



INVESTMENT  
PLATFORM

# Demerger to Unlock Additional Long-Term Value for Shareholders

Investor Presentation  
April 2018

[www.bgeo.com](http://www.bgeo.com)

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1 Update on Demerger

2 Bank of Georgia

3 Georgia Capital

4 Appendix

# UPDATE ON THE DEMERGER PROGRESS



Bank of Georgia Group PLC



Georgia Capital PLC

February 2018

## Board approval

BGEO Board of Directors formally approved the implementation of the demerger

30 April 2018

## General Meeting shareholder approval

Demerger will be subject to shareholder approval at a General Meeting

21 May 2018

## Admission of Bank of Georgia

Listing of Bank of Georgia Group shares on the LSE (premium segment)

Now

3 July 2017

## Demerger announcement

BGEO Group to demerge into two separately London-listed businesses: a banking business and an investment business

26 March 2018

## Prospectus launch

Separate equity prospectuses of Bank of Georgia and Georgia Capital are submitted  
<http://bgeo.com/prospectuses>

18 May 2018

## Scheme Court Hearing

Scheme Court Hearing to sanction the Scheme

29 May 2018

## Demerger completion

Bank of Georgia and Georgia Capital will be two independent entities, with no overlapping management or directors

## Tax Impact

- Tax efficient transaction structure from both US and EU perspectives

## Listing and Indexation

- Bank of Georgia expected to remain in FTSE 250 post demerger. Both companies expected to be in FTSE All Share Index post demerger

## Corporate Governance

- Key Board positions settled, no cross-directorships post demerger

On the 3rd of July, 2017 BGEO announced intention to demerge BGEO Group PLC (“BGEO Group”) into two entities

Bank of Georgia	Georgia Capital	Overall
<p><b>More business:</b></p> <ul style="list-style-type: none"> <li>Enhanced flexibility and stronger focus on further expansion of corporate franchise and growth of corporate clients</li> <li>Opportunity to gain access to Georgia Capital’s portfolio companies</li> </ul> <p><b>Higher efficiency:</b></p> <ul style="list-style-type: none"> <li>More efficient capital structure, financing and balance sheet</li> <li>Less regulatory scrutiny and disclosure requirements</li> </ul>	<ul style="list-style-type: none"> <li><b>The only professionally managed publicly listed investment company</b> in Georgia</li> <li><b>Wider access to investment opportunities:</b> ability to establish more efficient and direct dialogue with Georgian corporates</li> <li>Enhanced flexibility to allocate capital and pursue growth strategy more effectively</li> <li>As a separate entity, Georgia Capital would not be subject to the banking regulatory regime thereby improving its ability and flexibility to allocate capital, take advantage of various investment opportunities and better execute its growth strategy</li> </ul>	<p><b>Clear play</b></p> <ul style="list-style-type: none"> <li>Two leaders in their respective sectors which are strongly positioned to pursue significant growth opportunities coming from rapidly growing Georgian economy</li> <li>Independent and more focused management teams with management rewards more directly aligned with business and stock market performance</li> <li>Separate and more focused companies with clearer strategy and separate market valuations</li> <li>Optionality for investors to make own choice when taking investment decisions:             <ul style="list-style-type: none"> <li>Pure play banking story in Georgia</li> <li>Diversified investment vehicle in Georgia</li> </ul> </li> </ul>

## Benefits of the Demerger

Business flexibility	Growth opportunities
Investor clarity and understanding	Efficient capital structure
Improved management focus	Alignment of incentives

# TWO DISTINCT LONDON-LISTED ENTITIES POST DEMERGER



Industry-leading systemically important universal bank focused on Georgia

Retail Banking	Corporate and Investment Banking
Wealth Management	BNB (Bank in Belarus)



Diversified holding company focused on investing in and developing businesses in Georgia

LSE listed	Private	
57% GHG (Healthcare)	100% m <sup>2</sup> (Real Estate)	100% GGU (Utilities & Energy)
19.9% Bank of Georgia	100% Aldagi (P&C Insurance)	76% Teliani Valley (Beverages)

## Both strategies remain largely unchanged

Bank of Georgia strategy is expected to remain largely unchanged:

- Return on average equity of over 20%
- Growth of banking business customer lending by 15%-20%
- Maintaining a strong capital base and liquidity position
- Targeting a dividend payout in the 25-40% of earnings range

Georgia Capital will continue to pursue the same dividend and capital returns policy as the Investment Business of BGEO Group:

- Capitalise on Georgia's fast-growing economy with opportunities in a number of underdeveloped sectors
- Target a minimum IRR of 25%
- Retain its current capital return policy - buyback and cancel its shares
- Consider potential exits, starting with GGU IPO in 2-3 years' time

## Both entities will maintain strong corporate governance standards

- Kaha Kiknavelidze as CEO will continue to lead Bank of Georgia
- Neil Janin, currently the Non-Executive Chairman of BGEO Group, will become the Non-Executive Chairman of Bank of Georgia
- The senior management team of Georgia Capital will be led by Irakli Gilauri as Chairman and CEO
- The Board of Georgia Capital will maintain strong corporate governance standards and a talented team of high calibre independent directors

# CONTENT

1 Update on Demerger

2 **Bank of Georgia**

3 Georgia Capital

4 Appendix



## PREMIUM BANK IN ATTRACTIVE BANKING SECTOR

**Leading market position<sup>1</sup>  
Systemically important  
financial institution**

- 34.4% market share by assets
- 32.4% market share by loans
- 33.9% market share by client deposits
- 29.3% market share by equity

**Underpenetrated market with  
stable growth perspectives<sup>2</sup>**

- Real GDP average annual growth rate of 4.5 % for 2007-2017
- 4.8% real GDP growth in 2017
- Loans/GDP grew from 9.0% to 56.1% in the period of 2003-2017
- Deposits/GDP grew from 8.0% to 52.0% over the same period

**Strong brand name and  
comprehensive retail banking  
franchise**

- Retail banking franchise offers the broadest range of financial products to the retail market through a network of 281 branches, 850 ATMs, 2,842 Express Pay Terminals and 2.3 million customers as of 31 December 2017

**High standards of  
transparency and robust  
corporate governance**

- The first entity from Georgia to be listed on the premium segment of the Main Market of the London Stock Exchange (LSE:BGEO) since February 2012
- LSE listed through GDRs since 2006
- Shareholder aligned remuneration policy
- Experienced management with a deep understanding of the local market

**SUSTAINABLE GROWTH COMBINED WITH STRONG CAPITAL, LIQUIDITY AND ROBUST PROFITABILITY**

# BOG - STRONG TRACK RECORD OF DELIVERY ON TARGETS



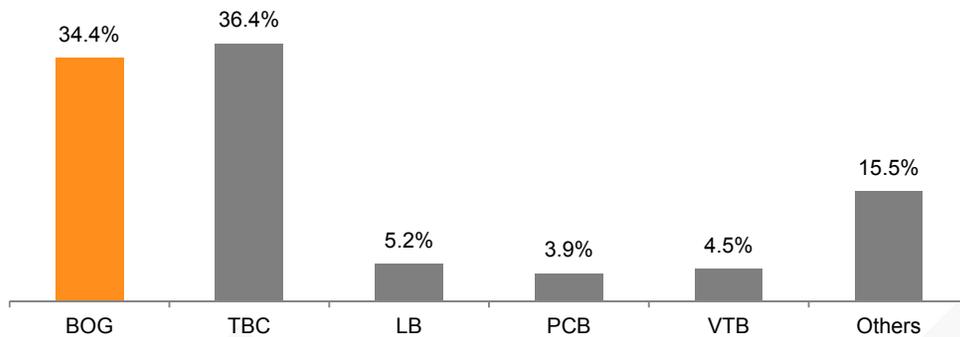
		Targets 2017	2017	Progress			Targets 2018	
KEY TARGETS	1	ROAE	20%+	25.2%	✓	1	ROAE	20%+
	2	Retail Banking Growth	20%+	29.3%	✓	2	Loan Book Growth	15% - 20%
PRIORITIES	1	Grow RB's share in loan book	65%	68.0%	✓	1	Increase Mass Retail Product to Client Ratio	3.0
	2	Increase Mass Retail Product to Client Ratio	3.0	1.8		2	Increase number of Solo clients	To 40,000
	3	Increase number of Solo clients	To 40,000	32,104	✓	3	Become a regional private banking hub	AUM: GEL 2.5bln
	4	De-concentrate Corporate Loan Book	Top 10 borrowers: 10%	10.7%	✓			
	5	Become a regional private banking hub	AUM: GEL 2.5bln	AUM: GEL 1.9bln				
FINANCIAL METRICS	1	NIM	7.25% - 7.75%	7.3%	✓	1	NIM	7%+
	2	Cost / Income	c. 35%	37.7%		2	Cost / Income	c. 35%
	3	NPL coverage ratio	80-120%	92.7%	✓	3	NPL coverage ratio	80-120%
	4	Cost of Risk	c.2.0%	2.2%	✓	4	Cost of Risk	c.2.0%
	5	Dividend payout ratio	25-40%	32%	✓	5	Dividend payout ratio	25-40%

