili, Head of Investor Relations and Funding**

**www.bankofgeorgiagroup.com**

# About Bank of Georgia Group PLC

**The Group:** Bank of Georgia Group PLC (“**Bank of Georgia Group**” or the “**Group**” – LSE: **BGEO LN**) is a UK incorporated holding company, the new parent company of BGEO Group PLC. The Group combined a **Banking Business** and an **Investment Business** prior to the Group demerger on 29 May 2018, which resulted in the Investment Business’s separation from the Group effective from 29 May 2018.

The **Group** comprises: a) retail banking and payment services, b) corporate investment banking and wealth management operations, and c) banking operations in Belarus (“**BNB**”). JSC Bank of Georgia (“**Bank of Georgia**”, “**BOG**” or the “**Bank**”), the leading universal bank in Georgia, is the core entity of the Group. The Group targets to benefit from superior growth of the Georgian economy through both its retail banking and corporate investment banking services and aims to deliver on its strategy, which is based on at least 20% ROAE and 15%-20% growth of its loan book.

# About this Announcement

Bank of Georgia Group PLC announces the Group’s fourth quarter 2018 and full year 2018 consolidated results. Unless otherwise noted, numbers are for 4Q18 and comparisons are with 4Q17. The results are based on International Financial Reporting Standards (“**IFRS**”) as adopted by the European Union, are unaudited and derived from management accounts.

The information in this Announcement in respect of full year 2018 preliminary results, which was approved by the Board of Directors on 18 February 2019, does not constitute statutory accounts as defined in Section 435 of the UK Companies Act 2006. Company’s and BGEO Group PLC’s financial statements for the year ended 31 December 2017 were filed with the Registrar of Companies, and the audit reports were unqualified and contained no statements in respect of Sections 498 (2) or (3) of the UK Companies Act 2006. Bank of Georgia Group PLC’s financial statements for the year ended 31 December 2018 will be included in the Annual Report and Accounts to be published in March 2019 and filed with the Registrar of Companies in due course.

**FORWARD LOOKING STATEMENTS**

This announcement 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 Bank of Georgia 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; regional tensions and instability; loan portfolio quality; regulatory risk; liquidity risk; operational risk, cyber security, information systems and financial crime risk; and other key factors that indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports of the Group, including the 'Principal Risks and Uncertainties' included in Bank of Georgia Group PLC 2Q18 and 1H18 results announcement and in BGEO Group PLC's Annual Report and Accounts 2017. No part of this document constitutes, or shall be taken to constitute, an invitation or inducement to invest in Bank of Georgia Group PLC or any other entity within the Group, and must not be relied upon in any way in connection with any investment decision. Bank of Georgia Group PLC and other entities within the Group undertake 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 document should be construed as a profit forecast.

# CONTENT

## Group Demerger

*On 29 May 2018, the demerger of Bank of Georgia Group PLC's Investment Business to Georgia Capital PLC became effective. The results of operations of the Investment Business prior to demerger, as well as the gain recorded by the Group as a result of the Investment Business distribution are classified under the "discontinued operations" line as a single amount in the consolidated income statement. In line with IFRS, comparative periods have been accordingly restated to reflect the reclassification of the Investment Business from "continuing operations" into "discontinued operations".*

## Transition to IFRS 9 *Financial Instruments*

*During 4Q18, the Group revisited and changed its loan write-off policy as part of the IFRS 9 implementation programme: For mortgages and other loans secured by real estate the number of overdue days after which the balances are considered to be irrecoverable and are to be written off has been increased from 365 to 1460 days. This resulted in following:*

1) *Reinstatement of net loans to customers previously written-off in the amount of GEL 25.0 million as at 1 January 2018, the transition date to IFRS 9, which offsets the previously reported increase in loan loss provision at transition date. Therefore, the final impact recognised as a result of IFRS 9 adoption following the policy change as a reduction to shareholders' equity at the transition date amounted to GEL 6.5mln, gross of income tax (GEL 4.3mln, net of income tax)*
2) *In addition, the change in loan write-off policy resulted in the reinstatement of additional GEL 12.6mln net loan to customers previously written-off during nine months of 2018*

*As a result, previously reported quarterly results of 2018 have been restated for this change in write-off policy accordingly. The restatement impact on the income statement for the nine months 2018 was GEL 1.5mln increase in revenue, GEL 1.0mln increase in income tax expense and GEL 11.1mln net reversal of expected credit loss on loans to customers, which accounted for c.20bps impact on cost of credit risk ratio on a quarterly basis for each of 1Q – 3Q periods, as well as on nine months basis during 2018.*

# HIGHLIGHTS

### Outstanding profitability and balance sheet growth momentum, supported by strong capital and liquidity positions

| *GEL thousands, except per share information* | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q | 2018 | 2017 | Change y-o-y |
|---|---|---|---|---|---|---|---|---|
| **Banking Business** | | | | | | | | |
| Revenue | 273,067 | 260,312 | 4.9% | 269,080 | 1.5% | 1,030,038 | 909,335 | 13.3% |
| Cost of risk | 40,778 | 42,428 | -3.9% | 48,107 | -15.2% | 160,225 | 167,296 | -4.2% |
| Profit before non-recurring items and income tax | 131,750 | 118,397 | 11.3% | 124,162 | 6.1% | 492,635 | 400,414 | 23.0% |
| Profit from continuing operations | 114,816 | 107,134 | 7.2% | 111,099 | 3.3% | 378,642 | 369,522 | 2.5% |
| Basic earnings per share[1] | 2.40 | 2.91 | -17.5% | 2.32 | 3.4% | 8.72 | 9.63 | -9.4% |
| Loans to customers and finance lease receivables[2] | 9,397,747 | 7,741,420 | 21.4%[3] | 8,762,413 | 7.3%[3] | 9,397,747 | 7,741,420 | 21.4%[3] |
| Client deposits and notes | 8,133,853 | 7,078,058 | 14.9%[4] | 7,932,536 | 2.5%[4] | 8,133,853 | 7,078,058 | 14.9%[4] |
| *ROAE*[1] | 26.2% | 27.8% | | 26.8% | | 26.1% | 25.2% | |
| *Net interest margin* | 6.0% | 7.3% | | 6.4% | | 6.5% | 7.3% | |
| *Loan yields* | 12.8% | 14.3% | | 13.5% | | 13.5% | 14.2% | |
| *Cost of funds* | 5.0% | 4.8% | | 5.0% | | 5.0% | 4.7% | |
| *Cost / Income* | 36.9% | 38.3% | | 36.1% | | 36.7% | 37.7% | |
| *Cost of credit risk* | 1.1% | 2.1% | | 2.0% | | 1.6% | 2.2% | |
| *Leverage (times equity)* | 7.2 | 7.3 | | 7.6 | | 7.2 | 7.3 | |
| *NBG (Basel III) Tier I Capital Adequacy Ratio* | 12.2% | 12.4% | | 11.0% | | 12.2% | 12.4% | |

### Georgia's economic performance remains strong - First ever current account surplus

GDP growth was strong at an estimated 4.8% in 4Q18. Economic activity was supported by double-digit growth in goods exports (up 22.6% y-o-y, accounting for 20.6% of GDP), tourism revenues (up 18.4% y-o-y, or 19.7% of GDP), and remittances (up 18.4% y-o-y, or 9.7% of GDP). Annual inflation remained below the NBG's 3.0% target for the full year, coming in at 1.5% in December 2018. Georgia reached an important milestone and recorded its first ever current account surplus of 0.3% of GDP in 3Q18. Solid external inflows enabled the NBG to accumulate foreign currency reserves throughout the year with the level reaching US$ 3.3 billion, a record high, at the end of December 2018. At the same time, the GEL started appreciating against the US Dollar by the end of the year. Georgia's growth outlook remains solid due to prudent economic policy-making, a strong banking sector, and the increased diversification of the economy.

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[1] 2018 full year results adjusted for GEL 30.3mln demerger related costs, GEL 8.0mln demerger related corporate income tax gain, and GEL 30.3mln one-off impact of re-measurement of deferred tax balances (*see details on page 12*)

[2] The Group completed its IFRS 9 implementation programme and adopted 'IFRS 9, Financial Instruments' standard from 1 January 2018. As allowed by IFRS 9, the Group did not restate prior-period data, therefore, comparatives are presented on an IAS 39 basis. In addition, throughout this Announcement, the gross loans to customers and respective allowance for impairment are presented net-of expected credit loss (ECL) on contractually accrued interest income. These do not have an effect on the net loans to customers balance. Management believes that netted-off balances provide the best representation of the Group's loan portfolio position

[3] As of 31 December 2018, loans and finance lease receivables grew on a constant currency basis by 19.0% y-o-y and 5.7% q-o-q

[4] As of 31 December 2018, client deposits and notes increased on a constant currency basis by 12.5% y-o-y and 0.9% q-o-q

# RESULTS HIGHLIGHTS

- **Strong performance.** Profit before non-recurring items and income tax totalled GEL 131.8mln in 4Q18 (up 11.3% y-o-y and up 6.1% q-o-q) and GEL 492.6mln during 2018 (up 23.0% y-o-y), with profitability remaining high with 26.2% ROAE in 4Q18 (down 160bps y-o-y and down 60bps q-o-q) and 26.1%[5] in 2018 (up 90bps y-o-y)
- **Strong capital position.** Basel III Tier 1 and Total Capital Adequacy ratios stood at 12.2% and 16.6%, respectively, as of 31 December 2018, both above the minimum required level of 11.4% and 15.9%, respectively. At the same time Common Equity Tier 1 (CET1) ratio stood at 12.2% compared to a 9.5% minimum requirement at 31 December 2018 and already above the estimated fully-loaded CET1 requirement for 2021
- **Solid Asset quality.** NPLs to gross loans ratio was 3.3% at 31 December 2018 (down from 3.5% at 30 September 2018). NPL coverage ratio was 90.5% at 31 December 2018 (91.7% at 30 September 2018), while the NPL coverage ratio adjusted for discounted value of collateral was 129.9% at 31 December 2018 (136.9% at 30 September 2018). The cost of credit risk ratio improved significantly to 1.1% in 4Q18, (down from 2.1% in 4Q17 and 2.0% in 3Q18) and to 1.6% in 2018 (down from 2.2% in 2017)
- **The loan book growth reached 21.4% y-o-y and 7.3% q-o-q at 31 December 2018.** Growth on a constant-currency basis was 19.0% y-o-y and 5.7% q-o-q. Retail Banking loan book share in the total loan portfolio was 69.8% at 31 December 2018 (68.0% at 31 December 2017 and 69.8% at 30 September 2018)
- **Retail Banking ("RB") continued to deliver solid growth across its business lines.** RB revenue reached GEL 188.4mln in 4Q18, up 7.1% y-o-y and up 1.3% q-o-q, with the 2018 revenue totaling GEL 723.5mln, up 17.7% y-o-y. The Retail Banking net loan book reached GEL 6,267.1mln at 31 December 2018, up 24.2% y-o-y and up 7.6% q-o-q. The growth was predominantly driven by mortgage and micro and SME lending as a result of the Bank's concentrated effort to grow these businesses following recent regulatory changes on unsecured consumer lending. The number of RB clients reached 2.4mln at 31 December 2018, up 5.4% y-o-y and up 1.4% q-o-q. At the same time, the RB client deposits increased to GEL 4,338.7mln at 31 December 2018, up 32.8% y-o-y and up 7.7% q-o-q
- **Corporate Investment Banking ("CIB") demonstrated further solid growth in 2018 after delivering on its risk de-concentration and loan portfolio repositioning targets in 2017.** CIB's net loan book reached GEL 2,618.5mln at 31 December 2018, up 15.9% y-o-y and up 5.7% q-o-q. The growth on a constant-currency basis was 12.9% y-o-y and 3.7% q-o-q. The top 10 CIB client concentration was 9.8% at the end of 4Q18 (10.7% at 31 December 2017 and 9.9% at 30 September 2018)
- **Assets Under Management ("AUM") within the Group's Investment Management business, increased to GEL 2,271.5mln in 4Q18**, up 22.3% y-o-y and up 4.2% q-o-q, reflecting an increase in client assets and bond issuances at Galt & Taggart, our brokerage subsidiary
- **De-dollarisation of the loan book and client deposits.** Loan book in local currency accounted for 38.3% of the total book at 31 December 2018 (38.3% a year ago and 39.3% in the previous quarter). Client deposits in local currency represented 32.5% of the total deposit portfolio at 31 December 2018, compared to 30.5% at 31 December 2017 and 34.4% at 30 September 2018
- **Remote channels**. We have actively continued the further development of our digital channels by introducing new features to both our mobile banking application and our internet bank. At the same time, we are introducing dedicated digital spaces in our branches to increase client penetration and incentivise offloading client activity to digital channels. As a result, the number of active internet and mobile banking users in 4Q18 reached 295,226 (up 34.5% y-o-y) and 333,698 (up 88.3% y-o-y), respectively. Both the number and volume of transactions through our mobile and internet banking continued to expand at 27.3% and 23.3% q-o-q, and 83.7% and 86.9% y-o-y, respectively, in 4Q18. In total, c.78% of daily banking transactions were executed through remote channels in 2018
- **Bank of Georgia became the first bank to launch the innovative payment mechanism "QR PAY".** In 4Q18, BOG introduced a new payment method QR PAY to the local small business market, an alternative payment mechanism to the traditional point of sale terminal for small Georgian businesses that previously relied on cash transactions as a means for their customers to settle payments. For customers who use Bank of Georgia's mobile bank and a debit or credit card, settling payments with QR PAY application is simple, safe and user-friendly. Currently, there are already up to 800 small businesses connected to QR PAY
- **In 4Q18, in order to extend the scale of its payment system, BOG was licensed to offer its services to JCB Cards users through its terminals and ATMs.** This inclusion of JCB cards in the Bank's payment services opens up access to around 117mln people from 190 countries. JCB is an international payment brand from Japan and given the increasing number of tourists from Asia in Georgia, the Bank is well equipped to offer them best-in-class service
- **The Banker publication named Bank of Georgia as the Bank of the Year 2018 in Central and Eastern Europe**

[5] 2018 ROAE adjusted for GEL 30.3mln demerger related costs, GEL 8.0mln demerger related corporate income tax gain, and GEL 30.3mln one-off impact of re-measurement of deferred tax balances

# CHIEF EXECUTIVE OFFICER'S STATEMENT

In the fourth quarter of 2018, the Group delivered another period of strong balance sheet and fee income growth, combined with superior profitability, achieved as a result of excellent customer franchise growth and good cost management in both the retail and corporate businesses. This has led to net profit from continuing operations for the quarter of GEL 114.8 million, an increase of 5.5% year-on-year and 3.3% compared to the third quarter of 2018.

During the quarter, the Group delivered revenue of GEL 273.1 million, up 4.9% year-on-year, reflecting both customer lending growth and good levels of fee and commission income. Profit before non-recurring items and income tax totalled GEL 131.8 million, a 9.8% increase year-on-year. For the full year 2018, revenues totalled GEL 1,030.4 million, an increase of 14.5%, and profit before non-recurring items and income tax increased by 25.1% to GEL 494.7 million. The Group's capability to deliver strong Return on Average Equity continues, and exceeded 26% in both the fourth quarter and for the full year.

From a macroeconomic perspective, Georgia continues to produce strong real GDP growth, estimated at 4.8% for 2018, with inflation remaining well contained at 1.5% in December 2018, comfortably below the National Bank of Georgia's target of 3.0% for the year. The Government's prudent macroeconomic policies continue to serve the country well, and the economy has remained extremely resilient to pressures in neighbouring countries, and some volatility in regional financial markets. Foreign Direct Investment continues to flow into a wide variety of sectors, and tourist numbers - the most significant driver of US Dollar inflows for the country - continue to rise strongly, with tourism revenues totalling $3.2 billion during the year. Solid external inflows have enabled the National Bank of Georgia to continue to buy US dollars and accumulate foreign currency reserves to a record $3.3 billion in December 2018. Perhaps most significantly, the country recorded its first ever current account surplus in the third quarter of 2018, an extremely positive macroeconomic development for Georgia.

Strong franchise growth in Retail Banking led to more than 7% customer deposit and customer lending growth during the quarter, and 24.2% customer lending growth and 32.8% client deposit growth year-on-year. On a constant currency basis, customer lending growth was still strong at 22.3% year-on-year, and 6.3% quarter-on-quarter. The Retail Banking's clear focus over the last few quarters has been on growing the mortgage and SME portfolios more rapidly than the unsecured consumer lending portfolios, and loan originations in these portfolios have been extremely strong. In the fourth quarter of 2018, the mortgage and SME portfolios grew by 12.7% and 7.9% quarter-on-quarter, respectively, driven by very targeted and capital efficient lending campaigns. Over the last 12 months, the mortgage portfolio increased by 48.8%, while SME portfolio growth totalled 25.1%.

The Retail Banking client base continues to expand reflecting the success of the Bank's digital penetration growth and the increased use of more cost efficient remote channels. As a result, the Retail Bank now has more than 2.4 million customers, an increase of more than 125,000 customers over the last 12 months. Our fully transformed, user-friendly, multi-feature mobile banking application, mBank, has had nearly 600,000 downloads during the last two years. In addition, we have now comfortably exceeded our targeted 40,000 Solo clients by the end of 2018, with over 44,000 clients already benefiting from Solo's lifestyle banking proposition.

We also continued to deliver strong progress in the Corporate Investment Banking (CIB) business, and lending growth is now more balanced between retail and corporate banking. Customer lending in CIB grew by 15.9% year-on-year, and 5.7% quarter-on-quarter. On a constant currency basis, these growth rates were 12.9% and 3.7%, respectively. In addition, we have also made further progress in reducing concentration risk in CIB, and have reduced the concentration of our top 10 corporate borrowers to only 9.8% of our lending portfolio. This stronger lending growth in CIB has also supported much improved net fee and commission income which, during 2018, increased by 17.4%, and has supported almost 30% growth in profit before non-recurring items and income tax.