# BOG - SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION

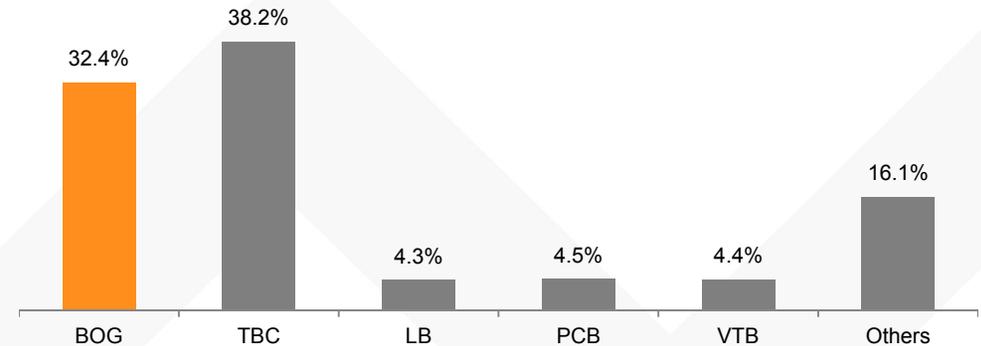
## THE COMPETITION



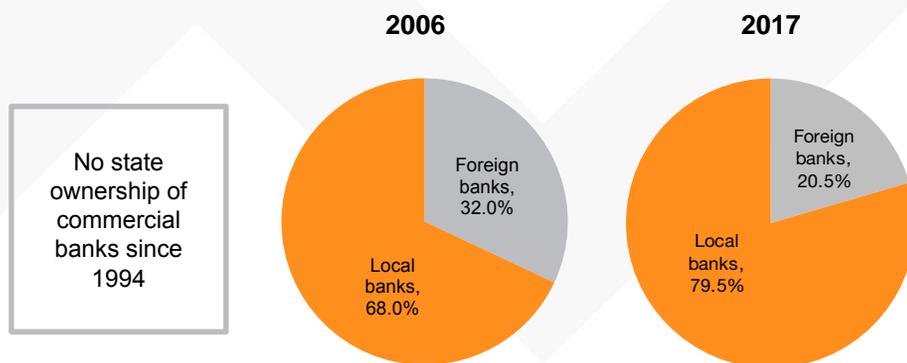
### Peer group's market share in total assets



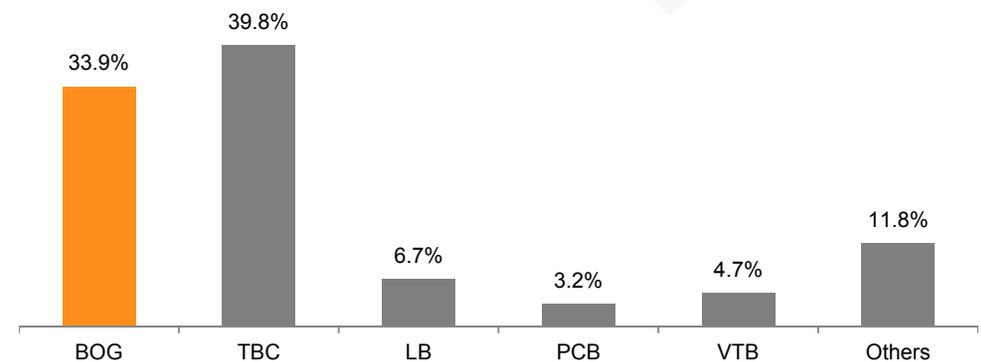
### Peer group's market share in gross loans



### Foreign banks market share by assets



### Peer group's market share in client deposits



# BOG – PERFORMANCE HIGHLIGHTS



## Income Statement Highlights

<i>GEL millions unless otherwise noted</i>	2017	Change y-o-y	2016	2015
Net banking interest income	672.10	21.4%	553.61	510.60
Net fee and commission income	131.47	5.3%	124.91	121.22
Net banking foreign currency gain	86.06	3.4%	83.20	75.93
Net other banking income	19.70	61.7%	12.18	19.40
<b>Revenue</b>	<b>909.34</b>	<b>17.5%</b>	<b>773.91</b>	<b>727.15</b>
<b>Operating expenses</b>	<b>(342.94)</b>	<b>17.6%</b>	<b>(291.55)</b>	<b>(258.29)</b>
<b>Operating income before cost of credit risk / EBITDA</b>	<b>566.40</b>	<b>17.7%</b>	<b>482.36</b>	<b>468.86</b>
Profit from associates	1.31	NMF	-	-
<b>Operating income before cost of credit risk</b>	<b>567.71</b>	<b>17.7%</b>	<b>482.36</b>	<b>468.86</b>
Cost of credit risk	(167.30)	-0.3%	(167.75)	(150.81)
<b>Profit before non-recurring items and income tax</b>	<b>400.41</b>	<b>27.3%</b>	<b>314.61</b>	<b>318.05</b>
Net non-recurring items	(4.30)	-90.5%	(45.36)	(12.34)
<b>Profit before income tax (expense)/benefit</b>	<b>396.11</b>	<b>47.1%</b>	<b>269.25</b>	<b>305.71</b>
Income tax (expense)/benefit	(26.59)	NMF	26.44	(43.92)
<b>Profit</b>	<b>369.52</b>	<b>25.0%</b>	<b>295.70</b>	<b>261.79</b>
Earnings per share (basic)	9.76	27.4%	7.66	6.74
Earnings per share (diluted)	9.30	25.4%	7.42	6.74

## Balance Sheet Highlights

<i>GEL millions unless otherwise noted</i>	Dec-17	Change y-o-y	Dec-16	Dec-15
Liquid assets	4,346.51	17.3%	3,705.17	3,001.12
Cash and cash equivalents	1,516.40	2.4%	1,480.78	1,378.30
Amounts due from credit institutions	1,216.35	29.3%	940.49	718.68
Investment securities	1,613.76	25.7%	1,283.90	904.15
Loans to customers and finance lease receivables	7,741.42	15.9%	6,681.67	5,366.76
Property and equipment	322.93	8.8%	296.79	293.24
<b>Total assets</b>	<b>12,907.68</b>	<b>16.0%</b>	<b>11,123.36</b>	<b>9,051.39</b>
Client deposits and notes	7,078.06	23.0%	5,755.77	5,011.27
Amounts due to credit institutions	2,778.34	-9.4%	3,067.65	1,692.56
Borrowings from DFI	1,297.75	1.2%	1,281.80	917.09
Short-term loans from NBG	793.53	-26.9%	1,085.64	307.20
Loans and deposits from commercial banks	687.06	-1.9%	700.21	468.27
Debt securities issued	1,386.41	61.6%	858.04	961.94
<b>Total liabilities</b>	<b>11,354.98</b>	<b>16.2%</b>	<b>9,770.86</b>	<b>7,802.67</b>
<b>Total equity</b>	<b>1,552.70</b>	<b>14.8%</b>	<b>1,352.50</b>	<b>1,248.72</b>

## Key Ratios

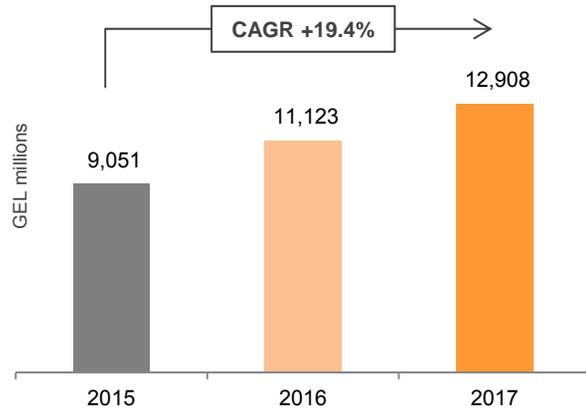
	2017	2016	2015
ROAA	3.2%	3.1%	3.1%
ROAE	25.2%	22.2%	21.9%
Net Interest Margin	7.3%	7.4%	7.7%
Loan Yield	14.2%	14.2%	14.7%
Liquid assets yield	3.4%	3.2%	3.2%
Cost of Funds	4.7%	4.7%	5.1%
Cost of Client Deposits and Notes	3.5%	3.8%	4.3%
Cost of Amounts Due to Credit Institutions	6.4%	6.2%	5.8%
Cost of Debt Securities Issued	7.4%	6.8%	7.1%
Cost / Income	37.7%	37.7%	35.5%
NPLs to Gross Loans to Clients	3.8%	4.2%	4.3%
NPL Coverage Ratio <sup>1</sup>	92.7%	86.7%	83.4%
NPL Coverage Ratio, Adjusted for discounted value of collateral	130.6%	132.1%	120.6%
Cost of Risk	2.2%	2.7%	2.7%
NBG (Basel II) Tier I Capital Adequacy Ratio	10.3%	9.1%	10.9%
NBG (Basel II) Total Capital Adequacy Ratio	14.8%	14.4%	16.7%
NBG (Basel III) Tier I Capital Adequacy Ratio	12.4%	n/a	n/a
NBG (Basel III) Total Capital Adequacy Ratio	17.9%	n/a	n/a

<sup>1</sup> NPL Coverage Ratio adjusted for IFRS 9 was 102.9% at 31 December 2017

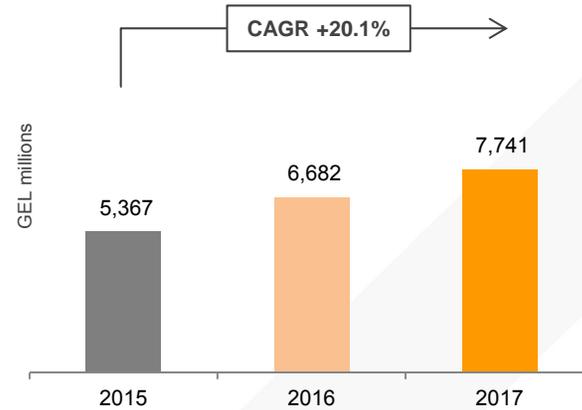
# BOG – STRONG UNDERLYING PERFORMANCE



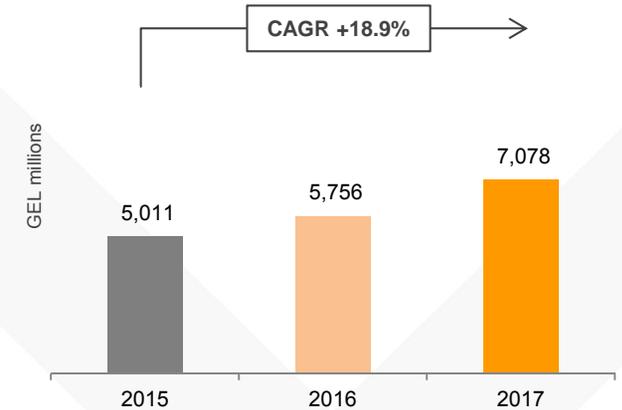
## Total assets



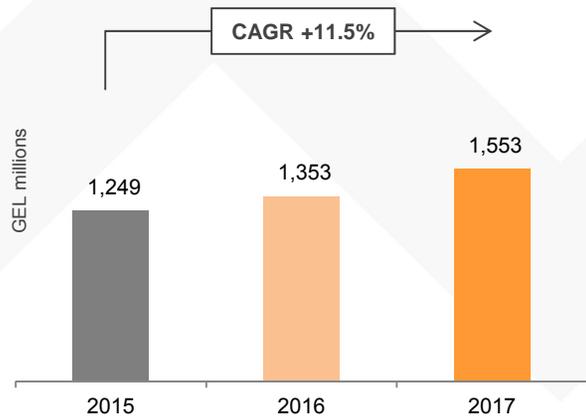
## Net loans to customers



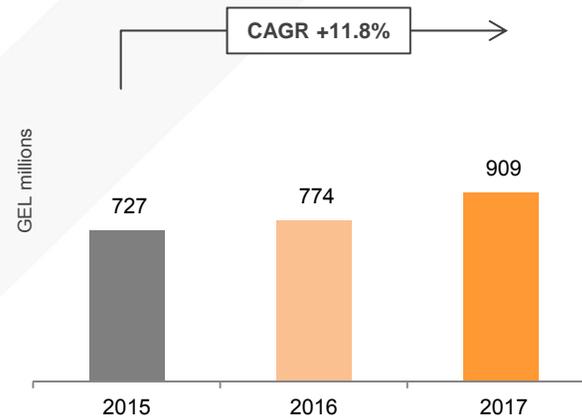
## Client deposits



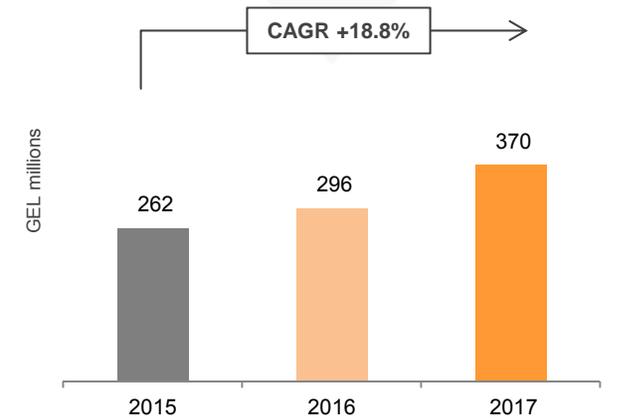
## Total equity



## Revenue



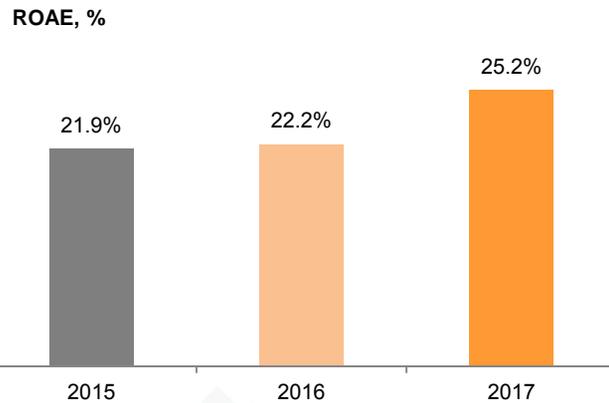
## Profit



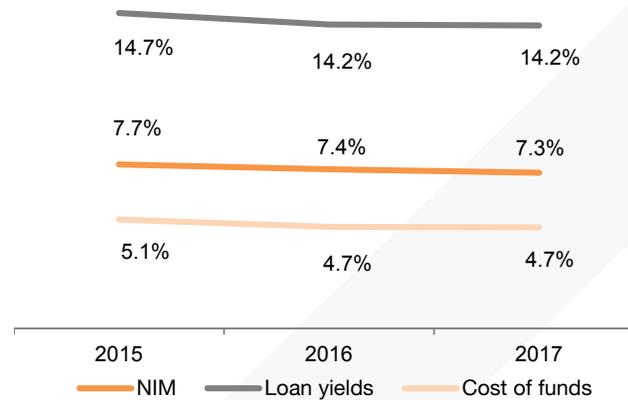
# BOG – STRONG UNDERLYING PERFORMANCE



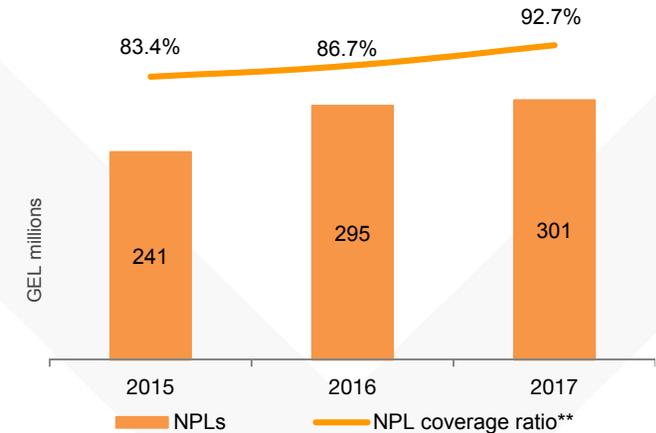
## Best-in-class Profitability



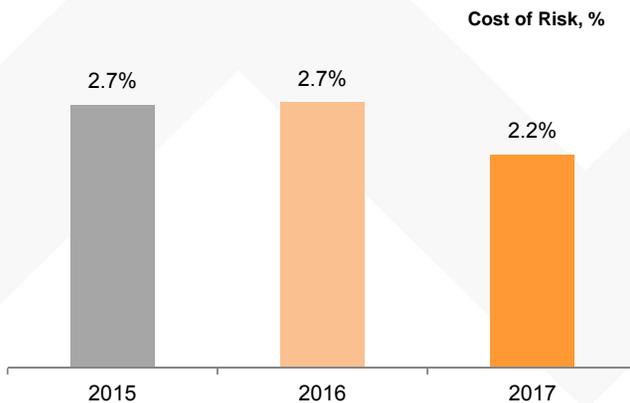
## Strong Margins



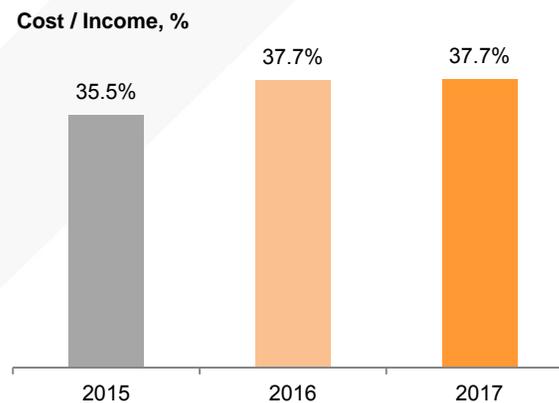
## Resilient Loan Portfolio Quality



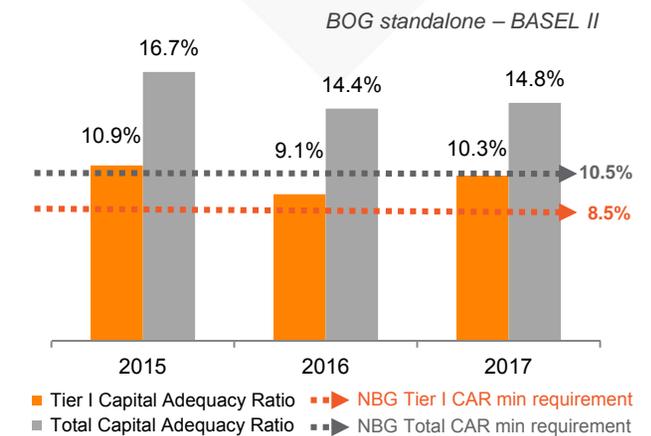
## Strong Asset Quality



## High Operating Efficiency



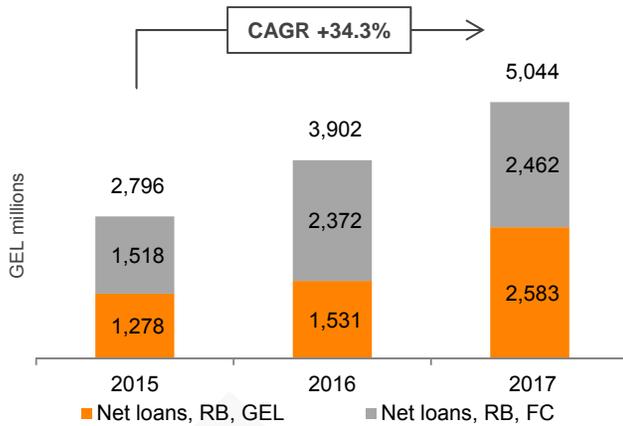
## Strong Capital Position\*



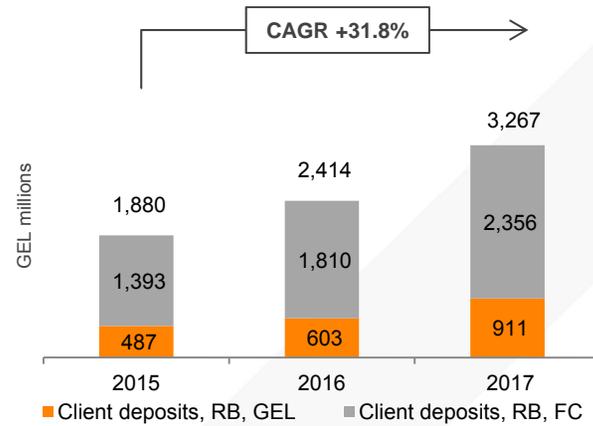
# BOG – RETAIL BANKING OVERVIEW



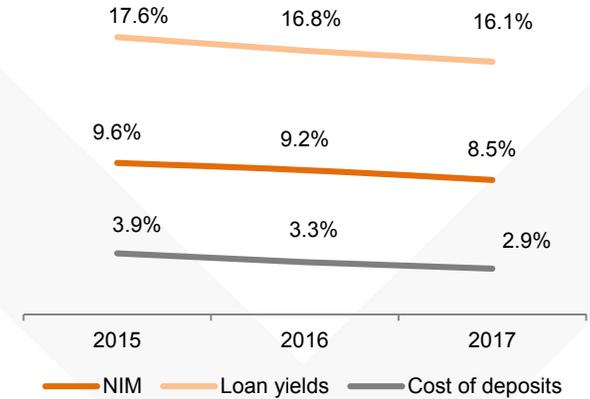
## RB Loans



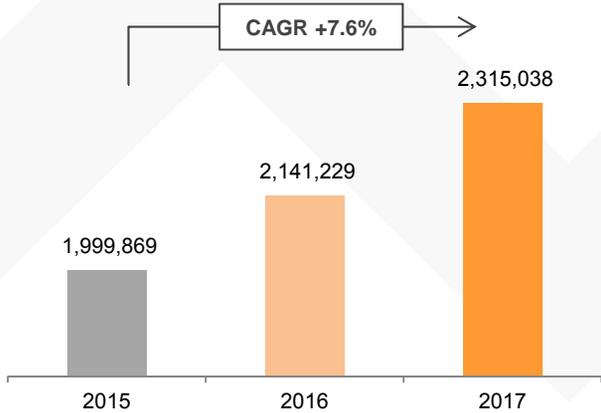
## RB Deposits



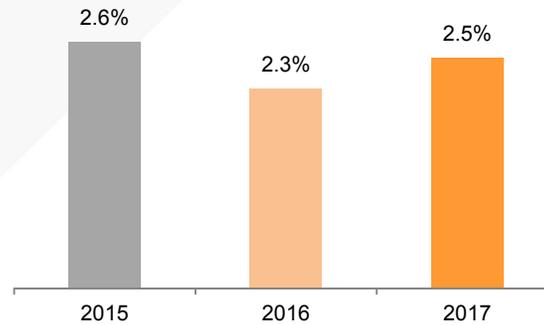
## Strong Margins



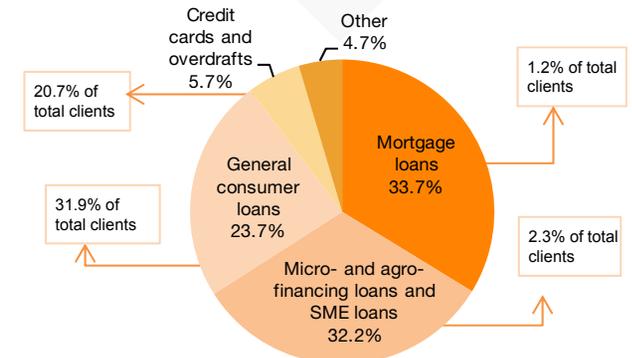
## Number of Clients



## Cost of Risk



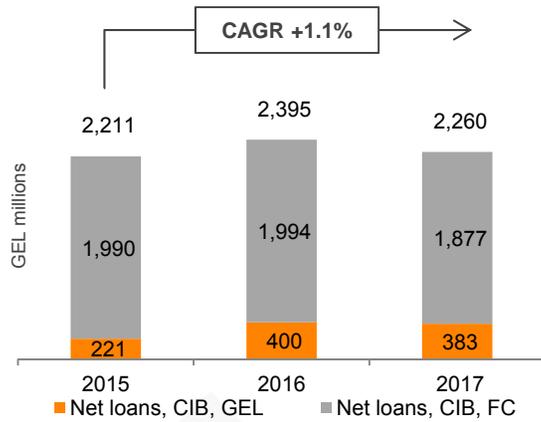
## RB Loan Portfolio Composition



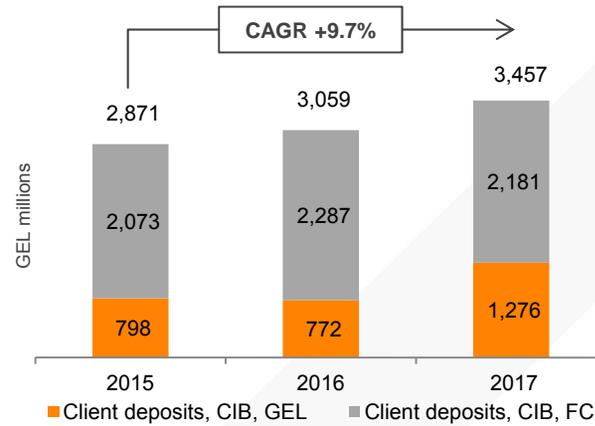
# BOG – CORPORATE INVESTMENT BANKING OVERVIEW



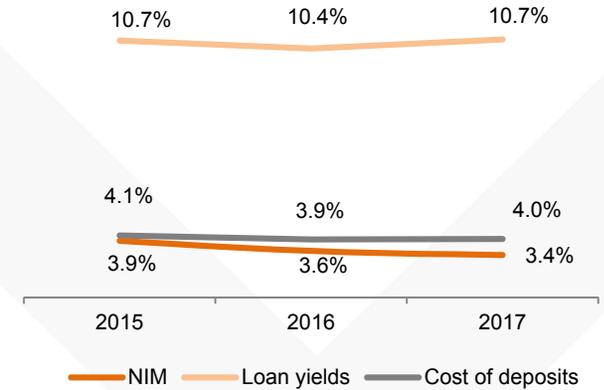
## CIB Loans



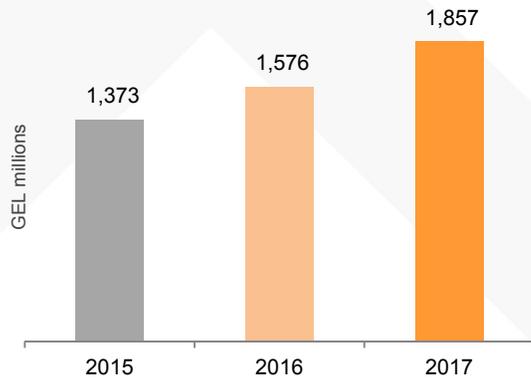
## CIB Deposits



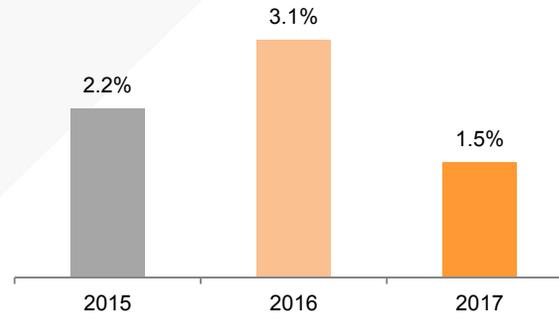
## Strong Margins



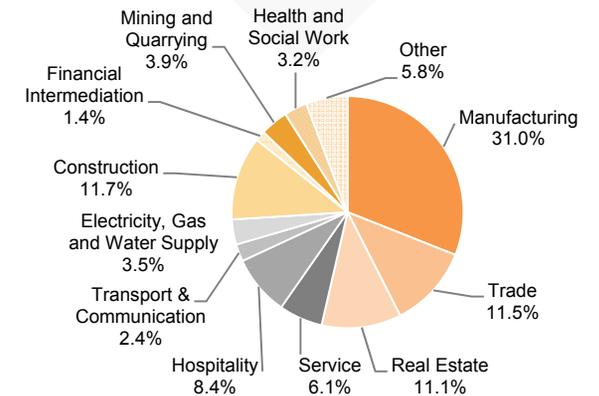
## Wealth Management AUM



## Cost of Risk



## Loan Portfolio Composition<sup>1</sup>





## Robust Corporate Governance based on UK Corporate Governance Code



**Neil Janin**, Independent Non-Executive Chairman

*Experience: formerly Director at McKinsey & Company in Paris; formerly: co-chairman of the commission of the French Institute of Directors (IFA), formerly Chase Manhattan Bank in New York and Paris*