Individual product loan yields have continued to remain broadly stable, and we expect this trend to continue into 2019. Our increasing focus on lending in the mortgage segment and to finer margin corporate and SME clients, has however led to a negative mix effect on overall loan yields and on the net interest margin, which was reduced by 40 basis points quarter-on-quarter to 6.0% in the fourth quarter of 2018. This shift in product mix, which we expect to continue during 2019, improves our asset quality metrics and, particularly in the case of the mortgage portfolio, reduces the risk-asset and capital intensity of our lending growth, which has enabled us, and we expect will continue to enable us, to maintain the Group's return on equity and superior profitability profile. Costs remain well controlled, and the Banking Business delivered positive operating leverage of 2.9 percentage points in 2018. The Bank has recently introduced a "Lean" project, which has already started to improve back office procedures, and introduce end-to-end process optimisation in the mortgage business. Over the last twelve months, the cost/income ratio has improved from 37.7% in 2017, to 36.7% in 2018.

Asset quality continues to improve, reflecting our good lending discipline and the ongoing strength of the economy. The annualised cost of credit risk ratio in the fourth quarter was 1.1%, and the full year cost of credit risk ratio was 1.6%, a significant improvement from 2.2% in 2017. The NPLs to gross loans ratio was 3.3% at the end of December 2018, 20 basis points lower than at the end of September 2018, and 50 basis points lower than a year ago. Coverage ratios remain robust, and we expect asset quality and credit metrics to remain strong over the medium-term, particularly as our product portfolio mix shifts more towards higher quality lending portfolios such as the mortgage portfolio.

The Group's capital and funding position remains strong. The NBG (Basel III) Total Capital Adequacy ratio increased by 70 basis points during the quarter to 16.6%, and the NBG (Basel III) Tier 1 Capital Adequacy ratio was 12.2%, a quarter-on-quarter increase of 120 basis points. Our capital ratios are comfortably ahead of our regulatory minimum requirement. We continue to generate high levels of internal capital as a result of both the Bank's high return on average equity, and the improved risk asset intensity of our lending growth. Over the medium term, we will focus on managing our capital ratios c.200 basis points over our minimum regulatory requirements.

During the last 12 months, the banking sector in Georgia has been working with the National Bank of Georgia to implement a number of regulatory changes relating to both retail lending guidelines, specifically updated caps on payment-to-income and loan-to-value ratios and an increase in the GEL 100,000 limit, to GEL 200,000, below which lending must be issued to borrowers in GEL, and to the introduction of Basel III capital adequacy requirements. All of these changes have now been introduced with the expectation that banks will see a shift towards lending to corporates and the SME sector, and in the mortgage sector, together with further progress in the de-dollarisation of bank balance sheets. The regulations also now allow the introduction of Additional Tier 1 capital ("AT1") into banks' capital base, which creates the opportunity to further optimise our capital structure through US dollar AT1 capital to hedge foreign exchange exposures within the capital base, and improve the quality of capital. With this in mind, we may explore the issuance of US-denominated AT1 securities in 2019.

As a result of the recent policy changes, we anticipate growth rates in the unsecured consumer sector to moderate, although we continue to expect to deliver solid growth in mortgages and SME lending. Overall, with the strong rates of growth already delivered this year, we now expect customer lending growth for the medium- to long-term to be comfortably within our 15-20% expected growth range, with lending growth expectations over the next twelve months to be closer to 15%.

At the 2019 Annual General Meeting, the Board intends to recommend an annual dividend for 2018 of GEL 2.55 per share payable in British Pounds Sterling at the prevailing rate. This represents a payout ratio of 30%, in the range of our dividend payout ratio target of 25-40%, and a 4.5% increase over last year's dividend.

Overall, the Group has delivered another year of strong franchise and earnings growth. Returns continue to be high and the Group remains very well positioned to continue to deliver good momentum and high returns.

Archil Gachechiladze,

CEO, Bank of Georgia Group PLC

18 February 2019

# FINANCIAL SUMMARY

| INCOME STATEMENT (QUARTERLY) | Bank of Georgia Group Consolidated | | | | | Banking Business[6] | | | | | Discontinued Operations[6] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands unless otherwise noted* | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q |
| Net interest income | 187,438 | 183,498 | 2.1% | 185,335 | 1.1% | 187,438 | 183,124 | 2.4% | 185,335 | 1.1% | - | - | - | - | - |
| Net fee and commission income | 41,344 | 36,483 | 13.3% | 39,481 | 4.7% | 41,344 | 36,738 | 12.5% | 39,481 | 4.7% | - | - | - | - | - |
| Net foreign currency gain | 53,358 | 28,139 | 89.6% | 36,827 | 44.9% | 53,358 | 27,464 | 94.3% | 36,827 | 44.9% | - | - | - | - | - |
| Net other income / (expense) | (9,073) | 12,708 | NMF | 7,437 | NMF | (9,073) | 12,986 | NMF | 7,437 | NMF | - | - | - | - | - |
| **Revenue** | **273,067** | **260,828** | **4.7%** | **269,080** | **1.5%** | **273,067** | **260,312** | **4.9%** | **269,080** | **1.5%** | - | - | - | - | - |
| **Operating expenses** | **(100,857)** | **(98,612)** | **2.3%** | **(97,137)** | **3.8%** | **(100,857)** | **(99,742)** | **1.1%** | **(97,137)** | **3.8%** | - | - | - | - | - |
| Profit from associates | 318 | 255 | 24.7% | 326 | -2.5% | 318 | 255 | 24.7% | 326 | -2.5% | - | - | - | - | - |
| **Operating income before cost of risk** | **172,528** | **162,471** | **6.2%** | **172,269** | **0.2%** | **172,528** | **160,825** | **7.3%** | **172,269** | **0.2%** | - | - | - | - | - |
| Cost of risk | (40,778) | (42,428) | -3.9% | (48,107) | -15.2% | (40,778) | (42,428) | -3.9% | (48,107) | -15.2% | - | - | - | - | - |
| **Profit before non-recurring items and income tax** | **131,750** | **120,043** | **9.8%** | **124,162** | **6.1%** | **131,750** | **118,397** | **11.3%** | **124,162** | **6.1%** | - | - | - | - | - |
| Net non-recurring items | (6,586) | (213) | NMF | (3,747) | 75.8% | (6,586) | (213) | NMF | (3,747) | 75.8% | - | - | - | - | - |
| **Profit before income tax expense** | **125,164** | **119,830** | **4.5%** | **120,415** | **3.9%** | **125,164** | **118,184** | **5.9%** | **120,415** | **3.9%** | - | - | - | - | - |
| Income tax expense | (10,348) | (11,050) | -6.4% | (9,316) | 11.1% | (10,348) | (11,050) | -6.4% | (9,316) | 11.1% | - | - | - | - | - |
| **Profit from continuing operations** | **114,816** | **108,780** | **5.5%** | **111,099** | **3.3%** | **114,816** | **107,134** | **7.2%** | **111,099** | **3.3%** | - | - | - | - | - |
| Profit from discontinued operations | - | 10,029 | NMF | - | - | - | - | - | - | - | - | 11,675 | NMF | - | - |
| **Profit** | **114,816** | **118,809** | **-3.4%** | **111,099** | **3.3%** | **114,816** | **107,134** | **7.2%** | **111,099** | **3.3%** | - | **11,675** | **NMF** | - | - |
| Earnings per share (basic) | **2.40** | **3.05** | **-21.3%** | **2.32** | **3.4%** | **2.40** | **2.91** | **-17.5%** | **2.32** | **3.4%** | | | | | |
| Earnings per share (diluted) | **2.40** | **2.90** | **-17.2%** | **2.32** | **3.4%** | **2.40** | **2.77** | **-13.4%** | **2.32** | **3.4%** | | | | | |

| INCOME STATEMENT (FULL YEAR) | Bank of Georgia Group Consolidated | | | Banking Business[6] | | | Discontinued Operations[6] | | |
|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands unless otherwise noted* | 2018 | 2017 | Change y-o-y | 2018 | 2017 | Change y-o-y | 2018 | 2017 | Change y-o-y |
| Net interest income | 741,753 | 672,535 | 10.3% | 739,604 | 672,100 | 10.0% | - | - | - |
| Net fee and commission income | 152,662 | 130,050 | 17.4% | 153,182 | 131,474 | 16.5% | - | - | - |
| Net foreign currency gain | 128,762 | 79,106 | 62.8% | 129,437 | 86,060 | 50.4% | - | - | - |
| Net other income | 7,262 | 18,645 | -61.1% | 7,815 | 19,701 | -60.3% | - | - | - |
| **Revenue** | **1,030,439** | **900,336** | **14.5%** | **1,030,038** | **909,335** | **13.3%** | - | - | - |
| **Operating expenses** | **(376,852)** | **(338,798)** | **11.2%** | **(378,517)** | **(342,936)** | **10.4%** | - | - | - |
| Profit from associates | 1,339 | 1,311 | 2.1% | 1,339 | 1,311 | 2.1% | - | - | - |
| **Operating income before cost of risk** | **654,926** | **562,849** | **16.4%** | **652,860** | **567,710** | **15.0%** | - | - | - |
| Cost of risk | (160,225) | (167,296) | -4.2% | (160,225) | (167,296) | -4.2% | - | - | - |
| **Profit before non-recurring items and income tax** | **494,701** | **395,553** | **25.1%** | **492,635** | **400,414** | **23.0%** | - | - | - |
| Net non-recurring items | (57,156) | (4,300) | NMF | (57,328) | (4,300) | NMF | - | - | - |
| **Profit before income tax expense** | **437,545** | **391,253** | **11.8%** | **435,307** | **396,114** | **9.9%** | - | - | - |
| Income tax expense | (56,665) | (26,592) | 113.1% | (56,665) | (26,592) | 113.1% | - | - | - |
| **Profit from continuing operations** | **380,880** | **364,661** | **4.4%** | **378,642** | **369,522** | **2.5%** | - | - | - |
| Profit from discontinued operations[7] | 107,898 | 98,788 | 9.2% | - | - | - | 110,136 | 93,927 | 17.3% |
| **Profit** | **488,778** | **463,449** | **5.5%** | **378,642** | **369,522** | **2.5%** | **110,136** | **93,927** | **17.3%** |
| Earnings per share (basic) | **10.78** | **11.61** | **-7.1%** | **8.72** | **9.63** | **-9.4%** | | | |
| Earnings per share (diluted) | **10.71** | **11.07** | **-3.3%** | **8.66** | **9.18** | **-5.7%** | | | |
| Earnings per share (basic) adjusted[8] | | | | *9.92* | *9.63* | 3.0% | | | |
| Earnings per share (diluted) adjusted[8] | | | | *9.86* | *9.18* | 7.4% | | | |

[6] Banking Business and Discontinued Operations financials do not include inter-business eliminations. Detailed financials, including inter-business eliminations are provided on pages 21, 22 and 23

[7] The full year 2018 profit from discontinued operations includes the results of operations of the Investment Business prior to demerger and GEL 90.7mln gain on Investment Business distribution

[8] 2018 full year results adjusted for GEL 30.3mln demerger related costs, GEL 8.0mln demerger related corporate income tax gain, and GEL 30.3mln one-off impact of re-measurement of deferred tax balances (*see details on page 12*)

| BALANCE SHEET | Bank of Georgia Group Consolidated | | | | | Banking Business[9] | | | | | Discontinued Operations[9] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands unless otherwise noted* | **Dec-18** | **Dec-17** | **Change y-o-y** | **Sep-18** | **Change q-o-q** | **Dec-18** | **Dec-17** | **Change y-o-y** | **Sep-18** | **Change q-o-q** | **Dec-18** | **Dec-17** | **Change y-o-y** | **Sep-18** | **Change q-o-q** |
| Liquid assets | 4,540,032 | 4,373,251 | 3.8% | 4,696,808 | -3.3% | 4,540,032 | 4,346,509 | 4.5% | 4,696,808 | -3.3% | - | 445,501 | NMF | - | - |
| *Cash and cash equivalents* | *1,215,799* | *1,582,435* | *-23.2%* | *1,237,867* | *-1.8%* | *1,215,799* | *1,516,401* | *-19.8%* | *1,237,867* | *-1.8%* | - | *374,301* | *NMF* | - | - |
| *Amounts due from credit institutions* | *1,305,216* | *1,225,947* | *6.5%* | *1,398,061* | *-6.6%* | *1,305,216* | *1,216,349* | *7.3%* | *1,398,061* | *-6.6%* | - | *38,141* | *NMF* | - | - |
| *Investment securities* | *2,019,017* | *1,564,869* | *29.0%* | *2,060,880* | *-2.0%* | *2,019,017* | *1,613,759* | *25.1%* | *2,060,880* | *-2.0%* | - | *33,059* | *NMF* | - | - |
| Loans to customers and finance lease receivables | 9,397,747 | 7,690,450 | 22.2% | 8,762,413 | 7.3% | 9,397,747 | 7,741,420 | 21.4% | 8,762,413 | 7.3% | - | - | - | - | - |
| Property and equipment | 344,059 | 988,436 | -65.2% | 315,980 | 8.9% | 344,059 | 322,925 | 6.5% | 315,980 | 8.9% | - | 661,176 | NMF | - | - |
| Assets of disposal group held for sale | - | 1,136,417 | NMF | - | - | - | - | - | - | - | - | 1,165,182 | NMF | - | - |
| **Total assets** | **14,798,303** | **15,168,669** | **-2.4%** | **14,314,932** | **3.4%** | **14,798,303** | **12,907,678** | **14.6%** | **14,314,932** | **3.4%** | **-** | **2,763,913** | **NMF** | **-** | **-** |
| Client deposits and notes | 8,133,853 | 6,712,482 | 21.2% | 7,932,536 | 2.5% | 8,133,853 | 7,078,058 | 14.9% | 7,932,536 | 2.5% | - | - | - | - | - |
| Amounts due to credit institutions | 2,994,879 | 3,155,839 | -5.1% | 3,006,739 | -0.4% | 2,994,879 | 2,778,338 | 7.8% | 3,006,739 | -0.4% | - | 377,501 | NMF | - | - |
| *Borrowings from DFI* | *1,302,679* | *1,624,347* | *-19.8%* | *1,261,960* | *3.2%* | *1,302,679* | *1,297,749* | *0.4%* | *1,261,960* | *3.2%* | - | *326,598* | *NMF* | - | - |
| *Short-term loans from NBG* | *1,118,957* | *793,528* | *41.0%* | *1,016,431* | *10.1%* | *1,118,957* | *793,528* | *41.0%* | *1,016,431* | *10.1%* | - | - | - | - | - |
| *Loans and deposits from commercial banks* | *573,243* | *737,964* | *-22.3%* | *728,348* | *-21.3%* | *573,243* | *687,061* | *-16.6%* | *728,348* | *-21.3%* | - | *50,903* | *NMF* | - | - |
| Debt securities issued | 1,730,414 | 1,709,152 | 1.2% | 1,578,532 | 9.6% | 1,730,414 | 1,386,412 | 24.8% | 1,578,532 | 9.6% | - | 357,442 | NMF | - | - |
| Liabilities of disposal group held for sale | - | 516,663 | NMF | - | - | - | - | - | - | - | - | 619,026 | NMF | - | - |
| **Total liabilities** | **13,000,030** | **12,436,299** | **4.5%** | **12,644,984** | **2.8%** | **13,000,030** | **11,354,976** | **14.5%** | **12,644,984** | **2.8%** | **-** | **1,584,245** | **NMF** | **-** | **-** |
| **Total equity** | **1,798,273** | **2,732,370** | **-34.2%** | **1,669,948** | **7.7%** | **1,798,273** | **1,552,702** | **15.8%** | **1,669,948** | **7.7%** | **-** | **1,179,668** | **NMF** | **-** | **-** |
| **Book value per share[10]** | **37.59** | **65.22** | **-42.4%** | **34.89** | **7.7%** | | | | | | | | | | |

| BANKING BUSINESS RATIOS | 4Q18 | 4Q17 | 3Q18 | 2018 | 2017 |
|---|---|---|---|---|---|
| ROAA[11] | 3.2% | 3.4% | 3.2% | 3.2% | 3.2% |
| ROAE[11] | 26.2% | 27.8% | 26.8% | 26.1% | 25.2% |
| Net Interest Margin | 6.0% | 7.3% | 6.4% | 6.5% | 7.3% |
| Loan Yield | 12.8% | 14.3% | 13.5% | 13.5% | 14.2% |
| Liquid assets yield | 3.8% | 3.4% | 3.8% | 3.8% | 3.4% |
| Cost of Funds | 5.0% | 4.8% | 5.0% | 5.0% | 4.7% |
| Cost of Client Deposits and Notes | 3.4% | 3.5% | 3.6% | 3.5% | 3.5% |
| Cost of Amounts Due to Credit Institutions | 7.9% | 6.5% | 7.4% | 7.3% | 6.4% |
| Cost of Debt Securities Issued | 7.8% | 7.8% | 7.8% | 7.8% | 7.4% |
| Cost / Income | 36.9% | 38.3% | 36.1% | 36.7% | 37.7% |
| NPLs to Gross Loans to Clients | 3.3% | 3.8% | 3.5% | 3.3% | 3.8% |
| NPL Coverage Ratio | 90.5% | 92.7% | 91.7% | 90.5% | 92.7% |
| NPL Coverage Ratio, Adjusted for discounted value of collateral | 129.9% | 130.6% | 136.9% | 129.9% | 130.6% |
| Cost of Credit Risk | 1.1% | 2.1% | 2.0% | 1.6% | 2.2% |
| NBG (Basel III) Tier I Capital Adequacy Ratio | 12.2% | 12.4% | 11.0% | 12.2% | 12.4% |
| NBG (Basel III) Total Capital Adequacy Ratio | 16.6% | 17.9% | 15.9% | 16.6% | 17.9% |

[9] Banking Business and Discontinued Operations financials do not include inter-business eliminations. Detailed financials, including inter-business eliminations are provided on pages 21, 22 and 23