**Kaha Kiknavelidze**, Chief Executive Officer

*Experience: With the Group since 2008; originally joined as member of the Bank's Supervisory Board and Audit Committee; formerly: managing partner of Rioni Capital, Executive Director at UBS. Holds an MBA from Emory University.*



**Hanna Loikkanen**, Senior Independent Non-Executive Director

*Experience: currently advisor to East Capital Private Equity AB; Non-Executive Director of PJSC Rosbank; formerly: Senior executive at East Capital, FIM Group Russia, Nordea Finance, SEB*



**Al Breach**, Independent Non-Executive Director

*Experience: a Director of Gemsstock Ltd., the Gemsstock Fund, The Browser and Furka Holdings AG, an advisor to East Capital; formerly Head of Research, Strategist & Economist at UBS Russia and CIS, economist at Goldman Sachs*



**Tamaz Georgadze**, Independent Non-Executive Director

*Experience: Executive Director and founder of Raisin GmbH (formerly SavingGlobal GmbH); formerly: Partner at McKinsey & Company in Berlin, aide to President of Georgia*



**Jonathan Muir**, Independent Non-Executive Director

*Experience: CEO of LetterOne Holdings SA and a CEO of LetterOne Investment Holdings; formerly: Board Advisor of BGEO; CFO and Vice President of Finance and Control of TNK-BP, Partner at Ernst & Young*



**Cecil Quillen**, Independent Non-Executive Director

*Experience: Partner at Linklaters LLP with nearly 29 years of experience in working on a broad spectrum of securities and finance matters*



## Senior Executive Compensation Policy will continue to apply to top executives and envisages long-term deferred and discretionary awards of securities and no cash bonuses to be paid to such executives



### **Kaha Kiknavelidze, Chief Executive Officer**

With the Group since 2008. Originally joined as member of the Bank's Supervisory Board and Audit Committee. Kaha founded and managed Rioni Capital Partners LLP, a London-based investment management company until his appointment as a CEO of the Bank. Kaha has served in a number of roles at UBS and Troika Dialog. Holds an MBA from Emory University.



### **David Tsiklauri, Chief Financial Officer**

Joined the Group as Deputy CEO in charge of Corporate Investment Banking in 2017 from TBC, where he was a Deputy CEO in charge of Corporate Banking since 2014. Before joining TBC Bank, David served as the Vice President of the Capital Markets and Treasury Solutions team at Deutsche Bank. Holds an MBA from London Business School.



### **Levan Kulijanishvili, Deputy CEO, Operations**

With the Group since 1997. Joined as a Junior Financial Analyst of the Bank. Held various senior positions, including Deputy CEO in charge of finance, Head of Internal Audit, Head of Financial Monitoring, Head of Strategy and Planning, and Head of the Financial Analysis. Holds an MBA from Grenoble Graduate School of Business



### **George Chiladze, Deputy CEO, Chief Risk Officer**

With the Group since 2008. Joined as a Deputy CEO in charge of finance at the Bank. Left the Group in 2011 and rejoined in 2013 as Deputy CEO, Chief Risk Officer. Prior to rejoining the Group, he was Deputy CEO at the Partnership Fund. Prior to returning to Georgia in 2003, he worked at the programme trading desk at Bear Stearns in New York City. Holds a PhD in physics from Johns Hopkins University in Baltimore, Maryland.



### **Mikheil Gomarteli, Deputy CEO, Emerging and Mass Retail Banking**

With the Group since 1997. Mikheil is a textbook professional growth story made possible in our Group – he developed his way from selling debit cards door-to-door to successfully leading our Retail Banking franchise for over ten years now. Holds an undergraduate degree in Economics from Tbilisi State University.



### **Ramaz Kukuladze, Deputy CEO, SOLO and MSME Banking**

With the Group since 2006. Joined as Deputy CEO, Corporate Banking. Left the Group in 2009 and rejoined the Group in February 2017. Prior to rejoining the Group, Ramaz held the role of Chief Commercial Officer and Deputy CEO at Bank Republic since 2013. Holds an MBA from IE Business School.



### **Vasil Khodeli, Deputy CEO, Corporate Investment Banking**

With the Group since 1998. Previously served as Head of Corporate Banking of the Bank since 2004. He has more than 20 years of banking experience and has held various roles with the Group. Holds an MBA from Grenoble Business School.



### **Vakhtang Bobokhidze, Deputy CEO, Information Technologies**

With the Group since 2005. Joined as Quality Control Manager. Left the Group in 2010 and rejoined the Group in December 2010. Prior to being appointed as Deputy CEO, served as Head of IT Department since 2016. Holds an MBA from Tbilisi State University.

# CONTENT

1 Update on Demerger

2 Bank of Georgia

3 Georgia Capital

4 Appendix

## Georgia Capital strategy is based on three pillars

1

### Georgia

#### Leading economy in the region

- Diversified non-commodity reliant economy with consistently high GDP growth across the last decade

#### Top-ranked in economy environment indices

- #9 in ease of doing business (2018)
- Top-9 in Europe region by Economic Freedom Index (Heritage Foundation, 2018) and #16 internationally
- Low corruption and bribery risk (TI, 2017 and Trace international, 2017)

#### Investment-led GDP growth with 5.5% growth potential expected in 2018

- Development of large public infrastructure programs backed by multilateral international funding driving GDP growth

#### Historically low inflation with 3% target set for 2018-2020 by National Bank

2

### 3-fundamental enablers

#### Access to capital

- Only investment company in Georgia
- Uniquely positioned given the access to capital in a small frontier economy
- Flexibility to use own shares as acquisition currency

#### Access to management

- Reputation among talented managers as the - “best group to work for”
- Attracted talent have demonstrated track record of successful delivery

#### Commitment to the highest level of corporate governance

- Outstanding track record
- Strong board and robust corporate governance
- Aligned shareholders’ and management’s interests by share compensation

3

### Capital allocation & Managing investments

#### Capital allocation

- **Highly disciplined approach** to unlock value through investments
- **Clear, company specific, exit paths** through IPO or trade sale in 5-10 years and **outstanding divesture skills** demonstrated via successful public listing of healthcare business
- **Disciplined when investing, by buying cheaply**
- Buying assets cheaply is the first and most important element of Georgia Capital’s investment strategy

#### Harvesting investments

- Attracting and developing talent is a top priority
- Aligned management style with institutionalized/ non-institutionalized portfolio companies
- Share ownership plans (proxy shares) for portfolio companies’ management
- Track record of Institutionalizing and creating independently managed healthcare business

## Access to a 2.8bn Market without Customs Duties



Georgia is the second country in the world, after Switzerland, with FTAs with both EU and China

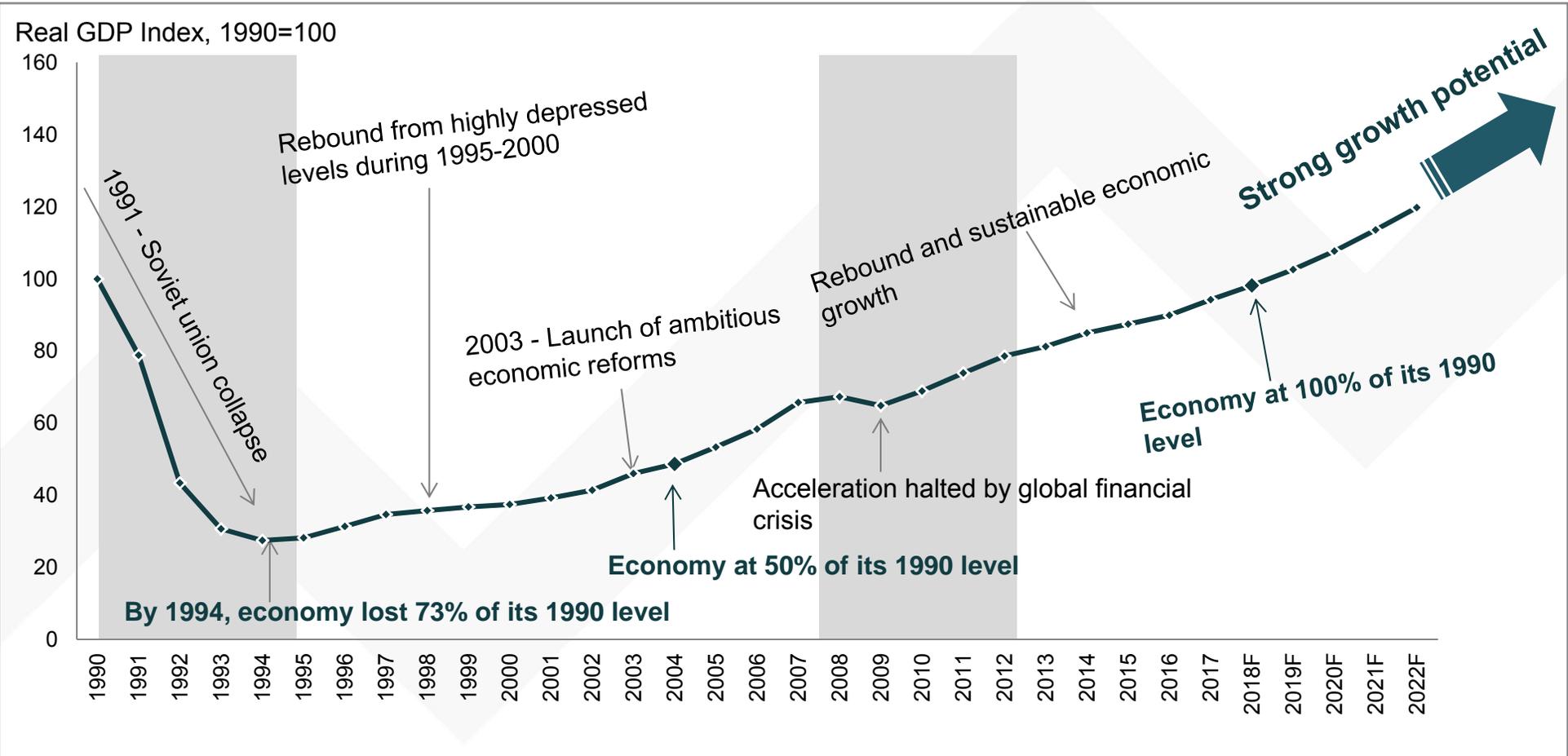
### Georgia highlights

- FTA with China signed in May 2017, effective from January 2018
- FTA with European Free Trade Association countries signed in June 2016, effective for Iceland and Norway from September 2017, pending for Liechtenstein and Switzerland
- FTA with Hong Kong, negotiations completed
- FTA with India under consideration

- WTO member since 2001
  - Very simple and service-oriented customs policy and administration
  - c. 80% of goods free from import tariffs
  - No quantitative restrictions
- Preferential Trade Regimes:**
1. DCFTA (Deep and Comprehensive Free Trade Agreement) with EU signed in June 2014
  2. FTA with CIS countries (Russia, Kazakhstan, etc.)
  3. FTA with Turkey
  4. FTA with China
  5. FTA with EFTA countries (Iceland, Liechtenstein, Norway and Switzerland)
  6. GSP agreements with USA, Canada, and Japan