[10] The y-o-y decline in Book value per share as at 31 December 2018 is driven by the demerger of Investment Business to Georgia Capital PLC on 29 May 2018 and the issuance and allotment of additional 9,784,716 Bank of Georgia Group shares (equivalent to 19.9% of Bank of Georgia Group's issued ordinary share capital) to Georgia Capital

[11] 2018 full year results adjusted for GEL 30.3mln demerger related costs, GEL 8.0mln demerger related corporate income tax gain, and GEL 30.3mln one-off impact of re-measurement of deferred tax balances (*see details on page 12*)

# DISCUSSION OF RESULTS

*The Group's business is primarily comprised of three segments. (1) **Retail Banking** operations in Georgia principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfer and settlement services, and handling customers' deposits for both individuals as well as legal entities. Retail Banking targets the emerging retail, mass retail and mass affluent segments, together with small and medium enterprises and micro businesses. (2) **Corporate Investment Banking** comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high net worth clients. (3) **BNB**, comprising JSC Belarusky Narodny Bank, principally provides retail and corporate banking services to clients in Belarus.*

**REVENUE**

| *GEL thousands, unless otherwise noted* | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q | 2018 | 2017 | Change y-o-y |
|---|---|---|---|---|---|---|---|---|
| Interest income | 345,760 | 312,950 | 10.5% | 337,766 | 2.4% | 1,327,085 | 1,140,292 | 16.4% |
| Interest expense | (158,322) | (129,826) | 21.9% | (152,431) | 3.9% | (587,481) | (468,192) | 25.5% |
| **Net interest income** | **187,438** | **183,124** | **2.4%** | **185,335** | **1.1%** | **739,604** | **672,100** | **10.0%** |
| Fee and commission income | 62,350 | 53,739 | 16.0% | 60,413 | 3.2% | 229,670 | 192,499 | 19.3% |
| Fee and commission expense | (21,006) | (17,001) | 23.6% | (20,932) | 0.4% | (76,488) | (61,025) | 25.3% |
| **Net fee and commission income** | **41,344** | **36,738** | **12.5%** | **39,481** | **4.7%** | **153,182** | **131,474** | **16.5%** |
| Net foreign currency gain | 53,358 | 27,464 | 94.3% | 36,827 | 44.9% | 129,437 | 86,060 | 50.4% |
| Net other income / (expense) | (9,073) | 12,986 | NMF | 7,437 | NMF | 7,815 | 19,701 | -60.3% |
| **Revenue** | **273,067** | **260,312** | **4.9%** | **269,080** | **1.5%** | **1,030,038** | **909,335** | **13.3%** |
| | | | | | | | | |
| Net Interest Margin | 6.0% | 7.3% | | 6.4% | | 6.5% | 7.3% | |
| Average interest earning assets | 12,496,355 | 10,008,953 | 24.9% | 11,422,105 | 9.4% | 11,312,217 | 9,234,600 | 22.5% |
| Average interest bearing liabilities | 12,562,852 | 10,824,561 | 16.1% | 12,002,162 | 4.7% | 11,814,475 | 9,922,415 | 19.1% |
| Average net loans and finance lease receivables, currency blended | 9,095,309 | 7,390,896 | 23.1% | 8,387,381 | 8.4% | 8,331,809 | 6,856,802 | 21.5% |
| Average net loans and finance lease receivables, GEL | 3,529,999 | 2,818,150 | 25.3% | 3,420,314 | 3.2% | 3,336,575 | 2,414,121 | 38.2% |
| Average net loans and finance lease receivables, FC | 5,565,310 | 4,572,746 | 21.7% | 4,967,067 | 12.0% | 4,995,234 | 4,442,681 | 12.4% |
| Average client deposits and notes, currency blended | 7,946,145 | 6,891,147 | 15.3% | 7,547,942 | 5.3% | 7,441,616 | 6,146,052 | 21.1% |
| Average client deposits and notes, GEL | 2,654,640 | 2,065,806 | 28.5% | 2,732,988 | -2.9% | 2,557,565 | 1,706,726 | 49.9% |
| Average client deposits and notes, FC | 5,291,505 | 4,825,341 | 9.7% | 4,814,954 | 9.9% | 4,884,051 | 4,439,326 | 10.0% |
| Average liquid assets, currency blended | 4,481,396 | 4,279,369 | 4.7% | 4,517,487 | -0.8% | 4,395,537 | 3,854,019 | 14.1% |
| Average liquid assets, GEL | 2,142,122 | 1,660,337 | 29.0% | 2,071,502 | 3.4% | 1,971,407 | 1,527,420 | 29.1% |
| Average liquid assets, FC | 2,339,274 | 2,619,032 | -10.7% | 2,445,985 | -4.4% | 2,424,130 | 2,326,599 | 4.2% |
| *Liquid assets yield, currency blended* | 3.8% | 3.4% | | 3.8% | | 3.8% | 3.4% | |
| *Liquid assets yield, GEL* | 6.8% | 7.1% | | 7.0% | | 6.9% | 7.1% | |
| *Liquid assets yield, FC* | 1.0% | 1.0% | | 1.1% | | 1.2% | 0.9% | |
| *Loan yield, currency blended* | 12.8% | 14.3% | | 13.5% | | 13.5% | 14.2% | |
| *Loan yield, GEL* | 19.7% | 21.3% | | 19.9% | | 20.4% | 21.9% | |
| *Loan yield, FC* | 8.3% | 10.0% | | 9.0% | | 8.8% | 10.0% | |
| *Cost of Funds, currency blended* | 5.0% | 4.8% | | 5.0% | | 5.0% | 4.7% | |
| *Cost of Funds, GEL* | 7.2% | 7.0% | | 7.2% | | 7.2% | 6.9% | |
| *Cost of Funds, FC* | 3.7% | 3.7% | | 3.6% | | 3.6% | 3.7% | |
| Cost / Income | 36.9% | 38.3% | | 36.1% | | 36.7% | 37.7% | |

### *Performance highlights*

- **Strong revenue of GEL 273.1mln in 4Q18 (up 4.9% y-o-y), ending the year 2018 with revenue of GEL 1,030.0mln (up 13.3% y-o-y)**. Y-o-y revenue growth in 2018 was driven by a 10.0% increase in net interest income, which resulted from strong loan book growth. Additionally, net strong fee and commission income (up 16.5% y-o-y) and net client-driven foreign currency gains (up 50.4% y-o-y) also contributed to annual growth in revenues
- **Our NIM was 6.0% in 4Q18 and 6.5% in 2018.** 4Q18 NIM was down 130bps y-o-y due to the 150bps y-o-y decrease in loan yield, largely reflecting our planned shift towards a higher quality, finer margin product mix on the back of tighter regulatory conditions for unsecured consumer lending, and higher EUR denominated loan origination in 3Q18, as well as a 20bps y-o-y increase in the cost of funds. On a q-o-q basis, loan yield decreased by 70bps, while cost of funds remained flat, resulting in 40bps decline in 4Q18 NIM q-o-q
- **Loan yield.** Currency blended loan yield was 12.8% in 4Q18 (down 150bps y-o-y and down 70bps q-o-q) and 13.5% in 2018 (down 70bps y-o-y). The y-o-y and q-o-q decline in loan yields during the fourth quarter and on a twelve months basis in 2018, was attributable to a decrease in both local and foreign currency loan yields, which primarily reflects the change in product mix in our loan portfolio

- **Liquid assets yield.** Our liquid assets yield was 3.8% in 4Q18 (up 40bps y-o-y and flat q-o-q) and 3.8% in 2018 (up 40bps y-o-y). The main contributor to the y-o-y trend in 2018 was the increase in the foreign currency denominated liquid assets yield (up 30bps y-o-y in 2018), reflecting the Federal Open Market Committee's decisions to raise interest rates, which triggered similar increases on interest rates paid by a) The National Bank of Georgia (the "**NBG**") on the Bank's obligatory reserves (foreign currency only) and b) correspondent banks on deposits placed by the Bank. However, starting from 12 July 2018, NBG reduced interest rates on foreign currency obligatory reserves (from US Fed rate minus 50bps to Fed rate minus 200bps, floored at zero for US Dollar reserves, and from ECB rate minus 20bps to ECB rate minus 200bps, floored at negative 60bps for EUR denominated reserves). As a result, the foreign currency denominated liquid asset yields declined by 10bps on a q-o-q basis and were flat on a y-o-y basis in 4Q18
- **Cost of funds.** Cost of funds stood at 5.0% in 4Q18 (up 20bps y-o-y and flat q-o-q) and at 5.0% in 2018 (up 30bps y-o-y). Y-o-y increase both in 4Q18 and 2018 periods was primarily driven by an increase in the cost of amount due to credit institutions (up 140bps y-o-y in 4Q18 and up 90bps y-o-y in 2018) as a result of increased local currency denominated borrowings from Development Finance Institutions (DFIs), and an increase in the Libor rate during the period. In addition, y-o-y increase in cost of funds in 2018 also reflected the increase in cost of debt securities issued, following the issuance of GEL 500mln 11.0% Lari denominated notes in 2Q17 (up 40bps y-o-y in 2018) – a milestone transaction for Bank and Georgia
- **Net fee and commission income.** Net fee and commission income reached GEL 41.3mln in 4Q18 (up 12.5% y-o-y and up 4.7% q-o-q) and GEL 153.2mln in 2018 (up 16.5% y-o-y). The growth was mainly driven by the strong performance in our settlement operations supported by the success of our Retail Banking franchise
- **Net foreign currency gain.** In line with the increase of client-driven flows, as well as robust interest from foreign financial institutions in local currency, the net foreign currency gain was up 94.3% y-o-y and up 44.9% q-o-q in 4Q18, and up 50.4% y-o-y in 2018
- **Net other income.** The y-o-y decline in net other income in 2018 was largely driven by net losses from derivative financial instruments (interest rate swap hedges) and investment securities recorded in 4Q18

### OPERATING INCOME BEFORE NON-RECURRING ITEMS; COST OF RISK; PROFIT FOR THE PERIOD

| *GEL thousands, unless otherwise noted* | **4Q18** | **4Q17** | **Change y-o-y** | **3Q18** | **Change q-o-q** | **2018** | **2017** | **Change y-o-y** |
|---|---|---|---|---|---|---|---|---|
| Salaries and other employee benefits | (58,331) | (55,789) | 4.6% | (54,107) | 7.8% | (215,816) | (198,213) | 8.9% |
| Administrative expenses | (30,010) | (32,245) | -6.9% | (30,759) | -2.4% | (113,264) | (100,291) | 12.9% |
| Depreciation and amortisation | (11,365) | (10,514) | 8.1% | (11,162) | 1.8% | (45,442) | (40,974) | 10.9% |
| Other operating expenses | (1,151) | (1,194) | -3.6% | (1,109) | 3.8% | (3,995) | (3,458) | 15.5% |
| **Operating expenses** | **(100,857)** | **(99,742)** | **1.1%** | **(97,137)** | **3.8%** | **(378,517)** | **(342,936)** | **10.4%** |
| Profit from associate | 318 | 255 | 24.7% | 326 | -2.5% | 1,339 | 1,311 | 2.1% |
| **Operating income before cost of risk** | **172,528** | **160,825** | **7.3%** | **172,269** | **0.2%** | **652,860** | **567,710** | **15.0%** |
| Expected credit loss / impairment charge on loans to customers | (25,783) | (41,911) | -38.5% | (43,505) | -40.7% | (139,499) | (155,210) | -10.1% |
| Expected credit loss / impairment charge on finance lease receivables | 514 | 492 | 4.5% | (426) | NMF | (164) | (496) | -66.9% |
| Other expected credit loss / impairment charge on other assets and provisions | (15,509) | (1,009) | NMF | (4,176) | NMF | (20,562) | (11,590) | 77.4% |
| **Cost of risk** | **(40,778)** | **(42,428)** | **-3.9%** | **(48,107)** | **-15.2%** | **(160,225)** | **(167,296)** | **-4.2%** |
| **Profit before non-recurring items and income tax** | **131,750** | **118,397** | **11.3%** | **124,162** | **6.1%** | **492,635** | **400,414** | **23.0%** |
| Net non-recurring items | (6,586) | (213) | NMF | (3,747) | 75.8% | (57,328) | (4,300) | NMF |
| **Profit before income tax** | **125,164** | **118,184** | **5.9%** | **120,415** | **3.9%** | **435,307** | **396,114** | **9.9%** |
| Income tax expense | (10,348) | (11,050) | -6.4% | (9,316) | 11.1% | (56,665) | (26,592) | 113.1% |
| **Profit** | **114,816** | **107,134** | **7.2%** | **111,099** | **3.3%** | **378,642** | **369,522** | **2.5%** |

- **Operating expenses increased to GEL 100.9mln in 4Q18 (up 1.1% y-o-y and up 3.8% q-o-q) and to GEL 378.5mln in 2018 (up 10.4% y-o-y).** The growth in revenues outpaced the growth in operating expenses y-o-y both during 4Q18 and 2018, leading to positive operating leverage during these periods. Salaries and employee benefits increased by 8.9% y-o-y reflecting our core business growth, while administrative expenses increased by 12.9% y-o-y, primarily driven by increased costs on consultancy services in relation to the "Lean" project to achieve a step-change in operating efficiency, customer experience, and culture
- **Cost of credit risk ratio.** The cost of credit risk ratio improved significantly to 1.1% in 4Q18, down 100bps y-o-y and down 90bps q-o-q. RB's cost of credit risk ratio was down 10bps y-o-y and down 70bps q-o-q, while CIB's cost of credit risk ratio was down 340bps y-o-y and down 170bps q-o-q. On a twelve-month basis, Banking Business cost of credit risk ratio was 1.6% in 2018, down 60bps y-o-y, driven by 40bps y-o-y improvement in RB's cost of credit risk ratio and 70bps y-o-y decline in CIB's cost of credit risk ratio
- **Cost of risk**. The cost of risk in 4Q18 also includes a one-off charge of GEL 10.0mln relating to the write-down of legacy software and IT equipment

- **Quality of our loan book remains strong in 4Q18** as evidenced by the following closely monitored metrics:

| *GEL thousands, unless otherwise noted* | Dec-18 | Dec-17 | Change y-o-y | Sep-18 | Change q-o-q |
|---|---|---|---|---|---|
| **Non-performing loans** | | | | | |
| NPLs | 318,356 | 301,268 | 5.7% | 312,203 | 2.0% |
| NPLs to gross loans | 3.3% | 3.8% | | 3.5% | |
| NPLs to gross loans, RB | 2.1% | 1.3% | | 2.4% | |
| NPLs to gross loans, CIB | 5.6% | 7.5% | | 4.4% | |
| NPL coverage ratio | 90.5% | 92.7% | | 91.7% | |
| NPL coverage ratio adjusted for the discounted value of collateral | 129.9% | 130.6% | | 136.9% | |
| **Past due dates** | | | | | |
| Retail loans - 15 days past due rate | 1.1% | 0.9% | | 1.6% | |
| Mortgage loans – 15 days past due rate | 0.7% | 0.6% | | 1.3% | |

- **BNB – the Group's banking subsidiary in Belarus - generated a profit of GEL 4.1mln in 4Q18 (up 14.5% y-o-y and up 37.5% q-o-q) and GEL 11.5mln in 2018 (up 11.4% y-o-y)**; BNB's earnings were positively impacted by decreased levels of cost of risk both during the quarter and in 2018, on the back of improved macro-economic conditions starting from the second half of 2017. *For detailed financial results of BNB, please see page 24*

- BNB's loan book reached GEL 432.7mln at 31 December 2018, up 8.3% y-o-y and up 9.6% q-o-q, mostly reflecting an increase in consumer loans. Client deposits were GEL 389.0mln at 31 December 2018, up 25.5% y-o-y and up 7.1% q-o-q

- **BNB continues to remain strongly capitalised**, with Capital Adequacy Ratios well above the requirements of its regulating Central Bank. At 31 December 2018, total CAR was 13.5%, above the 10% minimum requirement of the National Bank of the Republic of Belarus ("**NBRB**"), while Tier I CAR was 8.5%, above NBRB's 6% minimum requirement. Return on Average Equity ("**ROAE**") was 19.5% in 4Q18 (18.5% in 4Q17 and 15.2% in 3Q18) and 14.6% in 2018 (14.6% in 2017). Strong capitalisation and profitability allowed BNB to distribute a dividend in the amount of GEL 1.2mln in 1Q18 (GEL 1.2mln in 2017)

- **Overall, profit before non-recurring items and income tax totalled GEL 131.8mln in 4Q18 (up 11.3% y-o-y and up 6.1% q-o-q) and GEL 492.6mln in 2018 (up 23.0% y-o-y), while ROAE was 26.2% in 4Q18 (27.8% in 4Q17 and 26.8% in 3Q18) and 26.1%[12] in 2018 (25.2% in 2017)**

- **Net non-recurring items.** Net non-recurring expenses amounted to GEL 57.3mln in 2018 (GEL 4.3mln in 2017), primarily comprising of 2Q18 demerger related costs (please see 2Q18 and 1H18 results announcement for details) and employee costs related to termination benefits of the Group's former CEO (acceleration of share-based compensation received before 31 December 2018) recorded in 4Q18

- **Income tax expense.** Income tax expense amounted to GEL 10.3mln in 4Q18 (GEL 11.1mln in 4Q17 and GEL 9.3mln in 3Q18) and GEL 56.7mln in 2018 (GEL 26.6mln in 2017). The significant y-o-y increase in income tax expense in 2018 was primarily driven by the one-off impact of changes to the corporate taxation model applicable to financial institutions which was amended in June 2018. *Please see the 2Q18 and 1H18 results announcement for details*

## BALANCE SHEET HIGHLIGHTS

| *GEL thousands, unless otherwise noted* | Dec-18 | Dec -17 | Change y-o-y | Sep -18 | Change q-o-q |
|---|---|---|---|---|---|
| Liquid assets | 4,540,032 | 4,346,509 | 4.5% | 4,696,808 | -3.3% |
| Liquid assets, GEL | 2,283,812 | 1,791,708 | 27.5% | 2,072,122 | 10.2% |
| Liquid assets, FC | 2,256,220 | 2,554,801 | -11.7% | 2,624,686 | -14.0% |
| Net loans and finance lease receivables | 9,397,747 | 7,741,420 | 21.4% | 8,762,413 | 7.3% |
| Net loans and finance lease receivables, GEL | 3,597,826 | 2,968,832 | 21.2% | 3,444,621 | 4.4% |
| Net loans and finance lease receivables, FC | 5,799,921 | 4,772,588 | 21.5% | 5,317,792 | 9.1% |
| Client deposits and notes | 8,133,853 | 7,078,058 | 14.9% | 7,932,536 | 2.5% |
| Amounts due to credit institutions | 2,994,879 | 2,778,338 | 7.8% | 3,006,739 | -0.4% |
| Borrowings from DFIs | 1,302,679 | 1,297,749 | 0.4% | 1,261,960 | 3.2% |
| Short-term loans from central banks | 1,118,957 | 793,528 | 41.0% | 1,016,431 | 10.1% |
| Loans and deposits from commercial banks | 573,243 | 687,061 | -16.6% | 728,348 | -21.3% |
| Debt securities issued | 1,730,414 | 1,386,412 | 24.8% | 1,578,532 | 9.6% |
| **Liquidity and CAR ratios** | | | | | |
| Net loans / client deposits and notes | 115.5% | 109.4% | | 110.5% | |
| Net loans / client deposits and notes + DFIs | 99.6% | 92.4% | | 95.3% | |
| Liquid assets as percent of total assets | 30.7% | 33.7% | | 32.8% | |
| Liquid assets as percent of total liabilities | 34.9% | 38.3% | | 37.1% | |
| NBG liquidity ratio | 31.9% | 34.4% | | 32.5% | |
| NBG Liquidity Coverage Ratio | 120.1% | 112.4% | | 113.6% | |
| NBG (Basel III) Tier I Capital Adequacy Ratio | 12.2% | 12.4% | | 11.0% | |
| NBG (Basel III) Total Capital Adequacy Ratio | 16.6% | 17.9% | | 15.9% | |

[12] 2018 ROAE adjusted for demerger related expenses and one-off impact of re-measurement of deferred tax balances

**Our balance sheet remains highly liquid** (NBG Liquidity coverage ratio of 120.1%) **and strongly capitalised** (NBG Basel III Tier I ratio of 12.2%) **with a well-diversified funding base** (Client Deposits and Notes to Total Liabilities of 62.6%).