## Georgian Economy 1990-2017: collapse, stabilization, acceleration, crisis, rebound, sustainable economic growth and finally strong future growth potential



# GEORGIA CAPITAL VALUE PROPOSITION – 3-FUNDAMENTAL ENABLERS



## 1 Superior access to capital

- Only investment company in Georgia
- Uniquely positioned given the access to capital in a small frontier economy, where access to capital is limited:
  - **c.US\$ 500 mln** raised in equity at LSE
  - Issued five Eurobonds totaling **US\$ 1.5 billion**
  - **US\$ 3 billion+** raised from IFIs (EBRD, IFC etc.)
- **Flexibility to use own shares as acquisition currency**

## 2 Access to management

- Reputation among talented managers as the - **“best group to work for”**
- Attracted talent have demonstrated track record of successful delivery
- **Proven DNA in turning around companies and growing them efficiently**
- **Strong skillset in company exits**
  - LSE IPO track record
  - Divestiture skills

## 3 Strong corporate governance

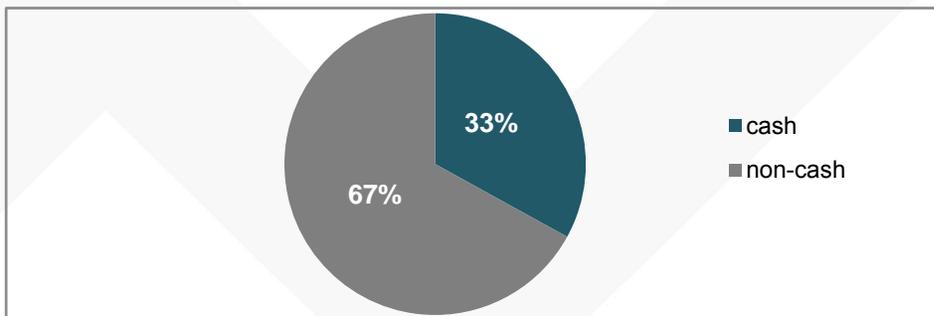
- **Outstanding track record in:**
  - Institutionalizing businesses, creating independently run/managed institutions
  - Investor reporting transparency and granularity
- **Strong board and robust corporate governance**
- **Aligned shareholders' and management's interests**
  - Management compensation linked to performance
  - Equity/performance dominating compensation structure

# GEORGIA CAPITAL AS AN INVESTMENT PLATFORM



		Private Equity
2% Management Fee	n/a	✓
20% Success Fee	n/a	✓
c.2% Operating Expenses	✓	n/a

## Holdco operating expenses - c.2% of NAV



## Key takeaways

- **Cash preservation** is a key target for GCAP: two thirds of total operating expenses are related to share-based compensation
- GCAP's **senior management's compensation** will be paid in long-vested shares only, with **no cash component**
- **Portfolio company management** will be paid in **proxy shares** of their respective companies



## Georgia Focused Diversified Investment Company Targeting Minimum IRR of 25%

1

### Capital allocation

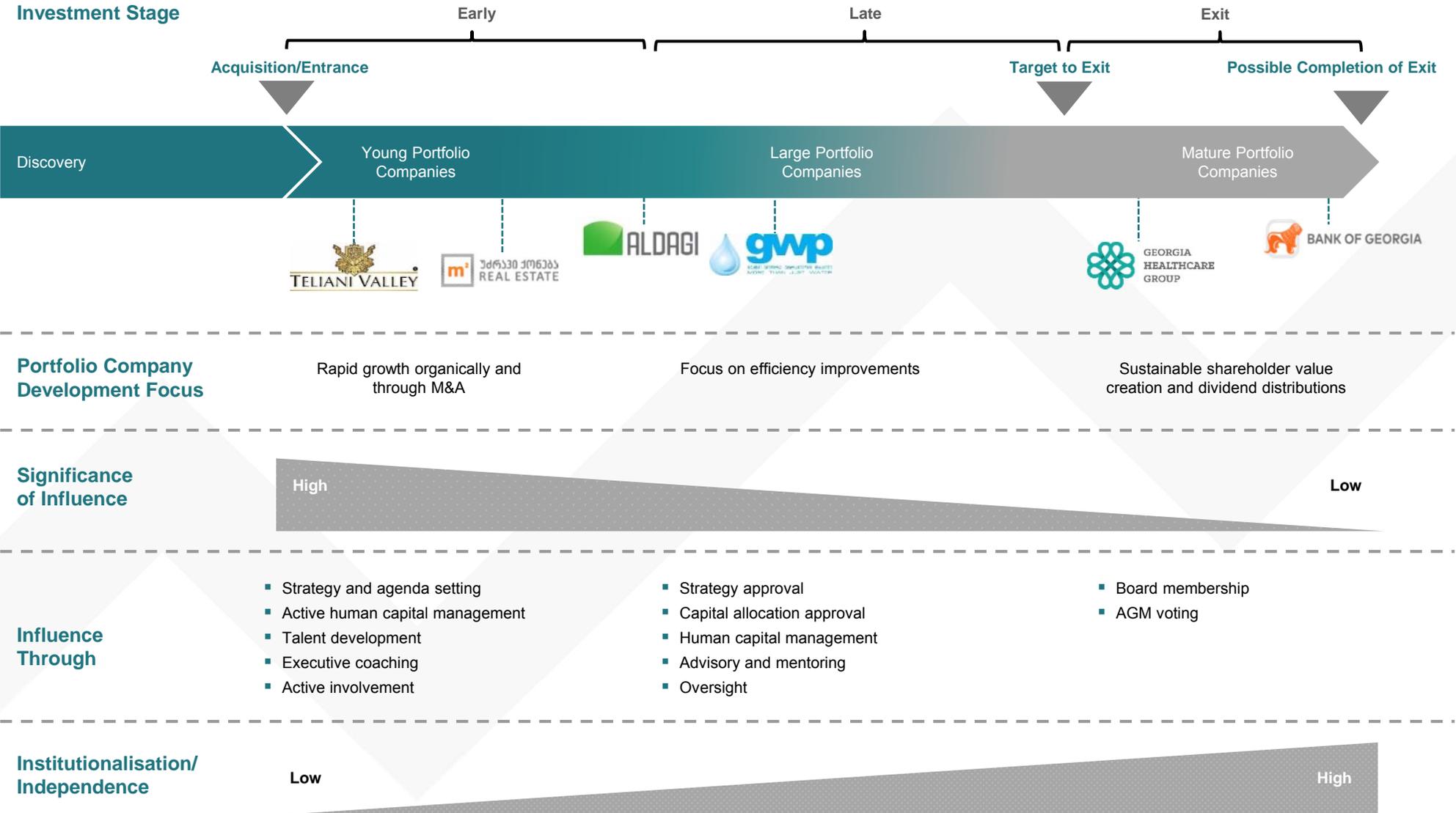
- **Highly disciplined approach** to unlock value through investments, targeting
  - High-multiple businesses, defensive industries – service, consumer
  - Consider greenfields through mature stage companies
- **360° analysis to be performed** when evaluating capital returns, new investment opportunities or divestments:
  - Buybacks to be actively considered as an investment opportunity when appropriate and subject to rigorous analyses
  - Recycling of publicly traded investments into privately held ones
  - Use of Georgia Capital shares as acquisition currency
  - **Clear exit paths** through IPO or trade sale in 5–10 years

2

### Harvesting investments

- Developing talent is a top priority
- Advisory approach for management of more mature phase companies
- Hands-on management approach to the non-public portfolio companies at early stages of their development
- Board participation (if needed) in publicly listed companies

# GEORGIA CAPITAL BUSINESS MODEL



# GEORGIA CAPITAL'S US\$300MM EUROBONDS ISSUANCE



## First ever non-sovereign owned corporate international bond from Georgia

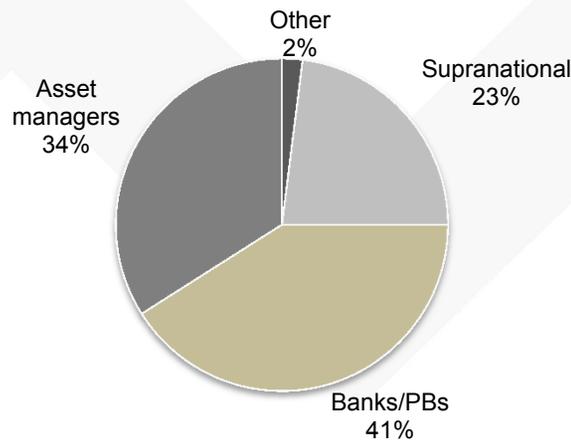
Notes:	<ul style="list-style-type: none"> <li>US\$ 300 million, 6 year, 6.125% Eurobonds</li> </ul>
Listing:	<ul style="list-style-type: none"> <li>Irish Stock Exchange, GEM market</li> </ul>
Notes rating:	<ul style="list-style-type: none"> <li>B2 (Moody's) / B+ (S&amp;P)</li> </ul>
Joint Bookrunners:	<ul style="list-style-type: none"> <li>Citi, J.P. Morgan</li> </ul>
Joint Lead-Manager:	<ul style="list-style-type: none"> <li>Renaissance Capital</li> </ul>
Co-Manager:	<ul style="list-style-type: none"> <li>Galt &amp; Taggart</li> </ul>