- **Liquidity.** Liquid assets increased to GEL 4,540.0mln at 31 December 2018, up 4.5% y-o-y and down 3.3% q-o-q. The y-o-y growth was largely driven by an increase in local currency bonds, which are used by the Bank as collateral for short-term borrowings from the NBG, and additional proceeds as a result of the demerger-related pushdown of $350mln Eurobonds of JSC BGEO Group in March 2018. Management has successfully continued to deploy excess liquidity accumulated as a result of these proceeds. In addition, the y-o-y increase in liquid assets was also driven by the changes in minimum reserve requirements mandated by NBG since September 2018, whereby the foreign currency funds raised by local banks now carry an up to 25% reserve requirement depending on maturity. The NBG Liquidity coverage ratio increased to 120.1% at 31 December 2018 (112.4% at 31 December 2017 and 113.6% at 30 September 2018), well above the 100% minimum requirement level
- **Loan book**. Our net loan book and finance lease receivables reached GEL 9,397.7mln at 31 December 2018, up 21.4% y-o-y and up 7.3% q-o-q. As of 31 December 2018, the retail book represented 69.8% of the total loan portfolio (68.0% at 31 December 2017 and 69.8% at 30 September 2018). Both local and foreign currency portfolios experienced strong y-o-y growth of 21.2% and 21.5%, respectively. The local currency loan portfolio growth was partially driven by the Government's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio
- **Dollarisation of our loan book and client deposits.** The retail client loan book in foreign currency accounted for 50.3% of the total RB loan book at 31 December 2018 (48.8% at 31 December 2017 and 48.9% at 30 September 2018), while retail client foreign currency deposits comprised 69.7% of total RB deposits at 31 December 2018 (72.1% at 31 December 2017 and 71.7% at 30 September 2018). At 31 December 2018, 82.3% of CIB's loan book was denominated in foreign currency (83.1% at 31 December 2017 and 81.7% at 30 September 2018), while 61.2% of CIB deposits were denominated in foreign currency (63.1% at 31 December 2017 and 55.4% at 30 September 2018). De-dollarisation is expected to pick-up the pace in 2019, on the back of the recent increase of local currency loan threshold from GEL 100,000 to GEL 200,000
- **Net Loans to Customer Funds and DFI ratio**. Our Net Loans to Customer Funds and DFI ratio, which is closely monitored by management, remained strong at 99.6% (up from 92.4% at 31 December 2017 and up from 95.3% at 30 September 2018)
- **Diversified funding base**. Debt securities issued grew by 24.8% y-o-y and increased by 9.6% q-o-q. The y-o-y increase was driven by the demerger-related pushdown of $350mln Eurobonds of JSC BGEO Group in March 2018
- **Capital Adequacy requirements.** Basel III Tier 1 and Total Capital Adequacy ratios stood at 12.2% and 16.6%, respectively, as of 31 December 2018, as compared to minimum required level of 11.4% and 15.9%, respectively (11.0% and 15.9%, respectively, at 30 September 2018, as compared to minimum required levels of 9.9% and 14.9%, respectively). At the same time Common Equity Tier 1 (CET1) ratio stood at 12.2% compared to a 9.5% minimum requirement at 31 December 2018 and already above the estimated fully-loaded CET1 requirement for 2021
- **The Banker publication named JSC Bank of Georgia as the Bank of the Year 2018 in Central and Eastern Europe**. One of the criteria for recognition was the Bank's successful transformation from a product focus to a client-centric business model which has resulted in more effective tailor-made services through the Bank of Georgia's multi-brand strategy. The Banker also outlined the Bank's achievements in creating digital platforms and loyalty programmes, which are an integral part of Bank of Georgia's client-centric business model and its focus on developing stronger customer relationships. The Banker distinguished Bank of Georgia, a London Stock Exchange listed company, for its best-in-class corporate governance standards and its competitive advantage in the local market in terms of attracting human and financial capital

# Discussion of Segment Results

## Retail Banking (RB)

*Retail Banking provides consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and the handling of customer deposits for both individuals and legal entities (SME and micro businesses only). RB is represented by the following four sub-segments: (1) the emerging retail segment (through our Express brand), (2) retail mass market segment; (3) SME and micro businesses – "MSME" (through our Bank of Georgia brand), and (4) the mass affluent segment (through our Solo brand).*

| *GEL thousands, unless otherwise noted* | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q | 2018 | 2017 | Change y-o-y |
|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT HIGHLIGHTS** | | | | | | | | |
| Net interest income | 136,894 | 134,517 | 1.8% | 136,040 | 0.6% | 546,872 | 480,955 | 13.7% |
| Net fee and commission income | 32,915 | 28,511 | 15.4% | 30,651 | 7.4% | 118,858 | 99,790 | 19.1% |
| Net foreign currency gain | 24,047 | 8,407 | NMF | 17,381 | 38.4% | 56,358 | 28,937 | 94.8% |
| Net other income / (expense) | (5,420) | 4,531 | NMF | 2,022 | NMF | 1,371 | 5,029 | -72.7% |
| **Revenue** | **188,436** | **175,966** | **7.1%** | **186,094** | **1.3%** | **723,459** | **614,711** | **17.7%** |
| Salaries and other employee benefits | (37,053) | (35,778) | 3.6% | (34,830) | 6.4% | (138,635) | (125,668) | 10.3% |
| Administrative expenses | (21,620) | (22,461) | -3.7% | (22,619) | -4.4% | (84,323) | (72,464) | 16.4% |
| Depreciation and amortisation | (9,857) | (9,020) | 9.3% | (9,556) | 3.1% | (39,133) | (34,741) | 12.6% |
| Other operating expenses | (637) | (1,098) | -42.0% | (592) | 7.6% | (2,333) | (2,279) | 2.4% |
| **Operating expenses** | **(69,167)** | **(68,357)** | **1.2%** | **(67,597)** | **2.3%** | **(264,424)** | **(235,152)** | **12.4%** |
| Profit from associate | 318 | 255 | 24.7% | 326 | -2.5% | 1,339 | 1,311 | 0.0% |
| **Operating income before cost of risk** | **119,587** | **107,864** | **10.9%** | **118,823** | **0.6%** | **460,374** | **380,870** | **20.9%** |
| Cost of risk | (37,487) | (22,867) | 63.9% | (35,155) | 6.6% | (130,714) | (110,800) | 18.0% |
| **Profit before non-recurring items and income tax** | **82,100** | **84,997** | **-3.4%** | **83,668** | **-1.9%** | **329,660** | **270,070** | **22.1%** |
| Net non-recurring items | (4,088) | (74) | NMF | (1,947) | 110.0% | (35,110) | (2,358) | NMF |
| **Profit before income tax** | **78,012** | **84,923** | **-8.1%** | **81,721** | **-4.5%** | **294,550** | **267,712** | **10.0%** |
| Income tax expense | (5,785) | (7,335) | -21.1% | (5,998) | -3.6% | (36,292) | (18,046) | 101.1% |
| **Profit** | **72,227** | **77,588** | **-6.9%** | **75,723** | **-4.6%** | **258,258** | **249,666** | **3.4%** |
| **BALANCE SHEET HIGHLIGHTS** | | | | | | | | |
| Net loans, Currency Blended | 6,267,071 | 5,044,372 | 24.2% | 5,826,396 | 7.6% | 6,267,071 | 5,044,372 | 24.2% |
| Net loans, GEL | 3,117,454 | 2,582,677 | 20.7% | 2,975,672 | 4.8% | 3,117,454 | 2,582,677 | 20.7% |
| Net loans, FC | 3,149,617 | 2,461,695 | 27.9% | 2,850,724 | 10.5% | 3,149,617 | 2,461,695 | 27.9% |
| Client deposits, Currency Blended | 4,338,712 | 3,267,276 | 32.8% | 4,029,995 | 7.7% | 4,338,712 | 3,267,276 | 32.8% |
| Client deposits, GEL | 1,314,902 | 910,878 | 44.4% | 1,141,849 | 15.2% | 1,314,902 | 910,878 | 44.4% |
| Client deposits, FC | 3,023,810 | 2,356,398 | 28.3% | 2,888,146 | 4.7% | 3,023,810 | 2,356,398 | 28.3% |
| *of which:* | | | | | | | | |
| Time deposits, Currency Blended | 2,430,311 | 1,829,433 | 32.8% | 2,193,682 | 10.8% | 2,430,311 | 1,829,433 | 32.8% |
| Time deposits, GEL | 566,490 | 361,775 | 56.6% | 489,535 | 15.7% | 566,490 | 361,775 | 56.6% |
| Time deposits, FC | 1,863,821 | 1,467,658 | 27.0% | 1,704,147 | 9.4% | 1,863,821 | 1,467,658 | 27.0% |
| Current accounts and demand deposits, Currency Blended | 1,908,401 | 1,437,843 | 32.7% | 1,836,313 | 3.9% | 1,908,401 | 1,437,843 | 32.7% |
| Current accounts and demand deposits, GEL | 748,412 | 549,103 | 36.3% | 652,314 | 14.7% | 748,412 | 549,103 | 36.3% |
| Current accounts and demand deposits, FC | 1,159,989 | 888,740 | 30.5% | 1,183,999 | -2.0% | 1,159,989 | 888,740 | 30.5% |
| **KEY RATIOS** | | | | | | | | |
| *ROAE Retail Banking*[13] | 27.3% | 36.6% | | 30.9% | | 30.0% | 31.6% | |
| *Net interest margin, currency blended* | 6.7% | 8.4% | | 7.2% | | 7.5% | 8.5% | |
| *Cost of credit risk* | 1.7% | 1.8% | | 2.4% | | 2.1% | 2.5% | |
| *Cost of funds, currency blended* | 5.7% | 5.7% | | 5.8% | | 5.8% | 5.7% | |
| *Loan yield, currency blended* | 14.2% | 15.9% | | 14.8% | | 15.1% | 16.1% | |
| *Loan yield, GEL* | 20.7% | 22.7% | | 20.8% | | 21.5% | 23.6% | |
| *Loan yield, FC* | 7.4% | 8.8% | | 7.9% | | 7.9% | 9.1% | |
| *Cost of deposits, currency blended* | 2.9% | 2.8% | | 2.8% | | 2.9% | 2.9% | |
| *Cost of deposits, GEL* | 5.0% | 4.5% | | 4.9% | | 4.9% | 4.5% | |
| *Cost of deposits, FC* | 2.1% | 2.2% | | 2.0% | | 2.0% | 2.3% | |
| *Cost of time deposits, currency blended* | 4.2% | 4.2% | | 4.2% | | 4.2% | 4.3% | |
| *Cost of time deposits, GEL* | 8.7% | 8.9% | | 8.7% | | 8.7% | 8.8% | |
| *Cost of time deposits, FC* | 2.9% | 3.1% | | 2.9% | | 2.9% | 3.3% | |
| *Current accounts and demand deposits, currency blended* | 1.2% | 0.9% | | 1.1% | | 1.1% | 1.0% | |
| *Current accounts and demand deposits, GEL* | 2.1% | 1.5% | | 2.1% | | 2.0% | 1.6% | |
| *Current accounts and demand deposits, FC* | 0.7% | 0.5% | | 0.5% | | 0.6% | 0.6% | |
| *Cost / income ratio* | 36.7% | 38.7% | | 36.3% | | 36.5% | 38.3% | |

[13] 2018 ROAE adjusted for demerger related expenses and one-off impact of re-measurement of deferred tax balances

*Performance highlights*

- **Retail Banking delivered solid quarterly results in each of its major segments and generated revenues of GEL 188.4mln in 4Q18 (up 7.1% y-o-y and up 1.3% q-o-q) and GEL 723.5mln in 2018 (up 17.7% y-o-y)**
- RB's net interest income grew by 1.8% y-o-y in 4Q18 and by 13.7% y-o-y during 2018 on the back of the strong y-o-y growth in the Retail Banking loan portfolio. Net interest income also reflects the benefits from the growth of the local currency loan portfolio, which generated 13.3ppts and 13.6ppts higher yield than the foreign currency loan portfolio in 4Q18 and 2018, respectively
- **The Retail Banking net loan book reached GEL 6,267.1mln in 4Q18, up 24.2% y-o-y and up 7.6% q-o-q. On a constant currency basis our retail loan book increased by 22.3% y-o-y and 6.3% q-o-q in 4Q18.** Our local currency denominated loan book increased by 20.7% y-o-y and 4.8% q-o-q, while the foreign currency denominated loan book grew by 27.9% y-o-y and 10.5% q-o-q. As a result, the local currency denominated loan book accounted for 49.7% of the total Retail Banking loan book at 31 December 2018 (51.2% at 31 December 2017 and 51.1% at 30 September 2018)
- **The y-o-y loan book growth reflected continued strong loan origination levels delivered across the mortgage and MSME segments. The trend reflects the shift towards a higher quality, finer margin product mix on the back of tighter lending conditions for unsecured consumer lending:**

**Retail Banking loan book by products**

| *GEL million, unless otherwise noted* | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q | 2018 | 2017 | Change y-o-y |
|---|---|---|---|---|---|---|---|---|
| **Loan Originations** | | | | | | | | |
| Consumer loans | 326.0 | 383.1 | -14.9% | 344.9 | -5.5% | 1,381.6 | 1,383.6 | -0.2% |
| Mortgage loans | 466.4 | 359.3 | 29.8% | 606.6 | -23.1% | 1,725.9 | 1,062.5 | 62.4% |
| Micro loans | 263.6 | 309.5 | -14.8% | 270.5 | -2.5% | 1,066.3 | 1,017.6 | 4.8% |
| SME loans | 186.1 | 189.9 | -2.0% | 190.5 | -2.3% | 660.2 | 593.7 | 11.2% |
| POS loans | 14.4 | 79.7 | -81.9% | 23.5 | -38.8% | 119.0 | 243.8 | -51.2% |
| **Outstanding Balance** | | | | | | | | |
| Consumer loans | 1,379.7 | 1,242.0 | 11.1% | 1,329.1 | 3.8% | 1,379.7 | 1,242.0 | 11.1% |
| Mortgage loans | 2,539.3 | 1,706.1 | 48.8% | 2,254.1 | 12.7% | 2,539.3 | 1,706.1 | 48.8% |
| Micro loans | 1,246.3 | 1,030.8 | 20.9% | 1,200.4 | 3.8% | 1,246.3 | 1,030.8 | 20.9% |
| SME loans | 758.7 | 606.5 | 25.1% | 703.2 | 7.9% | 758.7 | 606.5 | 25.1% |
| POS loans | 58.6 | 130.8 | -55.2% | 66.5 | -11.9% | 58.6 | 130.8 | -55.2% |

- **Retail Banking client deposits increased to GEL 4,338.7mln, up 32.8% y-o-y and up 7.7% q-o-q**. The dollarisation level of our deposits decreased to 69.7% at 31 December 2018 from 72.1% at 31 December 2017 and from 71.7% at 30 September 2018. The cost of foreign currency denominated deposits decreased by 10bps y-o-y and increased by 10bps q-o-q in 4Q18, and decreased by 30bps y-o-y in 2018. The cost of local currency denominated deposits, on the contrary, increased by 50bps y-o-y and by 10bps q-o-q in 4Q18 and increased by 40bps y-o-y in 2018. The spread between the cost of RB's client deposits in GEL and foreign currency widened to 2.9ppts during 4Q18 (GEL: 5.0%; FC: 2.1%) compared to 2.3ppts in 4Q17 (GEL: 4.5%; FC: 2.2%) and 2.9ppts in 3Q18 (GEL: 4.9%; FC: 2.0%). On a year-to-date basis, the spread was 2.9ppts in 2018 (GEL: 4.9%; FC: 2.0%) compared to 2.2ppts in 2017 (GEL: 4.5%; FC: 2.3%)
- **Retail Banking NIM was 6.7% in 4Q18 (down 170bps y-o-y and down 50bps q-o-q) and 7.5% in 2018 (down 100bps y-o-y).** The decline in NIM was attributable to lower loan yields (down 170bps y-o-y and down 60bps q-o-q in 4Q18, and down 100bps y-o-y in 2018), reflecting the significant growth in the mortgage portfolio during 2018. Meanwhile, the cost of funds remained flat y-o-y and decreased by 10bps q-o-q in 4Q18, and increased by 10bps y-o-y in 2018. The decline in loan yields was mainly driven by the change in the Retail Banking loan portfolio product mix, with the lower yield-lower risk products share increasing in total RB loan portfolio
- **Strong growth in Retail Banking net fee and commission income**. The strong growth in net fee and commission income during all reported periods was driven by an increase in settlement operations and the strong underlying growth in our Solo and MSME segments
- **RB asset quality improved in 4Q18 further reflecting tighter conditions for unsecured consumer lending post regulatory changes in May 2018**, which primarily affected the high-yield express and micro loans as expected. Our increasing focus on lending in the mortgage segment and to finer margin SME clients, has led to a product mix shift, and improvement in our asset quality metrics. RB's cost of credit risk ratio improved to 1.7% in 4Q18 (down from 1.8% in 4Q17 and down from 2.4% in 3Q18) and 2.1% in 2018 (down from 2.5% in 2017)

- **Our Retail Banking business continues to deliver solid growth as we further develop our strategy towards continuous digitalisation,** as demonstrated by the following performance indicators:

| **Retail Banking performance indicators** *Volume information in GEL thousands* | **4Q18** | **4Q17** | **Change y-o-y** | **3Q18** | **Change q-o-q** | **2018** | **2017** | **Change y-o-y** |
|---|---|---|---|---|---|---|---|---|
| **Retail Banking Customers** | | | | | | | | |
| Number of new customers | 54,975 | 65,712 | -16.3% | 38,577 | 42.5% | 202,386 | 198,488 | 2.0% |
| Number of customers | 2,440,754 | 2,315,038 | 5.4% | 2,408,223 | 1.4% | 2,440,754 | 2,315,038 | 5.4% |
| **Cards** | | | | | | | | |
| Number of Cards issued | 243,843 | 324,974 | -25.0% | 152,274 | 60.1% | 833,807 | 1,022,283 | -18.4% |
| Number of Cards outstanding | 2,177,273 | 2,227,000 | -2.2% | 2,192,870 | -0.7% | 2,177,273 | 2,227,000 | -2.2% |
| **Express Pay terminals** | | | | | | | | |
| Number of Express Pay terminals | 3,115 | 2,842 | 9.6% | 3,054 | 2.0% | 3,115 | 2,842 | 9.6% |
| Number of transactions via Express Pay terminals | 27,924,360 | 27,211,578 | 2.6% | 27,001,597 | 3.4% | 108,240,230 | 104,021,767 | 4.1% |
| Volume of transactions via Express Pay terminals | 1,848,746 | 1,478,216 | 25.1% | 1,757,019 | 5.2% | 6,741,247 | 4,748,036 | 42.0% |
| **POS terminals** | | | | | | | | |
| Number of Desks | 10,009 | 9,934 | 0.8% | 10,078 | -0.7% | 10,009 | 9,934 | 0.8% |
| Number of Contracted Merchants | 6,575 | 5,341 | 23.1% | 5,357 | 22.7% | 6,575 | 5,341 | 23.1% |
| Number of POS terminals | 14,220 | 13,291 | 7.0% | 13,418 | 6.0% | 14,220 | 13,291 | 7.0% |
| Number of transactions via POS terminals | 16,932,793 | 12,874,756 | 31.5% | 16,232,785 | 4.3% | 62,110,165 | 46,177,412 | 34.5% |
| Volume of transactions via POS terminals | 537,668 | 423,565 | 26.9% | 534,430 | 0.6% | 1,937,392 | 1,405,800 | 37.8% |
| **Internet Banking** | | | | | | | | |
| Number of Active Users | 295,226 | 219,496 | 34.5% | 246,897 | 19.6% | 295,226 | 219,496 | 34.5% |
| Number of transactions via Internet Bank | 1,541,779 | 1,513,437 | 1.9% | 1,417,638 | 8.8% | 5,892,493 | 6,415,427 | -8.2% |
| Volume of transactions via Internet Bank | 620,273 | 425,930 | 45.6% | 530,368 | 17.0% | 2,029,599 | 1,402,969 | 44.7% |
| **Mobile Banking** | | | | | | | | |
| Number of Active Users | 333,698 | 177,243 | 88.3% | 247,418 | 34.9% | 333,698 | 177,243 | 88.3% |
| Number of transactions via Mobile Bank | 5,506,212 | 2,323,573 | 137.0% | 4,119,141 | 33.7% | 15,676,447 | 6,348,533 | 146.9% |
| Volume of transactions via Mobile Bank | 697,296 | 278,856 | 150.1% | 538,609 | 29.5% | 1,961,108 | 685,470 | 186.1% |

- **Growth in the client base was due to the increased offering of cost-effective remote channels**. The increase to 2,440,754 customers in 4Q18 (up 5.4% y-o-y and up 1.4% q-o-q) reflects the sustained growth in our client base over recent periods and was one of the drivers of the increase in our Retail Banking net fee and commission income
- **The number of outstanding cards** decreased by 2.2% y-o-y in 4Q18 due to Express cards which have been declining in line with the recently introduced regulations on consumer lending. Excluding the Express cards, total number of cards outstanding at 31 December 2018 increased by 30.4% y-o-y and 4.9% q-o-q. Loyalty programme Plus+ cards, launched in July 2017 as part of RB's client-centric approach, more than doubled y-o-y. We had 592,458 active Plus+ cards outstanding as at 31 December 2018, up 14.0% q-o-q
- **In November 2018, in order to extend the scale of its payment system, Bank of Georgia was licensed to offer its services to the JCB Cards users through the Bank's terminals and ATMs.** Inclusion of JCB cards in Bank of Georgia's payment services opens up access to around 117 million people from 190 countries. JCB is an international payment brand originating from Japan and given the increasing number of tourists from Asia in Georgia (visitors from Asia increased at an impressive CAGR of 56.3% over 2014-2018 period, reaching up to 8% of total international visitors in Georgia in 2018), Bank of Georgia is well equipped to offer them best-in-class services
- **The utilisation of Express Pay terminals continued to grow in 4Q18**. The volume of transactions increased to GEL 1,848.7mln in 4Q18 (up 25.1% y-o-y and up 5.2% q-o-q) and to GEL 6,741.2mln in 2018 (up 42.0% y-o-y). The number of transactions increased by 2.6% y-o-y in 4Q18 and by 4.1% y-o-y in 2018. The fees charged to clients for transactions executed through express pay terminals amounted to GEL 5.6mln in 4Q18 (up 6.2% y-o-y and largely flat q-o-q) and GEL 22.0mln in 2018 (up 6.8% y-o-y)
- **Digital penetration growth.** For our mobile banking application, the number of transactions (up 33.7% q-o-q) and the volume of transactions (up 29.5% q-o-q) continue to show outstanding growth. The fully-transformed, user-friendly, multi-feature mobile banking application (mBank) continues to gain popularity. Since its launch on 29 May 2017, 595,541 downloads have been made by the Bank's customers. During the same period approximately 19.3 million online transactions were performed using the application
- **Significant growth in loans issued and deposits opened through Internet and Mobile Bank.** In 2017, we started actively offering loans and deposit products to our customers through the Internet Bank. During 2018, 27,557 loans were issued with a total value of GEL 55.5mln, and 10,643 deposits were opened with a total value of GEL 33.0mln through Internet Bank (5,798 loans with total value of GEL 15.1mln and 7,458 deposits with total value of GEL 19.1mln in 2017). Starting from 2018, our customers are able to apply for a loan via mBank as well. 26,098 loans were issued with a total value of GEL 39.4mln using the mobile banking application during 2018. Moreover, in 3Q18 a new feature was added to mBank and our customers can now open a deposit via our mobile platform. During the fourth quarter 2018, 5,124 (up to 2,900 in 3Q18) deposit accounts were opened with a total deposited amount of GEL 3.1mln (GEL 5.7mln in 3Q18). As a result, the c.78% of total daily banking transactions were executed through digital channels during 2018

- **Solo, our premium banking brand, continues its strong growth momentum and investment in its lifestyle brand.** We have now 12 Solo lounges, of which 9 are located in Tbilisi, the capital of Georgia, and 3 in major regional cities of Georgia. **We achieved our target of 40,000 Solo clients by the end of 2018 ahead of time in 3Q18.** The number of Solo clients reached 44,292 at 31 December 2018 (32,104 at 31 December 2017 and 41,720 at 30 September 2018), up 434.8% since its re-launch in April 2015. **Going forward, Solo will be targeting growth through increasing our engagement with existing clients and maximising profit per client and product per client measures.** In 4Q18, the product to client ratio for the Solo segment was 5.4, compared to 2.1 for our retail franchise. While Solo clients currently represent 1.8% of our total retail client base, they contributed 28.4% to our retail loan book, 39.0% to our retail deposits, 17.2% and 20.4% to our net retail interest income and to our net retail fee and commission income in 4Q18, respectively. The fee and commission income from the Solo segment reached GEL 5.6mln in 4Q18 (GEL 4.7mln in 4Q17 and GEL 5.6mln in 3Q18) and GEL 21.2mln in 2018 (GEL 14.4mln in 2017). Solo Club, launched in 2Q17, a membership group within Solo which offers exclusive access to Solo products and offers ahead of other Solo clients at a higher fee, continued to increase its client base. At 31 December 2018, Solo Club had 3,825 members, up 7.7% q-o-q
- **MSME banking delivered strong growth.** The number of MSME segment clients reached 195,230 at 31 December 2018, up 17.8% y-o-y and up 4.4% q-o-q. MSME's loan portfolio reached GEL 2,176.2mln at 31 December 2018 (up 25.1% y-o-y and up 6.3% q-o-q). The MSME segment generated revenue of GEL 49.4mln in 4Q18 (up 34.1% y-o-y and up 12.1% q-o-q) and GEL 165.5mln in 2018 (up 32.1% y-o-y)
- **In 4Q18, the Bank introduced a new payment method, QR PAY to the local small business market.** QR PAY has been designed by the Bank as an alternative payment mechanism to the traditional point of sale terminal for small Georgian businesses that previously relied on cash transactions as a means for their customers to settle payments. In order to connect to QR PAY and enjoy the benefits of cashless payments, small businesses should have an account in Bank of Georgia. Once connected, they will start receiving QR PAY services free of charge for the first year. Thereafter, a service commission will be based on the turnover of the enterprise. This is a significant advantage for small businesses with low turnover. For customers who use Bank of Georgia's mobile bank and a debit or credit card, settling payments with QR PAY application is simple, safe and user-friendly. Currently, there are already up to 800 small businesses connected to QR PAY. With QR PAY the Bank has now taken a step further and aims to make digital transactions even more widespread among both our retail and business clients
- **As a result, Retail Banking profit before non-recurring items and income tax was GEL 82.1mln in 4Q18 (down 3.4% y-o-y and down 1.9% q-o-q) and GEL 329.7mln during 2018 (up 22.1% y-o-y). Retail Banking continued to deliver an outstanding ROAE of 27.3% in 4Q18 (36.6% in 4Q17 and 30.9% in 3Q18) and 30.0%[14] in 2018 (31.6% in 2017)**

[14] 2018 ROAE adjusted for demerger related expenses and one-off impact of re-measurement of deferred tax balances

# Corporate Investment Banking (CIB)

*CIB provides (1) loans and other credit facilities to Georgia's large corporate clients and other legal entities, excluding SME and micro businesses; (2) services such as fund transfers and settlements services, currency conversion operations, trade finance services and documentary operations as well as handling savings and term deposits; (3) finance lease facilities through the Bank's leasing operations arm, the Georgian Leasing Company; (4) brokerage services through Galt & Taggart; and (5) Wealth Management private banking services to high-net-worth individuals and offers investment management products internationally through representative offices in London, Budapest, Istanbul, Tel Aviv and Limassol.*

| *GEL thousands, unless otherwise noted* | **4Q18** | **4Q17** | **Change y-o-y** | **3Q18** | **Change q-o-q** | **2018** | **2017** | **Change y-o-y** |
|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT HIGHLIGHTS** | | | | | | | | |
| Net interest income | 43,696 | 42,539 | 2.7% | 42,076 | 3.9% | 165,723 | 156,171 | 6.1% |
| Net fee and commission income | 6,939 | 5,859 | 18.4% | 7,187 | -3.5% | 26,680 | 22,717 | 17.4% |
| Net foreign currency gain | 23,984 | 15,585 | 53.9% | 13,815 | 73.6% | 54,702 | 46,276 | 18.2% |
| Net other income / (expense) | (3,451) | 7,710 | NMF | 5,276 | NMF | 6,699 | 14,256 | -53.0% |
| **Revenue** | **71,168** | **71,693** | **-0.7%** | **68,354** | **4.1%** | **253,804** | **239,420** | **6.0%** |
| Salaries and other employee benefits | (14,645) | (15,271) | -4.1% | (13,827) | 5.9% | (54,792) | (54,573) | 0.4% |
| Administrative expenses | (4,921) | (5,439) | -9.5% | (5,329) | -7.7% | (17,409) | (16,190) | 7.5% |
| Depreciation and amortisation | (1,122) | (1,316) | -14.7% | (1,245) | -9.9% | (4,945) | (5,134) | -3.7% |
| Other operating expenses | (347) | (228) | 52.2% | (431) | -19.5% | (1,175) | (761) | 54.4% |
| **Operating expenses** | **(21,035)** | **(22,254)** | **-5.5%** | **(20,832)** | **1.0%** | **(78,321)** | **(76,658)** | **2.2%** |
| **Operating income before cost of risk** | **50,133** | **49,439** | **1.4%** | **47,522** | **5.5%** | **175,483** | **162,762** | **7.8%** |
| Cost of risk | (3,407) | (18,788) | -81.9% | (12,235) | -72.2% | (25,888) | (47,403) | -45.4% |
| **Profit before non-recurring items and income tax** | **46,726** | **30,651** | **52.4%** | **35,287** | **32.4%** | **149,595** | **115,359** | **29.7%** |
| Net non-recurring items | (1,711) | (134) | NMF | (775) | 120.8% | (13,630) | (1,882) | NMF |
| **Profit before income tax** | **45,015** | **30,517** | **47.5%** | **34,512** | **30.4%** | **135,965** | **113,477** | **19.8%** |
| Income tax expense | (3,401) | (2,840) | 19.8% | (2,434) | 39.7% | (16,827) | (7,584) | 121.9% |
| **Profit** | **41,614** | **27,677** | **50.4%** | **32,078** | **29.7%** | **119,138** | **105,893** | **12.5%** |
| **BALANCE SHEET HIGHLIGHTS** | | | | | | | | |
| Net loans and finance lease receivables, Currency Blended | 2,618,490 | 2,260,107 | 15.9% | 2,477,267 | 5.7% | 2,618,490 | 2,260,107 | 15.9% |
| Net loans and finance lease receivables, GEL | 464,397 | 383,058 | 21.2% | 453,908 | 2.3% | 464,397 | 383,058 | 21.2% |
| Net loans and finance lease receivables, FC | 2,154,093 | 1,877,049 | 14.8% | 2,023,359 | 6.5% | 2,154,093 | 1,877,049 | 14.8% |
| Client deposits, Currency Blended | 3,473,054 | 3,457,331 | 0.5% | 3,552,322 | -2.2% | 3,473,054 | 3,457,331 | 0.5% |
| Client deposits, GEL | 1,347,754 | 1,276,401 | 5.6% | 1,583,941 | -14.9% | 1,347,754 | 1,276,401 | 5.6% |
| Client deposits, FC | 2,125,300 | 2,180,930 | -2.6% | 1,968,381 | 8.0% | 2,125,300 | 2,180,930 | -2.6% |
| Time deposits, Currency Blended | 1,337,112 | 1,297,984 | 3.0% | 1,739,849 | -23.1% | 1,337,112 | 1,297,984 | 3.0% |
| Time deposits, GEL | 491,622 | 470,288 | 4.5% | 868,391 | -43.4% | 491,622 | 470,288 | 4.5% |
| Time deposits, FC | 845,490 | 827,696 | 2.1% | 871,458 | -3.0% | 845,490 | 827,696 | 2.1% |
| Current accounts and demand deposits, Currency Blended | 2,135,942 | 2,159,347 | -1.1% | 1,812,473 | 17.8% | 2,135,942 | 2,159,347 | -1.1% |
| Current accounts and demand deposits, GEL | 856,132 | 806,113 | 6.2% | 715,550 | 19.6% | 856,132 | 806,113 | 6.2% |
| Current accounts and demand deposits, FC | 1,279,810 | 1,353,234 | -5.4% | 1,096,923 | 16.7% | 1,279,810 | 1,353,234 | -5.4% |
| Letters of credit and guarantees, standalone* | 1,035,630 | 644,750 | 60.6% | 679,324 | 52.5% | 1,035,630 | 644,750 | 60.6% |
| Assets under management | 2,271,543 | 1,857,495 | 22.3% | 2,180,100 | 4.2% | 2,271,543 | 1,857,495 | 22.3% |
| **RATIOS** | | | | | | | | |
| *ROAE, Corporate Investment Banking*[15] | 27.9% | 18.1% | | 22.6% | | 22.6% | 17.6% | |
| *Net interest margin, currency blended* | 3.2% | 3.5% | | 3.4% | | 3.3% | 3.4% | |
| *Cost of credit risk* | -0.2% | 3.2% | | 1.5% | | 0.8% | 1.5% | |
| *Cost of funds, currency blended* | 4.6% | 4.3% | | 4.8% | | 4.6% | 4.6% | |
| *Loan yield, currency blended* | 9.8% | 11.2% | | 10.8% | | 10.2% | 10.7% | |
| *Loan yield, GEL* | 12.8% | 12.3% | | 13.5% | | 13.1% | 12.8% | |
| *Loan yield, FC* | 9.2% | 11.0% | | 10.2% | | 9.6% | 10.3% | |
| *Cost of deposits, currency blended* | 4.0% | 4.0% | | 4.4% | | 4.1% | 4.0% | |
| *Cost of deposits, GEL* | 6.2% | 6.6% | | 6.6% | | 6.4% | 6.6% | |
| *Cost of deposits, FC* | 2.3% | 2.5% | | 2.4% | | 2.4% | 2.7% | |
| *Cost of time deposits, currency blended* | 5.9% | 6.0% | | 6.2% | | 6.1% | 5.8% | |
| *Cost of time deposits, GEL* | 7.8% | 8.0% | | 7.7% | | 7.9% | 8.4% | |
| *Cost of time deposits, FC* | 4.4% | 4.8% | | 4.5% | | 4.5% | 5.0% | |
| *Current accounts and demand deposits, currency blended* | 2.3% | 2.8% | | 2.6% | | 2.6% | 2.8% | |
| *Current accounts and demand deposits, GEL* | 4.9% | 5.7% | | 5.3% | | 5.2% | 5.9% | |
| *Current accounts and demand deposits, FC* | 0.6% | 1.2% | | 0.7% | | 0.9% | 1.0% | |
| *Cost / income ratio* | 29.6% | 31.0% | | 30.5% | | 30.9% | 32.0% | |
| *Concentration of top ten clients* | 9.8% | 10.7% | | 9.9% | | 9.8% | 10.7% | |