### Georgia Capital's risk management policy key measures

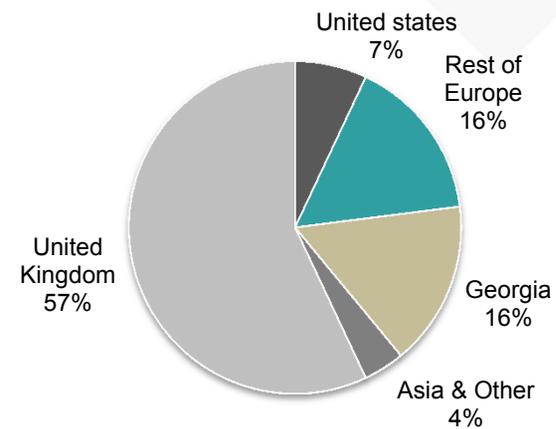
Georgia Capital intends to hold liquid assets at least US\$ 50 million at all times

Net Debt to Asset Portfolio to be no more than 30% at all times

### ALLOCATION BY INVESTOR TYPE



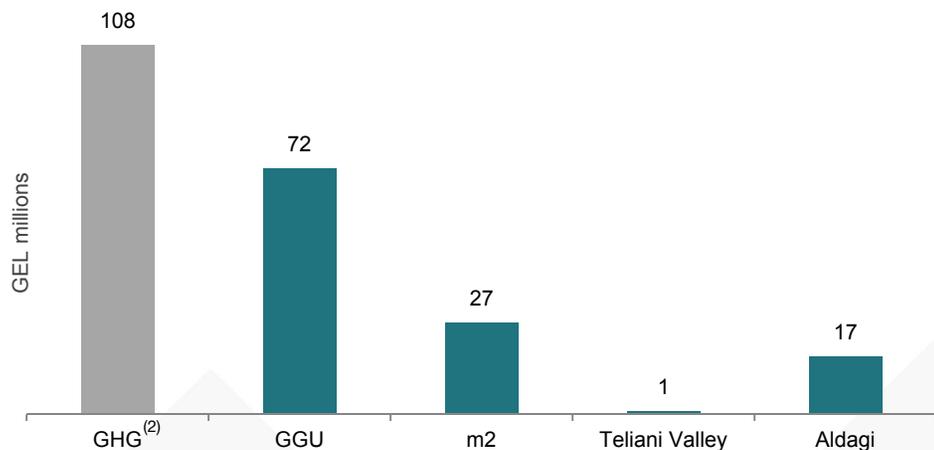
### ALLOCATION BY GEOGRAPHY



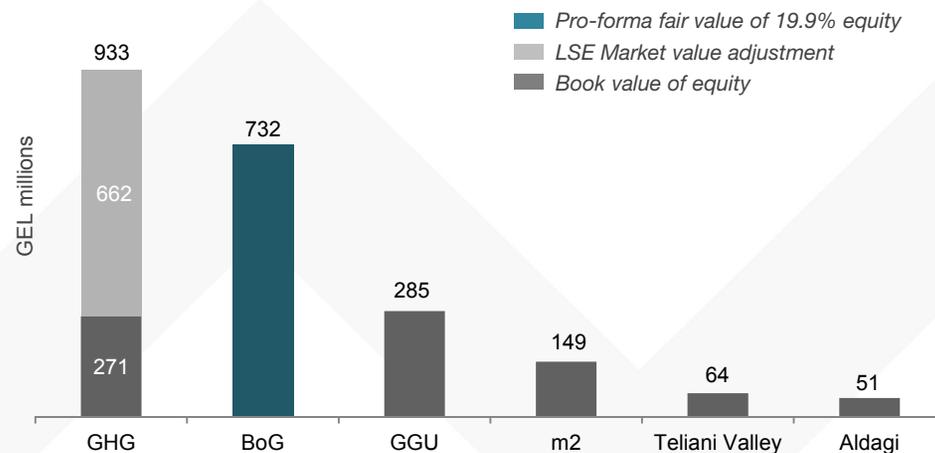
# SUCCESSFUL TRACK RECORD OF DELIVERING STRONG RESULTS



## Total 2017 EBITDA of GEL 211 m<sup>1</sup>



## Portfolio value of GEL 2.2 billion | 31-Dec-2017



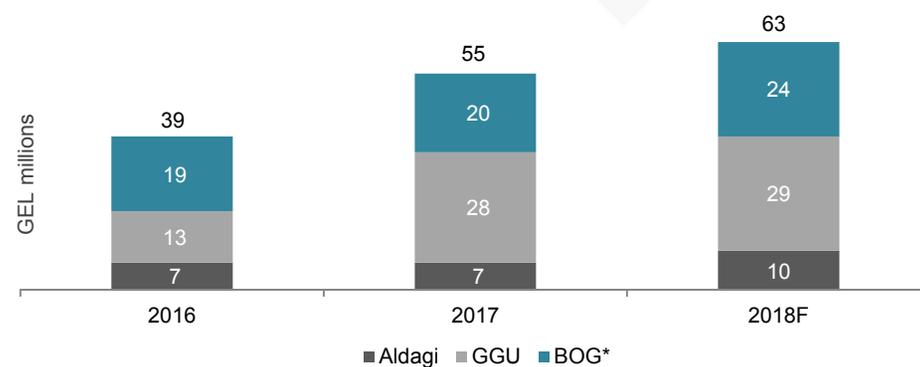
### Value creation

Georgia Capital **invested GEL 562 million** in GGU, GHG, m<sup>2</sup>, Aldagi and Teliani Valley, translating into **GEL 1,482 million portfolio value** as at year-end 2017<sup>3</sup>

### Min. IRR of 25%

**121% IRR** from GHG IPO  
**74% IRR** from m<sup>2</sup> Real Estate projects

## Strong dividend stream (GEL m)



\* 19.9% portion attributable to JSC Georgia Capital

<sup>1</sup> Total EBITDA amount includes discontinued operations, GHG

<sup>2</sup> In December 2017, the Group's board of directors decided to reduce the Group's stake in GHG to less than 50% during 2018 in line with its announced business strategy

<sup>3</sup> Excluding BoG

# GEORGIA CAPITAL'S HIGHLY EXPERIENCED MANAGEMENT TEAM



## Georgia Capital Management

Georgia Capital



**Irakli Gilauri**, Chairman & CEO  
With the Group since 2004. Formerly an EBRD (European Bank for Reconstruction and Development) banker, joined the Bank as CFO. Over the last decade, Irakli's leadership has been instrumental in creating major players in a number of Georgian industries, including banking, healthcare, utilities and energy, real estate, insurance and wine. Holds an MS in banking from CASS Business School.



**Avto Namicheishvili**, Deputy CEO  
With the Group since 2007. Joined as a General Counsel at the Bank, and has since played a key role in all of the Group's equity and debt raises on the capital markets, and over 25 mergers and acquisitions. Prior, was a Partner at a leading Georgian law firm. Holds LLM in international business law from Central European University, Hungary.



**Ekaterina Shavgulidze**, Chief Investment officer  
With the Group since 2011. Joined as a CEO of healthcare services business. Most recently Eka played a key role in the GHG IPO as a Group Head of IR. Prior, she was an Associate Finance Director at AstraZeneca, UK. Holds an MBA from Wharton Business School.



**Giorgi Alpaizde**, Chief Financial Officer  
With Group since 2016. Previously Head of BGEO Group's Finance, Funding and Investor Relations. He has extensive international experience in banking, accounting and finance. He joined the Group from Ernst & Young LLP's Greater New York City's assurance practice, where he was a senior manager. BBA from the European School of Management in Georgia. U.S. Certified Public Accountant .

GHG



**Nikoloz Gamkrelidze**, CEO, Georgia Healthcare Group  
With the Group since 2005. Our healthcare business story starts with Nick, who started it in 2006, and has successfully led it through outstanding growth and most recently the IPO on the London Stock Exchange. Holds an MA in international healthcare management from the Tanaka Business School of Imperial College London.

BoG



**Kaha Kiknavelidze**, CEO of Bank of Georgia  
With the Group since 2008. Originally joined as member of the Bank's Supervisory Board and Audit Committee. Kaha founded and managed Rioni Capital Partners LLP, a London-based investment management company until his appointment as a CEO of the Bank. Kaha has served in a number of roles at UBS and Troika Dialog. Holds an MBA from Emory University.

GGU



**Archil Gachechiladze**, CEO, Georgia Global Utilities  
With the Group since 2009. Joined as a Deputy CEO in charge of corporate banking. He launched the Bank's industry and macro research, brokerage, and advisory businesses, as well as leading investments in GGU and launched Hydro Investments. Prior, he was an Associate at Lehman Brothers Private Equity in London, and worked at Salford Equity Partners, EBRD, KPMG, Barents, and the World Bank. Holds MBA with distinction from Cornell University and is CFA charterholder

m<sup>2</sup>



**Irakli Burdiladze**, CEO, m<sup>2</sup> Real Estate  
With the Group since 2006. Joined as a CFO at the Bank. Before taking leadership of real estate business in 2010, he served as the COO of the Bank. Prior he was a CFO at a leading real estate developer and operator in Georgia. Holds a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies.

Teliani



**Shota Kobelia**, CEO, Teliani Valley  
With the Group since 2009. Having previously worked at Pernod Ricard in the USA and Easter Europe, joined Teliani to build up Ukrainian distribution. In 2010, became CEO for Teliani Valley and developed it from a small and loss-making winery into a major beverage group with own distribution channels on the main markets. Holds MS in Sales & Marketing from Bordeaux Business School.

Aldagi



**Giorgi Baratashvili**, CEO, Aldagi  
With the Group since 2004. Joined as the Head of Corporate Clients Division of Aldagi. Before taking the leadership of our P&C insurance business in 2014, he served as Deputy CEO of Aldagi in charge of strategic management for corporate sales and corporate account management. Holds the Master Diploma in International Law.