* Off-balance sheet item

[15] 2018 ROAE adjusted for demerger related expenses and one-off impact of re-measurement of deferred tax balances

*Performance highlights*

- **CIB continued further growth in 4Q18 after delivering on the targets of loan portfolio risk de-concentration initiatives in 2017**. Net loan book reached GEL 2,618.5mln at 31 December 2018, up 15.9% y-o-y and up 5.7% q-o-q (up 12.9% y-o-y and up 3.7% q-o-q on a constant currency basis). The concentration of the top 10 CIB clients stood at 9.8% at 31 December 2018 (10.7% at 31 December 2017 and 9.9% at 30 September 2018)
- CIB's net interest income increased by 2.7% y-o-y and by 3.9% q-o-q in 4Q18 and increased by 6.1% y-o-y during 2018. **CIB NIM was 3.2% in 4Q18, down 30bps y-o-y and down 20 bps q-o-q, and down 10bps y-o-y to 3.3% during 2018**. In 4Q18, the y-o-y decline in NIM was attributable to higher cost of funds (up 30bps y-o-y, reaching 4.6% in 4Q18), on the back of higher portion of more expensive local currency denominated deposits. Another driver for y-o-y and q-o-q decreases in NIM in 4Q18 and a y-o-y decrease in 2018 was lower currency blended loan yields, which were down 140bps y-o-y and down 100bps q-o-q in 4Q18, and down 50bps y-o-y in 2018. The loan yields mainly decreased y-o-y both in 4Q18 and 2018, on the back of foreign currency yields, which were down 180bps and 70bps y-o-y, respectively, largely reflecting higher loan related prepayment fees in 4Q17. Local currency loan yields went up by 50bps and 30bps y-o-y in 4Q18 and 2018, respectively. On q-o-q basis, the decline in loan yields were driven by decrease in both foreign (down 100bps q-o-q), driven by higher activity in EUR denominated loan origination during 3Q18 and local currency loan yields (down 70bps q-o-q)
- **CIB's net fee and commission income reached GEL 6.9mln in 4Q18, up 18.4% y-o-y and down 3.5% q-o-q.** On a twelve months basis, net fee and commission income was GEL 26.7mln in 2018, up 17.4% y-o-y. The y-o-y increase in net fee and commission income both in 4Q18 and 2018 was largely driven by higher placement and advisory fees over the periods. CIB's net fee and commission income represented 10.5% of total CIB revenue in 2018 as compared to 9.5% in 2017
- **CIB's loan book and de-dollarisation**. Foreign currency denominated loans represented 82.3% of CIB's loan portfolio as at 31 December 2018, compared to 83.1% at 31 December 2017 and 81.7% at 30 September 2018. The increase in foreign currency denominated loans in 4Q18 q-o-q was primarily due to local currency depreciation in the fourth quarter 2018. Total CIB loan portfolio amounted to GEL 2,618.5mln, up 15.9% y-o-y and up 5.7% q-o-q. On a constant currency basis, CIB loan book was up 12.9% y-o-y and up 3.7% q-o-q
- In 4Q18, **dollarisation of our CIB deposits** decreased to 61.2% as at 31 December 2018 from 63.1% a year ago and increased from 55.4% as at 30 September 2018. A q-o-q increase in foreign currency denominated deposits was partially due to local currency depreciation in the fourth quarter 2018. Y-o-y growth in GEL denominated deposits was in line with the decreasing trend in the interest rates on foreign currency deposits (down 20bps y-o-y and down 10bps q-o-q in 4Q18 and down 30bps y-o-y in 2018). Despite the decline in interest rates on local currency deposits, the cost of deposits in local currency still remained well above the cost of foreign currency deposits
- **Net other income.** Significant decline in net other income y-o-y in 2018 was largely driven by net losses from derivative financial instruments (interest rate swap hedges) and investment securities recorded during 4Q18
- **Cost of credit risk.** CIB's cost of credit risk ratio improved significantly and stood at net credit of 0.2% in 4Q18 (down from a cost of 3.2% in 4Q17 and 1.5% in 3Q18) and at 0.8% in 2018 (down 70bps y-o-y), primarily driven by the improved quality of the CIB loan portfolio and the recovery of several mid- to low-sized corporate loans in 4Q18. At the same time, CIB's NPL coverage ratio improved to 90.3% at 31 December 2018, up from 83.1% at 31 December 2017 and 87.5% at 30 September 2018
- As a result, **Corporate Investment Banking profit before non-recurring items and income tax** was GEL 46.7mln in 4Q18 (up 52.4% y-o-y and up 32.4% q-o-q) and GEL 149.6mln during 2018 (up 29.7% y-o-y). CIB ROAE reached 27.9% in 4Q18 (compared to 18.1% a year ago and 22.6% in 3Q18) and 22.6%[16] in 2018 (compared to 17.6% in 2017)

*Performance highlights of wealth management operations*

- **The Investment Management's AUM increased to GEL 2,271.5mln in 4Q18, up 22.3% y-o-y and up 4.2% q-o-q.** This includes a) deposits of Wealth Management franchise clients, b) assets held at Bank of Georgia Custody, c) Galt & Taggart brokerage client assets, and d) Global certificates of deposit held by Wealth Management clients. The y-o-y and q-o-q increase in AUM mostly reflected increase in client assets and bond issuance activity at Galt & Taggart
- **Wealth Management deposits reached GEL 1,268.1mln in 4Q18, up 14.1% y-o-y and up 8.2% q-o-q, growing at a compound annual growth rate (CAGR) of 13.3% over the last five-year period**. The cost of deposits stood at 3.2% in 4Q18 and 3.3% in 2018, down 30bps y-o-y and flat q-o-q in 4Q18, and down 50bps y-o-y in 2018

[16] 2018 ROAE adjusted for demerger related expenses and one-off impact of re-measurement of deferred tax balances

- We served 1,528 wealth management clients from 76 countries as of 31 December 2018, compared to 1,434 clients as of 31 December 2017
- In January 2019, Bank of Georgia opened a brand new office in the centre of Tbilisi, dedicated to serving its wealth management clients. The office resides in a historic 19th century building, which originally used to house the First Credit Society of Georgia and is considered to be the first residence of a local banking institution. The design concept was derived from the integration of Georgian culture with western values, while the artistic expression of the building has been left intact. The new office coincides with a creation of a new brand identity of the Bank's wealth management business and is in line with its strategy to become the regional hub for private banking
- **Galt & Taggart, which brings under one brand corporate advisory, debt and equity capital markets research and brokerage services, continues to develop local capital markets in Georgia**
  - During 2018 Galt & Taggart acted as a:
    - co-manager of Georgia Capital's inaugural US$ 300mln international bond issuance due in 2024, in March 2018
    - lead manager for Black Sea Trade and Development Bank, facilitating a public placement of GEL 75mln local bonds in March and June 2018
    - lead manager of Georgian Leasing Company's US$ 5mln local public bond issuance due in 2021, in June 2018
    - lead manager for Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V. (FMO), facilitating a public placement of GEL 160mln local bonds in July 2018
    - rating advisor for JSC Microfinance Organization Swiss Capital, facilitating the process of obtaining the Long-Term Issuer Default Rating of 'B-' from Fitch Ratings, in July 2018
    - rating advisor for Georgian Leasing Company, facilitating the process of obtaining the Long-Term Issuer Default Rating of 'B+' from Fitch Ratings, in November 2018
    - lead manager of m$^2$ Commercial Assets' US$ 30mln local public bond issuance due in 2021, in December 2018
  - During 2Q18 Galt & Taggart renewed the agreement to manage the private pension fund of a large Georgian corporate client mandated a year ago through a competitive tender process
  - In February 2018 Global Finance Magazine named Galt & Taggart as the *Best Investment Bank in Georgia* for the fourth consecutive year; On 31 May 2018, Cbonds, one of the leading news agencies for financial data analysis and processing, named Galt & Taggart as the *Best Investment Bank in Georgia 2018* for the third consecutive year

# SELECTED FINANCIAL INFORMATION

| INCOME STATEMENT (QUARTERLY) | Bank of Georgia Group Consolidated | | | | | Banking Business | | | | | Discontinued Operations | | | | | Eliminations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands, unless otherwise noted* | **4Q18** | **4Q17** | **Change y-o-y** | **3Q18** | **Change q-o-q** | **4Q18** | **4Q17** | **Change y-o-y** | **3Q18** | **Change q-o-q** | **4Q18** | **4Q17** | **Change y-o-y** | **3Q18** | **Change q-o-q** | **4Q18** | **4Q17** | **3Q18** |
| Interest income | 345,760 | 310,589 | 11.3% | 337,766 | 2.4% | 345,760 | 312,950 | 10.5% | 337,766 | 2.4% | - | - | - | - | - | - | (2,361) | - |
| Interest expense | (158,322) | (127,091) | 24.6% | (152,431) | 3.9% | (158,322) | (129,826) | 21.9% | (152,431) | 3.9% | - | - | - | - | - | - | 2,735 | - |
| **Net interest income** | **187,438** | **183,498** | **2.1%** | **185,335** | **1.1%** | **187,438** | **183,124** | **2.4%** | **185,335** | **1.1%** | - | - | - | - | - | - | 374 | - |
| Fee and commission income | 62,350 | 53,290 | 17.0% | 60,413 | 3.2% | 62,350 | 53,739 | 16.0% | 60,413 | 3.2% | - | - | - | - | - | - | (449) | - |
| Fee and commission expense | (21,006) | (16,807) | 25.0% | (20,932) | 0.4% | (21,006) | (17,001) | 23.6% | (20,932) | 0.4% | - | - | - | - | - | - | 194 | - |
| **Net fee and commission income** | **41,344** | **36,483** | **13.3%** | **39,481** | **4.7%** | **41,344** | **36,738** | **12.5%** | **39,481** | **4.7%** | - | - | - | - | - | - | (255) | - |
| Net foreign currency gain | 53,358 | 28,139 | **89.6%** | 36,827 | **44.9%** | 53,358 | 27,464 | **94.3%** | 36,827 | **44.9%** | - | - | - | - | - | - | 675 | - |
| Net other income / (expense) | (9,073) | 12,708 | **NMF** | 7,437 | **NMF** | (9,073) | 12,986 | **NMF** | 7,437 | **NMF** | - | - | - | - | - | - | (278) | - |
| **Revenue** | **273,067** | **260,828** | **4.7%** | **269,080** | **1.5%** | **273,067** | **260,312** | **4.9%** | **269,080** | **1.5%** | - | - | - | - | - | - | **516** | - |
| Salaries and other employee benefits | (58,331) | (55,144) | 5.8% | (54,107) | 7.8% | (58,331) | (55,789) | 4.6% | (54,107) | 7.8% | - | - | - | - | - | - | 645 | - |
| Administrative expenses | (30,010) | (31,760) | -5.5% | (30,759) | -2.4% | (30,010) | (32,245) | -6.9% | (30,759) | -2.4% | - | - | - | - | - | - | 485 | - |
| Depreciation and amortisation | (11,365) | (10,514) | 8.1% | (11,162) | 1.8% | (11,365) | (10,514) | 8.1% | (11,162) | 1.8% | - | - | - | - | - | - | - | - |
| Other operating expenses | (1,151) | (1,194) | -3.6% | (1,109) | 3.8% | (1,151) | (1,194) | -3.6% | (1,109) | 3.8% | - | - | - | - | - | - | - | - |
| **Operating expenses** | **(100,857)** | **(98,612)** | **2.3%** | **(97,137)** | **3.8%** | **(100,857)** | **(99,742)** | **1.1%** | **(97,137)** | **3.8%** | - | - | - | - | - | - | **1,130** | - |
| Profit from associates | 318 | 255 | 24.7% | 326 | -2.5% | 318 | 255 | 24.7% | 326 | -2.5% | - | - | - | - | - | - | - | - |
| **Operating income before cost of risk** | **172,528** | **162,471** | **6.2%** | **172,269** | **0.2%** | **172,528** | **160,825** | **7.3%** | **172,269** | **0.2%** | - | - | - | - | - | - | **1,646** | - |
| Expected credit loss / impairment charge on loans to customers | (25,783) | (41,911) | -38.5% | (43,505) | -40.7% | (25,783) | (41,911) | -38.5% | (43,505) | -40.7% | - | - | - | - | - | - | - | - |
| Expected credit loss / impairment charge on finance lease receivables | 514 | 492 | 4.5% | (426) | NMF | 514 | 492 | 4.5% | (426) | NMF | - | - | - | - | - | - | - | - |
| Other expected credit loss / impairment charge on other assets and provisions | (15,509) | (1,009) | NMF | (4,176) | NMF | (15,509) | (1,009) | NMF | (4,176) | NMF | - | - | - | - | - | - | - | - |
| **Cost of risk** | **(40,778)** | **(42,428)** | **-3.9%** | **(48,107)** | **-15.2%** | **(40,778)** | **(42,428)** | **-3.9%** | **(48,107)** | **-15.2%** | - | - | - | - | - | - | - | - |
| **Profit before non-recurring items and income tax** | **131,750** | **120,043** | **9.8%** | **124,162** | **6.1%** | **131,750** | **118,397** | **11.3%** | **124,162** | **6.1%** | - | - | - | - | - | - | **1,646** | - |
| Net non-recurring items | (6,586) | (213) | NMF | (3,747) | 75.8% | (6,586) | (213) | NMF | (3,747) | 75.8% | - | - | - | - | - | - | - | - |
| **Profit before income tax** | **125,164** | **119,830** | **4.5%** | **120,415** | **3.9%** | **125,164** | **118,184** | **5.9%** | **120,415** | **3.9%** | - | - | - | - | - | - | **1,646** | - |
| Income tax expense | (10,348) | (11,050) | -6.4% | (9,316) | 11.1% | (10,348) | (11,050) | -6.4% | (9,316) | 11.1% | - | - | - | - | - | - | - | - |
| **Profit from continuing operations** | **114,816** | **108,780** | **5.5%** | **111,099** | **3.3%** | **114,816** | **107,134** | **7.2%** | **111,099** | **3.3%** | - | - | - | - | - | - | **1,646** | - |
| Profit from discontinued operations | - | 10,029 | NMF | - | - | - | - | - | - | - | - | 11,675 | NMF | - | - | - | (1,646) | - |
| **Profit** | **114,816** | **118,809** | **-3.4%** | **111,099** | **3.3%** | **114,816** | **107,134** | **7.2%** | **111,099** | **3.3%** | - | **11,675** | **NMF** | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | | |
| ***Attributable to:*** | | | | | | | | | | | | | | | | | | |
| *– shareholders of the Group* | 114,240 | 113,729 | *0.4%* | 110,651 | *3.2%* | 114,240 | 106,687 | *7.1%* | 110,651 | *3.2%* | - | 7,042 | *NMF* | - | - | - | - | - |
| *– non-controlling interests* | 576 | 5,080 | *-88.7%* | 448 | *28.6%* | 576 | 447 | *28.9%* | 448 | *28.6%* | - | 4,633 | *NMF* | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | | |
| ***Profit from continuing operations attributable to:*** | | | | | | | | | | | | | | | | | | |
| *– shareholders of the Group* | 114,240 | 108,333 | *5.5%* | 110,651 | *3.2%* | 114,240 | 106,687 | *7.1%* | 110,651 | *3.2%* | - | - | - | - | - | - | 1,646 | - |
| *– non-controlling interests* | 576 | 447 | *28.9%* | 448 | *28.6%* | 576 | 447 | *28.9%* | 448 | *28.6%* | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | | |
| ***Profit from discontinued operations attributable to:*** | | | | | | | | | | | | | | | | | | |
| *– shareholders of the Group* | - | 5,396 | *NMF* | - | - | - | - | - | - | - | - | 7,042 | *NMF* | - | - | - | (1,646) | - |
| *– non-controlling interests* | - | 4,633 | *NMF* | - | - | - | - | - | - | - | - | 4,633 | *NMF* | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | | |
| ***Earnings per share (basic)*** | **2.40** | **3.05** | **-21.3%** | **2.32** | **3.4%** | | | | | | | | | | | | | |
| *– earnings per share from continuing operations* | *2.40* | *2.91* | *-17.5%* | *2.32* | *3.4%* | | | | | | | | | | | | | |
| *– earnings per share from discontinued operations* | - | *0.14* | *NMF* | - | - | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | |
| ***Earnings per share (diluted)*** | **2.40** | **2.90** | **-17.2%** | **2.32** | **3.4%** | | | | | | | | | | | | | |
| *– earnings per share from continuing operations* | *2.40* | *2.77* | *-13.4%* | *2.32* | *3.4%* | | | | | | | | | | | | | |
| *– earnings per share from discontinued operations* | - | *0.13* | *NMF* | - | - | | | | | | | | | | | | | |

| **INCOME STATEMENT (FULL YEAR)** | **Bank of Georgia Group Consolidated** | | | **Banking Business** | | | **Discontinued Operations** | | | **Eliminations** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands, unless otherwise noted* | **2018** | **2017** | **Change y-o-y** | **2018** | **2017** | **Change y-o-y** | **2018** | **2017** | **Change y-o-y** | **2018** | **2017** | **Change y-o-y** |
| Interest income | 1,322,297 | 1,131,914 | 16.8% | 1,327,085 | 1,140,292 | 16.40% | - | - | - | (4,788) | (8,378) | -42.9% |
| Interest expense | (580,544) | (459,379) | 26.4% | (587,481) | (468,192) | 25.50% | - | - | - | 6,937 | 8,813 | -21.3% |
| **Net interest income** | **741,753** | **672,535** | **10.3%** | **739,604** | **672,100** | **10.0%** | **-** | **-** | **-** | **2,149** | **435** | **NMF** |
| Fee and commission income | 228,769 | 190,392 | 20.2% | 229,670 | 192,499 | 19.3% | - | - | - | (901) | (2,107) | -57.2% |
| Fee and commission expense | (76,107) | (60,342) | 26.1% | (76,488) | (61,025) | 25.3% | - | - | - | 381 | 683 | -44.2% |
| **Net fee and commission income** | **152,662** | **130,050** | **17.4%** | **153,182** | **131,474** | **16.5%** | **-** | **-** | **-** | **(520)** | **(1,424)** | **-63.5%** |
| Net foreign currency gain | **128,762** | **79,106** | **62.8%** | **129,437** | **86,060** | **50.4%** | **-** | **-** | **-** | **(675)** | **(6,954)** | **-90.3%** |
| Net other income | **7,262** | **18,645** | **-61.1%** | **7,815** | **19,701** | **-60.3%** | **-** | **-** | **-** | **(553)** | **(1,056)** | **-47.6%** |
| **Revenue** | **1,030,439** | **900,336** | **14.5%** | **1,030,038** | **909,335** | **13.3%** | - | - | - | **401** | **(8,999)** | **NMF** |
| Salaries and other employee benefits | (214,761) | (195,994) | 9.6% | (215,816) | (198,213) | 8.9% | - | - | - | 1,055 | 2,219 | -52.5% |
| Administrative expenses | (112,654) | (98,372) | 14.5% | (113,264) | (100,291) | 12.9% | - | - | - | 610 | 1,919 | -68.2% |
| Depreciation and amortisation | (45,442) | (40,974) | 10.9% | (45,442) | (40,974) | 10.9% | - | - | - | - | - | - |
| Other operating expenses | (3,995) | (3,458) | 15.5% | (3,995) | (3,458) | 15.5% | - | - | - | - | - | - |
| **Operating expenses** | **(376,852)** | **(338,798)** | **11.2%** | **(378,517)** | **(342,936)** | **10.4%** | **-** | **-** | **-** | **1,665** | **4,138** | **-59.8%** |
| Profit from associates | 1,339 | 1,311 | 2.1% | 1,339 | 1,311 | 2.1% | - | - | - | - | - | - |
| **Operating income before cost of risk** | **654,926** | **562,849** | **16.4%** | **652,860** | **567,710** | **15.0%** | **-** | **-** | **-** | **2,066** | **(4,861)** | **NMF** |
| Expected credit loss / impairment charge on loans to customers | (139,499) | (155,210) | -10.1% | (139,499) | (155,210) | -10.1% | - | - | - | - | - | - |
| Expected credit loss / impairment charge on finance lease receivables | (164) | (496) | -66.9% | (164) | (496) | -66.9% | - | - | - | - | - | - |
| Other expected credit loss / impairment charge on other assets and provisions | (20,562) | (11,590) | 77.4% | (20,562) | (11,590) | 77.4% | - | - | - | - | - | - |
| **Cost of risk** | **(160,225)** | **(167,296)** | **-4.2%** | **(160,225)** | **(167,296)** | **-4.2%** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit before non-recurring items and income tax** | **494,701** | **395,553** | **25.1%** | **492,635** | **400,414** | **23.0%** | **-** | **-** | **-** | **2,066** | **(4,861)** | **NMF** |
| Net non-recurring items | (57,156) | (4,300) | NMF | (57,328) | (4,300) | NMF | - | - | - | 172 | - | - |
| **Profit before income tax** | **437,545** | **391,253** | **11.8%** | **435,307** | **396,114** | **9.9%** | **-** | **-** | **-** | **2,238** | **(4,861)** | **NMF** |
| Income tax expense | (56,665) | (26,592) | 113.1% | (56,665) | (26,592) | 113.1% | - | - | - | - | - | - |
| **Profit from continuing operations** | **380,880** | **364,661** | **4.4%** | **378,642** | **369,522** | **2.5%** | **-** | **-** | **-** | **2,238** | **(4,861)** | **NMF** |
| Profit from discontinued operations | 107,898 | 98,788 | 9.2% | - | - | - | 110,136 | 93,927 | 17.3% | (2,238) | 4,861 | NMF |
| **Profit** | **488,778** | **463,449** | **5.5%** | **378,642** | **369,522** | **2.5%** | **110,136** | **93,927** | **17.3%** | - | - | - |
| ***Attributable to:*** | | | | | | | | | | | | |
| *– shareholders of the Group* | *468,996* | *437,615* | *7.2%* | *377,075* | *367,832* | *2.5%* | *91,921* | *69,783* | *31.7%* | - | - | - |
| *– non-controlling interests* | *19,782* | *25,834* | *-23.4%* | *1,567* | *1,690* | *-7.3%* | *18,215* | *24,144* | *-24.6%* | - | - | - |
| ***Profit from continuing operations attributable to:*** | | | | | | | | | | | | |
| *– shareholders of the Group* | *379,313* | *362,971* | *4.5%* | *377,075* | *367,832* | *2.5%* | - | - | - | *2,238* | *(4,861)* | *NMF* |
| *– non-controlling interests* | *1,567* | *1,690* | *-7.3%* | *1,567* | *1,690* | *-7.3%* | - | - | - | - | - | - |
| ***Profit from discontinued operations attributable to:*** | | | | | | | | | | | | |
| *– shareholders of the Group* | *89,683* | *74,644* | *20.1%* | - | - | - | *91,921* | *69,783* | *31.7%* | *(2,238)* | *4,861* | *NMF* |
| *– non-controlling interests* | *18,215* | *24,144* | *-24.6%* | - | - | - | *18,215* | *24,144* | *-24.6%* | - | - | - |
| ***Earnings per share (basic)*** | **10.78** | **11.61** | **-7.1%** | | | | | | | | | |
| *– earnings per share from continuing operations* | 8.72 | 9.63 | -9.4% | | | | | | | | | |
| *– earnings per share from discontinued operations* | 2.06 | 1.98 | 4.0% | | | | | | | | | |
| ***Earnings per share (diluted)*** | **10.71** | **11.07** | **-3.3%** | | | | | | | | | |
| *– earnings per share from continuing operations* | 8.66 | 9.18 | -5.7% | | | | | | | | | |
| *– earnings per share from discontinued operations* | 2.05 | 1.89 | 8.5% | | | | | | | | | |

| BALANCE SHEET | Bank of Georgia Group Consolidated | | | | | Banking Business | | | | | Discontinued Operations | | | | | Eliminations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands, unless otherwise noted* | **Dec-18** | **Dec -17** | **Change y-o-y** | **Sep-18** | **Change q-o-q** | **Dec-18** | **Dec -17** | **Change y-o-y** | **Sep-18** | **Change q-o-q** | **Dec-18** | **Dec -17** | **Change y-o-y** | **Sep-18** | **Change q-o-q** | **Dec-18** | **Dec-17** | **Sep-18** |
| Cash and cash equivalents | 1,215,799 | 1,582,435 | -23.2% | 1,237,867 | -1.8% | 1,215,799 | 1,516,401 | -19.8% | 1,237,867 | -1.8% | - | 374,301 | NMF | - | - | - | (308,267) | - |
| Amounts due from credit institutions | 1,305,216 | 1,225,947 | 6.5% | 1,398,061 | -6.6% | 1,305,216 | 1,216,349 | 7.3% | 1,398,061 | -6.6% | - | 38,141 | NMF | - | - | - | (28,543) | - |
| Investment securities | 2,019,017 | 1,564,869 | 29.0% | 2,060,880 | -2.0% | 2,019,017 | 1,613,759 | 25.1% | 2,060,880 | -2.0% | - | 33,059 | NMF | - | - | - | (81,949) | - |
| Loans to customers and finance lease receivables | 9,397,747 | 7,690,450 | 22.2% | 8,762,413 | 7.3% | 9,397,747 | 7,741,420 | 21.4% | 8,762,413 | 7.3% | - | - | - | - | - | - | (50,970) | - |
| Accounts receivable and other loans | 2,849 | 38,944 | -92.7% | 3,256 | -12.5% | 2,849 | 3,572 | -20.2% | 3,256 | -12.5% | - | 35,446 | NMF | - | - | - | (74) | - |
| Insurance premiums receivable | - | 30,573 | NMF | - | - | - | - | - | - | - | - | 30,854 | NMF | - | - | - | (281) | - |
| Prepayments | 44,294 | 149,558 | -70.4% | 48,444 | -8.6% | 44,294 | 61,501 | -28.0% | 48,444 | -8.6% | - | 88,057 | NMF | - | - | - | - | - |
| Inventories | 13,292 | 100,194 | -86.7% | 18,598 | -28.5% | 13,292 | 20,086 | -33.8% | 18,598 | -28.5% | - | 80,108 | NMF | - | - | - | - | - |
| Investment property | 151,446 | 353,565 | -57.2% | 216,715 | -30.1% | 151,446 | 202,533 | -25.2% | 216,715 | -30.1% | - | 155,367 | NMF | - | - | - | (4,335) | - |
| Property and equipment | 344,059 | 988,436 | -65.2% | 315,980 | 8.9% | 344,059 | 322,925 | 6.5% | 315,980 | 8.9% | - | 661,176 | NMF | - | - | - | 4,335 | - |
| Goodwill | 33,351 | 55,276 | -39.7% | 33,351 | 0.0% | 33,351 | 33,351 | 0.0% | 33,351 | 0.0% | - | 21,925 | NMF | - | - | - | - | - |
| Intangible assets | 83,366 | 60,980 | 36.7% | 85,247 | -2.2% | 83,366 | 55,525 | 50.1% | 85,247 | -2.2% | - | 5,455 | NMF | - | - | - | - | - |
| Income tax assets | 19,451 | 2,293 | 748.3% | 28,237 | -31.1% | 19,451 | 919 | NMF | 28,237 | -31.1% | - | 1,374 | NMF | - | - | - | - | - |
| Other assets | 126,008 | 188,732 | -33.2% | 105,883 | 19.0% | 126,008 | 119,337 | 5.6% | 105,883 | 19.0% | - | 73,468 | NMF | - | - | - | (4,073) | - |
| Assets held for sale | 42,408 | - | NMF | - | NMF | 42,408 | - | NMF | - | NMF | - | - | - | - | - | - | - | - |
| Assets of disposal group held for sale | - | 1,136,417 | NMF | - | - | - | - | - | - | - | - | 1,165,182 | NMF | - | - | - | (28,765) | - |
| **Total assets** | **14,798,303** | **15,168,669** | **-2.4%** | **14,314,932** | **3.4%** | **14,798,303** | **12,907,678** | **14.6%** | **14,314,932** | **3.4%** | **-** | **2,763,913** | **NMF** | **-** | **-** | **-** | **(502,922)** | **-** |
| Client deposits and notes | 8,133,853 | 6,712,482 | 21.2% | 7,932,536 | 2.5% | 8,133,853 | 7,078,058 | 14.9% | 7,932,536 | 2.5% | - | - | - | - | - | - | (365,576) | - |
| Amounts due to credit institutions | 2,994,879 | 3,155,839 | -5.1% | 3,006,739 | -0.4% | 2,994,879 | 2,778,338 | 7.8% | 3,006,739 | -0.4% | - | 377,501 | NMF | - | - | - | - | - |
| Debt securities issued | 1,730,414 | 1,709,152 | 1.2% | 1,578,532 | 9.6% | 1,730,414 | 1,386,412 | 24.8% | 1,578,532 | 9.6% | - | 357,442 | NMF | - | - | - | (34,702) | - |
| Accruals and deferred income | 47,063 | 132,669 | -64.5% | 35,977 | 30.8% | 47,063 | 42,207 | 11.5% | 35,977 | 30.8% | - | 90,462 | NMF | - | - | - | - | - |
| Insurance contracts liabilities | - | 46,402 | NMF | - | - | - | - | - | - | - | - | 46,402 | NMF | - | - | - | - | - |
| Income tax liabilities | 28,855 | 20,959 | 37.7% | 38,705 | -25.4% | 28,855 | 20,100 | 43.6% | 38,705 | -25.4% | - | 859 | NMF | - | - | - | - | - |
| Other liabilities | 64,966 | 142,133 | -54.3% | 52,495 | 23.8% | 64,966 | 49,861 | 30.3% | 52,495 | 23.8% | - | 92,553 | NMF | - | - | - | (281) | - |
| Liabilities of disposal group held for sale | - | 516,663 | NMF | - | - | - | - | - | - | - | - | 619,026 | NMF | - | - | - | (102,363) | - |
| **Total liabilities** | **13,000,030** | **12,436,299** | **4.5%** | **12,644,984** | **2.8%** | **13,000,030** | **11,354,976** | **14.5%** | **12,644,984** | **2.8%** | **-** | **1,584,245** | **NMF** | **-** | **-** | **-** | **(502,922)** | **-** |
| Share capital | 1,618 | 1,151 | 40.6% | 1,618 | 0.0% | 1,618 | 1,151 | 40.6% | 1,618 | 0.0% | - | - | - | - | - | - | - | - |
| Additional paid-in capital | 480,555 | 106,086 | NMF | 464,960 | 3.4% | 480,555 | - | NMF | 464,960 | 3.4% | - | 106,086 | NMF | - | - | - | - | - |
| Treasury shares | (51) | (66) | -22.7% | (44) | 15.9% | (51) | (66) | -22.7% | (44) | 15.9% | - | - | - | - | - | - | - | - |
| Other reserves | 30,515 | 122,082 | -75.0% | 34,283 | -11.0% | 30,515 | (74,046) | NMF | 34,283 | -11.0% | - | 196,128 | NMF | - | - | - | - | - |
| Retained earnings | 1,277,732 | 2,180,415 | -41.4% | 1,161,983 | 10.0% | 1,277,732 | 1,618,775 | -21.1% | 1,161,983 | 10.0% | - | 561,640 | NMF | - | - | - | - | - |
| Reserves of disposal group held for sale | - | 10,934 | NMF | - | - | - | - | - | - | - | - | 10,934 | NMF | - | - | - | - | - |
| **Total equity attributable to shareholders of the Group** | **1,790,369** | **2,420,602** | **-26.0%** | **1,662,800** | **7.7%** | **1,790,369** | **1,545,814** | **15.8%** | **1,662,800** | **7.7%** | **-** | **874,788** | **NMF** | **-** | **-** | **-** | **-** | **-** |
| Non-controlling interests | 7,904 | 311,768 | -97.5% | 7,148 | 10.6% | 7,904 | 6,888 | 14.8% | 7,148 | 10.6% | - | 304,880 | NMF | - | - | - | - | - |
| **Total equity** | **1,798,273** | **2,732,370** | **-34.2%** | **1,669,948** | **7.7%** | **1,798,273** | **1,552,702** | **15.8%** | **1,669,948** | **7.7%** | **-** | **1,179,668** | **NMF** | **-** | **-** | **-** | **-** | **-** |
| **Total liabilities and equity** | **14,798,303** | **15,168,669** | **-2.4%** | **14,314,932** | **3.4%** | **14,798,303** | **12,907,678** | **14.6%** | **14,314,932** | **3.4%** | **-** | **2,763,913** | **NMF** | **-** | **-** | **-** | **(502,922)** | **-** |
| **Book value per share** | **37.59** | **65.22** | **-42.4%** | **34.89** | **7.7%** | | | | | | | | | | | | | |

## RESTATED INCOME STATEMENT (QUARTERLY)

| INCOME STATEMENT (QUARTERLY) | Bank of Georgia Group Consolidated | | | | Banking Business | | | |
|---|---|---|---|---|---|---|---|---|
| *GEL thousands, unless otherwise stated* | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q18 | 2Q18 | 3Q18 | 4Q18 |
| Interest income | 311,275 | 327,496 | 337,766 | 345,760 | 313,679 | 329,880 | 337,766 | 345,760 |
| Interest expense | (130,035) | (139,756) | (152,431) | (158,322) | (133,431) | (143,298) | (152,431) | (158,322) |
| **Net interest income** | **181,240** | **187,740** | **185,335** | **187,438** | **180,248** | **186,582** | **185,335** | **187,438** |
| Fee and commission income | 50,673 | 55,333 | 60,413 | 62,350 | 51,213 | 55,694 | 60,413 | 62,350 |
| Fee and commission expense | (16,488) | (17,681) | (20,932) | (21,006) | (16,702) | (17,848) | (20,932) | (21,006) |
| **Net fee and commission income** | **34,185** | **37,652** | **39,481** | **41,344** | **34,511** | **37,846** | **39,481** | **41,344** |
| Net foreign currency gain | 13,151 | 25,426 | 36,827 | 53,358 | 14,253 | 24,999 | 36,827 | 53,358 |
| Net other income /(expense) | 5,518 | 3,380 | 7,437 | (9,073) | 5,745 | 3,707 | 7,437 | (9,073) |
| **Revenue** | **234,094** | **254,198** | **269,080** | **273,067** | **234,757** | **253,134** | **269,080** | **273,067** |
| Salaries and other employee benefits | (48,818) | (53,505) | (54,107) | (58,331) | (49,453) | (53,925) | (54,107) | (58,331) |
| Administrative expenses | (25,168) | (26,717) | (30,759) | (30,010) | (25,633) | (26,862) | (30,759) | (30,010) |
| Depreciation and amortisation | (11,522) | (11,393) | (11,162) | (11,365) | (11,522) | (11,393) | (11,162) | (11,365) |
| Other operating expenses | (772) | (963) | (1,109) | (1,151) | (771) | (964) | (1,109) | (1,151) |
| **Operating expenses** | **(86,280)** | **(92,578)** | **(97,137)** | **(100,857)** | **(87,379)** | **(93,144)** | **(97,137)** | **(100,857)** |
| Profit from associates | 319 | 376 | 326 | 318 | 319 | 376 | 326 | 318 |
| **Operating income before cost of risk** | **148,133** | **161,996** | **172,269** | **172,528** | **147,697** | **160,366** | **172,269** | **172,528** |
| Expected credit loss / impairment charge on loans to customers | (36,676) | (33,535) | (43,505) | (25,783) | (36,676) | (33,535) | (43,505) | (25,783) |
| Expected credit loss / impairment charge on finance lease receivables | 13 | (265) | (426) | 514 | 13 | (265) | (426) | 514 |
| Other expected credit loss / impairment charge on other assets and provisions | 2,850 | (3,727) | (4,176) | (15,509) | 2,849 | (3,726) | (4,176) | (15,509) |
| **Cost of risk** | **(33,813)** | **(37,527)** | **(48,107)** | **(40,778)** | **(33,814)** | **(37,526)** | **(48,107)** | **(40,778)** |
| **Profit before non-recurring items and income tax** | **114,320** | **124,469** | **124,162** | **131,750** | **113,883** | **122,840** | **124,162** | **131,750** |
| Net non-recurring items | (2,948) | (43,875) | (3,747) | (6,586) | (2,948) | (44,047) | (3,747) | (6,586) |
| **Profit before income tax** | **111,372** | **80,594** | **120,415** | **125,164** | **110,935** | **78,793** | **120,415** | **125,164** |
| Income tax expense | (9,283) | (27,718) | (9,316) | (10,348) | (9,283) | (27,718) | (9,316) | (10,348) |
| **Profit from continuing operations** | **102,089** | **52,876** | **111,099** | **114,816** | **101,652** | **51,075** | **111,099** | **114,816** |
| Profit from discontinued operations | 28,938 | 78,960 | - | - | - | - | - | - |
| **Profit** | **131,027** | **131,836** | **111,099** | **114,816** | **101,652** | **51,075** | **111,099** | **114,816** |

## BELARUSKY NARODNY BANK (BNB)

| INCOME STATEMENT, HIGHLIGHTS | 4Q18 | 4Q17 | Change y-o-y | 3Q18 | Change q-o-q | 2018 | 2017 | Change y-o-y |
|---|---|---|---|---|---|---|---|---|
| *GEL thousands, unless otherwise stated* | | | | | | | | |
| Net interest income | 6,471 | 6,021 | 7.5% | 6,525 | -0.8% | 25,894 | 29,397 | -11.9% |
| Net fee and commission income | 1,356 | 2,421 | -44.0% | 1,669 | -18.8% | 7,805 | 9,336 | -16.4% |
| Net foreign currency gain | 5,261 | 3,457 | 52.2% | 3,885 | 35.4% | 16,605 | 10,852 | 53.0% |
| Net other income | 332 | 1,295 | -74.4% | 105 | NMF | 746 | 1,773 | -57.9% |
| **Revenue** | **13,420** | **13,194** | **1.7%** | **12,184** | **10.1%** | **51,050** | **51,358** | **-0.6%** |
| Operating expenses | (8,785) | (8,185) | 7.3% | (7,571) | 16.0% | (32,261) | (29,665) | 8.8% |
| **Operating income before cost of risk** | **4,635** | **5,009** | **-7.5%** | **4,613** | **0.5%** | **18,789** | **21,693** | **-13.4%** |
| Cost of risk | 670 | (518) | NMF | (718) | NMF | (3,070) | (9,092) | -66.2% |
| Net non-recurring items | (8) | (5) | 60.0% | (3) | NMF | (716) | (60) | NMF |
| **Profit before income tax** | **5,297** | **4,486** | **18.1%** | **3,892** | **36.1%** | **15,003** | **12,541** | **19.6%** |
| Income tax expense | (1,162) | (875) | 32.8% | (885) | 31.3% | (3,546) | (2,257) | 57.1% |
| **Profit** | **4,135** | **3,611** | **14.5%** | **3,007** | **37.5%** | **11,457** | **10,284** | **11.4%** |

| BALANCE SHEET, HIGHLIGHTS | Dec-18 | Dec-17 | Change y-o-y | Sep-18 | Change q-o-q |
|---|---|---|---|---|---|
| *GEL thousands, unless otherwise stated* | | | | | |
| Cash and cash equivalents | 110,340 | 104,309 | 5.8% | 65,808 | 67.7% |
| Amounts due from credit institutions | 19,664 | 10,499 | 87.3% | 11,469 | 71.5% |
| Investment securities | 67,734 | 73,415 | -7.7% | 109,798 | -38.3% |
| Loans to customers and finance lease receivables | 432,657 | 399,516 | 8.3% | 394,749 | 9.6% |
| Other assets | 50,155 | 37,096 | 35.2% | 42,038 | 19.3% |
| **Total assets** | **680,550** | **624,835** | **8.9%** | **623,862** | **9.1%** |
| Client deposits and notes | 389,001 | 310,050 | 25.5% | 363,233 | 7.1% |
| Amounts due to credit institutions | 162,823 | 202,492 | -19.6% | 146,932 | 10.8% |
| Debt securities issued | 38,163 | 28,512 | 33.8% | 28,825 | 32.4% |
| Other liabilities | 5,300 | 4,261 | 24.4% | 4,433 | 19.6% |
| **Total liabilities** | **595,287** | **545,315** | **9.2%** | **543,423** | **9.5%** |
| **Total equity** | **85,263** | **79,520** | **7.2%** | **80,439** | **6.0%** |
| **Total liabilities and equity** | **680,550** | **624,835** | **8.9%** | **623,862** | **9.1%** |

| BANKING BUSINESS KEY RATIOS | 4Q18 | 4Q17 | 3Q18 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Profitability** | | | | | |
| ROAA, Annualised[17] | 3.2% | 3.4% | 3.2% | 3.2% | 3.2% |
| ROAE, Annualised[17] | 26.2% | 27.8% | 26.8% | 26.1% | 25.2% |
| *RB ROAE*[17] | *27.3%* | *36.6%* | *30.9%* | *30.0%* | *31.6%* |
| *CIB ROAE*[17] | *27.9%* | *18.1%* | *22.6%* | *22.6%* | *17.6%* |
| Net Interest Margin, Annualised | 6.0% | 7.3% | 6.4% | 6.5% | 7.3% |
| *RB NIM* | *6.7%* | *8.4%* | *7.2%* | *7.5%* | *8.5%* |
| *CIB NIM* | *3.2%* | *3.5%* | *3.4%* | *3.3%* | *3.4%* |
| Loan Yield, Annualised | 12.8% | 14.3% | 13.5% | 13.5% | 14.2% |
| *RB Loan Yield* | *14.2%* | *15.9%* | *14.8%* | *15.1%* | *16.1%* |
| *CIB Loan Yield* | *9.8%* | *11.2%* | *10.8%* | *10.2%* | *10.7%* |
| Liquid Assets Yield, Annualised | 3.8% | 3.4% | 3.8% | 3.8% | 3.4% |
| Cost of Funds, Annualised | 5.0% | 4.8% | 5.0% | 5.0% | 4.7% |
| Cost of Client Deposits and Notes, Annualised | 3.4% | 3.5% | 3.6% | 3.5% | 3.5% |
| *RB Cost of Client Deposits and Notes* | *2.9%* | *2.8%* | *2.8%* | *2.9%* | *2.9%* |
| *CIB Cost of Client Deposits and Notes* | *4.0%* | *4.0%* | *4.4%* | *4.1%* | *4.0%* |
| Cost of Amounts Due to Credit Institutions, Annualised | 7.9% | 6.5% | 7.4% | 7.3% | 6.4% |
| Cost of Debt Securities Issued | 7.8% | 7.8% | 7.8% | 7.8% | 7.4% |
| Operating Leverage, Y-O-Y | 3.8% | -2.9% | 6.8% | 2.9% | -0.1% |
| Operating Leverage, Q-O-Q | -2.3% | -0.2% | 2.0% | 0.0% | 0.0% |
| **Efficiency** | | | | | |
| Cost / Income | 36.9% | 38.3% | 36.1% | 36.7% | 37.7% |
| *RB Cost / Income* | *36.7%* | *38.7%* | *36.3%* | *36.5%* | *38.3%* |
| *CIB Cost / Income* | *29.6%* | *31.0%* | *30.5%* | *30.9%* | *32.0%* |
| **Liquidity** | | | | | |
| NBG Liquidity Ratio | 31.9% | 34.4% | 32.5% | 31.9% | 34.4% |
| Liquid Assets To Total Liabilities | 34.9% | 38.3% | 37.1% | 34.9% | 38.3% |
| Net Loans To Client Deposits and Notes | 115.5% | 109.4% | 110.5% | 115.5% | 109.4% |
| Net Loans To Client Deposits and Notes + DFIs | 99.6% | 92.4% | 95.3% | 99.6% | 92.4% |
| Leverage (Times) | 7.2 | 7.3 | 7.6 | 7.2 | 7.3 |
| **Asset Quality:** | | | | | |
| NPLs (in GEL) | 318,356 | 301,268 | 312,203 | 318,356 | 301,268 |
| NPLs To Gross Loans To Clients | 3.3% | 3.8% | 3.5% | 3.3% | 3.8% |
| NPL Coverage Ratio | 90.5% | 92.7% | 91.7% | 90.5% | 92.7% |
| NPL Coverage Ratio, Adjusted for discounted value of collateral | 129.9% | 130.6% | 136.9% | 129.9% | 130.6% |
| Cost of Credit Risk, Annualised | 1.1% | 2.1% | 2.0% | 1.6% | 2.2% |
| *RB Cost of Credit Risk* | *1.7%* | *1.8%* | *2.4%* | *2.1%* | *2.5%* |
| *CIB Cost of Credit Risk* | *-0.2%* | *3.2%* | *1.5%* | *0.8%* | *1.5%* |
| **Capital Adequacy:** | | | | | |
| NBG (Basel III) Tier I Capital Adequacy Ratio | 12.2% | 12.4% | 11.0% | 12.2% | 12.4% |
| NBG (Basel III) Total Capital Adequacy Ratio | 16.6% | 17.9% | 15.9% | 16.6% | 17.9% |
| **Selected Operating Data:** | | | | | |
| Total Assets Per FTE | 1,995 | 1,832 | 1,961 | 1,995 | 1,832 |
| Number Of Active Branches, Of Which: | 276 | 286 | 285 | 276 | 286 |
| *- Express Branches (including Metro)* | *165* | *156* | *169* | *165* | *156* |
| *- Bank of Georgia Branches* | *99* | *118* | *104* | *99* | *118* |
| *- Solo Lounges* | *12* | *12* | *12* | *12* | *12* |
| Number Of ATMs | 876 | 850 | 858 | 876 | 850 |
| Number Of Cards Outstanding, Of Which: | 2,177,273 | 2,227,000 | 2,192,870 | 2,177,273 | 2,227,000 |
| *- Debit cards* | *1,630,235* | *1,553,427* | *1,603,960* | *1,630,235* | *1,553,427* |
| *- Credit cards* | *547,038* | *673,573* | *588,910* | *547,038* | *673,573* |
| Number Of POS Terminals | 14,220 | 13,216 | 13,419 | 14,220 | 13,216 |
| **FX Rates:** | | | | | |
| GEL/US$ exchange rate (period-end) | 2.6766 | 2.5922 | 2.6151 | | |
| GEL/GBP exchange rate (period-end) | 3.3955 | 3.5005 | 3.4130 | | |

| | Dec-18 | Dec-17 | Sep-18 |
|---|---|---|---|
| **Full Time Employees, Group, Of Which:** | *7,416* | 7,045 | 7,300 |
| *- Full Time Employees, BOG Standalone* | 5,828 | 5,501 | *5,709* |
| *- Full Time Employees, BNB* | *669* | 702 | *705* |
| *- Full Time Employees, BB other* | *919* | 842 | *886* |

| Shares Outstanding | Dec-18 | Dec-17 | Sep-18 |
|---|---|---|---|
| Ordinary Shares | 47,626,147 | 37,116,399 | 47,656,452 |
| Treasury Shares | 1,543,281 | 2,268,313 | 1,512,978 |
| Total Shares Outstanding | 49,169,428 | 39,384,712 | 49,169,430 |

[17] 2018 results adjusted for demerger related expenses and one-off impact of re-measurement of deferred tax balances

# Annex:

In this announcement the Management uses various alternative performance measures ("APMs"), which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. We believe that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate our operating performance and make day-to-day operating decisions.

**Glossary**

1. Return on average total assets (ROAA) equals Banking Business Profit for the period divided by monthly average total assets for the same period;
2. Return on average total equity (ROAE) equals Banking Business Profit for the period attributable to shareholders of the Group divided by monthly average equity attributable to shareholders of the Group for the same period;
3. Net Interest Margin (NIM) equals Net Interest Income of the period divided by monthly Average Interest Earning Assets Excluding Cash for the same period; Interest Earning Assets Excluding Cash comprise: Amounts Due From Credit Institutions, Investment Securities (but excluding corporate shares) and net Loans To Customers And Finance Lease Receivables;
4. Loan Yield equals Interest Income from Loans To Customers And Finance Lease Receivables divided by monthly Average Gross Loans To Customers And Finance Lease Receivables;
5. Cost of Funds equals Interest Expense of the period divided by monthly average interest bearing liabilities; interest bearing liabilities include: amounts due to credit institutions, client deposits and notes, and debt securities issued;
6. Operating Leverage equals percentage change in revenue less percentage change in operating expenses;
7. Cost / Income Ratio equals operating expenses divided by revenue;
8. NBG Liquidity Ratio equals daily average liquid assets (as defined by NBG) during the month divided by daily average liabilities (as defined by NBG) during the month;
9. Liquid assets include: cash and cash equivalents, amounts due from credit institutions and investment securities;
10. Liquidity Coverage Ratio equals high quality liquid assets (as defined by NBG) divided by net cash outflows over the next 30 days (as defined by NBG);
11. Leverage (Times) equals total liabilities divided by total equity;
12. NPL Coverage Ratio equals allowance for impairment of loans and finance lease receivables divided by NPLs;
13. NPL Coverage Ratio adjusted for discounted value of collateral equals allowance for impairment of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for impairment);
14. Cost of Credit Risk equals expected loss/ impairment charge for loans to customers and finance lease receivables for the period divided by monthly average gross loans to customers and finance lease receivables over the same period;
15. NBG (Basel III) Tier I Capital Adequacy ratio equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
16. NBG (Basel III) Total Capital Adequacy ratio equals total regulatory capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
17. NMF – Not meaningful

## Bank of Georgia Group PLC 4Q18 and FY18 Preliminary Results Conference Call Details

Bank of Georgia Group PLC ("**Bank of Georgia Group**" or the "**Group**") has published its 4th quarter and full year 2018 preliminary financial results at 07:00 London time. This results announcement is also available on the Group's website at www.bankofgeorgiagroup.com. An investor/analyst conference call, organised by the Bank of Georgia Group, will be held on, 19 February 2019, at 13:00 UK / 14:00 CET / 08:00 U.S Eastern Time. The duration of the call will be 60 minutes and will consist of a 15-minute update and a 45-minute Q&A session.

**Dial-in numbers:**

Pass code for replays/Conference ID: **2747369**
International Dial-in: +44 (0) 2071 928000
UK: 08445718892
US: 16315107495
Austria: 019286559
Belgium: 024009874
Czech Republic: 228881424
Denmark: 32728042
Finland: 0942450806
France: 0176700794
Germany: 06924437351
Hungary: 0614088064
Ireland: 014319615
Italy: 0687502026
Luxembourg: 27860515
Netherlands: 0207143545
Norway: 23960264
Spain: 914146280
Sweden: 0850692180
Switzerland: 0315800059

**30-Day replay:**

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International Dial in: +44 (0) 3333009785
UK National Dial In: 08717000471
UK Local Dial In: 08445718951
USA Free Call Dial In: 1 (866) 331-1332

# COMPANY INFORMATION

## Bank of Georgia Group PLC

### Registered Address

84 Brook Street
London W1K 5EH
United Kingdom
www.bankofgeorgiagroup.com
Registered under number 10917019 in England and Wales

### Secretary

Link Company Matters Limited
65 Gresham Street
London EC2V 7NQ
United Kingdom

### Stock Listing

London Stock Exchange PLC's Main Market for listed securities
Ticker: "BGEO.LN"

### Contact Information

Bank of Georgia Group PLC Investor Relations
Telephone: +44(0) 203 178 4052; +995 322 444444 (9282)
E-mail: ir@bog.ge

### Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY
United Kingdom

### Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
United Kingdom

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Investor Centre Web Address - www.investorcentre.co.uk.
Investor Centre Shareholder Helpline - +44 (0)370 873 5866

### Share price information

Shareholders can access both the latest and historical prices via the website
www.bankofgeorgiagroup.com