Board of Directors - Georgia Capital PLC



**Irakli Gilauri**, Chairman & CEO

*Experience: formerly EBRD banker; MS in banking from CASS Business School, London; BBS from University of Limerick, Ireland*



**David Morrison**, Senior Independent Director

*Experience: formerly Director at Sullivan & Cromwell with a track record of over 28 years, Founding CEO of the Caucasus Nature Fund (CNF)*



**William Huyett**, Independent Non-Executive Director

*Experience: formerly a Director of McKinsey & Company, based in its Boston office, for over 28 years*



**Kim Bradley**, Independent Non-executive Director

*Experience: Goldman Sachs AM, Senior Executive at GE Capital, President of Societa Gestione Crediti, Board Chairman at Archon Capital Deutschland*



**Caroline Brown**, Independent Non-Executive Director

*Experience: Chief Financial Officer at Listen Media Campaign Company, Chief Innovation Officer and Founding Partner at Cambridge Advisory Partners*



**Massimo Gesua'sive Salvadori**, Independent Non-Executive Director

*Experience: currently an analyst at Odey asset management, formerly with McKinsey & Company for over 9 years*



**Jyrki Talvitie**, Independent Non-Executive Director

*Experience: 28 years of experience in the banking, including Sberbank, VTB, East Capital and Bank of New York in both buy and sell-side transactions*

## P&L Highlights

<i>GEL millions unless otherwise noted</i>	For the year ended 31 December			
	2017	2017-2016 Change (%)	2016	2015
Gross utility and energy profit	88	128%	39	-
Gross real estate profit	35	62%	22	21
Gross insurance profit	27	7%	25	21
Gross beverage profit	23	60%	14	15
Other income	8	(11%)	9	1
<b>Gross Profit</b>	<b>181</b>	<b>67%</b>	<b>109</b>	<b>58</b>
Salaries and other employee benefits	(35)	112%	(16)	(12)
Administrative expenses	(38)	82%	(21)	(16)
Other operating expenses	(2)	2%	(2)	(0)
Impairment charges	(3)	240%	(1)	(1)
<b>EBITDA</b>	<b>103</b>	<b>51%</b>	<b>68</b>	<b>29</b>
<b>Net operating income before non-recurring items</b>	<b>53</b>	<b>6%</b>	<b>50</b>	<b>40</b>
<b>Profit for the year from continuing operations</b>	<b>47</b>	<b>(37%)</b>	<b>74</b>	<b>34</b>
<b>Profit from discontinued operations</b>	<b>47</b>	<b>(21%)</b>	<b>60</b>	<b>15</b>
<b>Profit</b>	<b>94</b>	<b>(30%)</b>	<b>134</b>	<b>49</b>

## Balance Sheet Highlights

<i>GEL millions unless otherwise noted</i>	As at 31 December			
	2017	2017-2016 Change (%)	2016	2015
Cash and cash equivalents	374	(7%)	402	293
Amounts due from credit institutions	38	(79%)	178	34
Investment securities	33	800%	4	2
Investment properties	160	14%	140	111
Property and equipment	658	(32%)	967	465
Assets of disposal group held for sale	1,149	-	-	-
<b>Total assets</b>	<b>2,748</b>	<b>20%</b>	<b>2,287</b>	<b>1,341</b>
Accounts payable	46	(57%)	109	44
Borrowings	657	(8%)	718	142
Debt securities issued	78	(36%)	122	83
Liabilities of disposal group held for sale	619	-	-	-
<b>Total liabilities</b>	<b>1,584</b>	<b>25%</b>	<b>1,270</b>	<b>548</b>
<b>Invested Capital</b>	<b>1,164</b>	<b>14%</b>	<b>1,017</b>	<b>793</b>

# HEALTHCARE AND PHARMACY BUSINESS (GHG) OVERVIEW



## Key facts

**Only Premium-listed company in the Georgian corporate industry**

### Market Leader

- 24.5% market share by number of beds (3,014)
- 30% market share by Pharma sales.
- The widest population coverage: over 3/4 of Georgia's 3.7m population

### Long-term high-growth opportunities

- Very low base:** healthcare services spending per capita only US\$ 325
- Growing market:** healthcare spending growing at 11.5% CAGR 2000-2014
- Implying long-term, high-growth expansion** driven by potential to develop medical tourism and Polyclinics (outpatient clinics)

### Business model with cost and synergy advantages

- Only integrated player in the region with significant cost advantage in scale and synergies

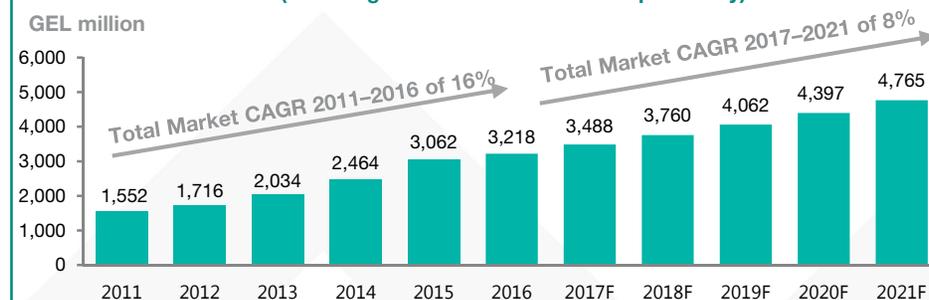
## Financial metrics (GEL m)

	2015	2016	2017
Revenue	246	426	748
EBITDA	56	78	108
Profit before tax	24	40	46
Healthcare EBITDA margin	27.4%	30.2%	26.4%
Pharma EBITDA margin	N/A	4.3%*	8.6%

\* FY16 includes only May-Dec GPC's results

## Market opportunity

**Total healthcare market (including healthcare services and pharmacy)**  
GEL million



Source: Frost & Sullivan analysis 2017

## Stock price performance



## Exit Strategy – Sell downs/Block trades

- In May 2017 Georgia Capital sold 9.5 million shares of GHG (7.2%) for US\$ 40 million
- Georgia Capital's stake in GHG is currently at 57%

# UTILITY AND ENERGY BUSINESS (GGU) OVERVIEW



## Key facts

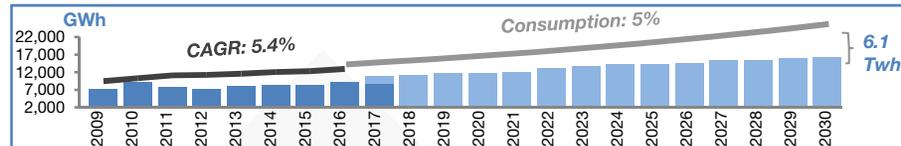
### Utility

- Natural monopoly
- Stable cash collection rates
- Growing dividend payment capacity
- RAB-based tariff methodology
- WACC set at 15.99% by regulator
- c. GEL 200mln infrastructure rehabilitation projects over the next three years

### Energy

- Untapped energy market with potential for significant growth
- Low per capita power usage
- Hydro Power Plants are cheap to build
- Wind Power Plants production peaks during winter, when Georgia faces deficit
- Targeting 1,000MW capacity over the next 5 years

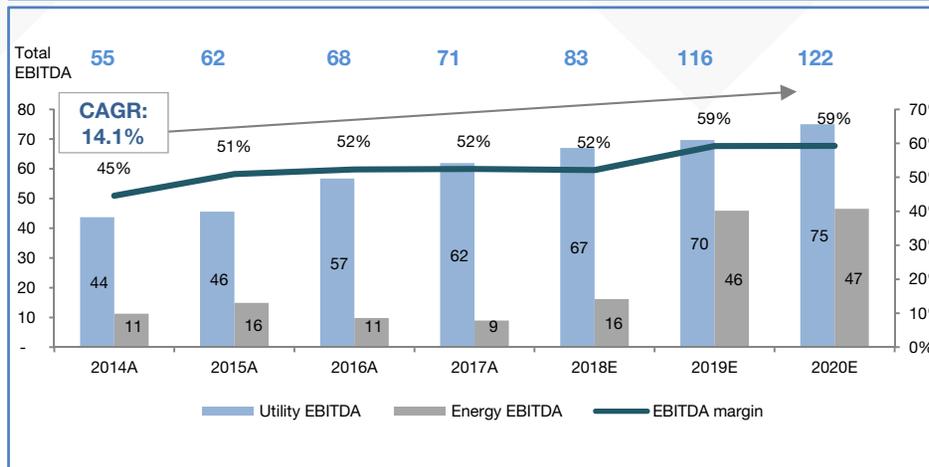
## Market opportunity



## Dividend record (GEL m)



## EBITDA 2014-2020E (GEL m)



## Financial metrics (GEL m)

	2015	2016	2017
<b>Total revenue*</b>	<b>118</b>	<b>127</b>	<b>135</b>
<i>Of which, utility revenue</i>	<i>104</i>	<i>117</i>	<i>125</i>
<i>Of which, energy revenue</i>	<i>18</i>	<i>15</i>	<i>14</i>
<b>Total EBITDA</b>	<b>62</b>	<b>68</b>	<b>71</b>
<i>Of which, utility EBITDA</i>	<i>46</i>	<i>57</i>	<i>62</i>
<i>Of which, energy EBITDA</i>	<i>16</i>	<i>11</i>	<i>9</i>

## Exit Strategy – IPO in 2020-2021

\* Includes eliminations

# REAL ESTATE BUSINESS (m<sup>2</sup>) OVERVIEW



ქვეყნის ქონება  
REAL ESTATE



## Key facts

### Solid track record

- Generated IRR ranging from 31% to 329% on 7 completed residential projects
- Cost advantage through the vertical integration of its construction, project management and sales platforms

### Industry investment rationale

- Average household size is **significantly higher** compared to Europe
- Most of the housing stock dates back to Soviet era and is amortised**
- As country continues to grow **urbanisation levels are increasing**
- Record number of tourists visiting in Georgia every year**

### Asset light strategy

- Unlock land value by developing housing projects
- Developing third party land – franchise m<sup>2</sup> brand name
- Grow yielding asset portfolio
- Generate fee income from third party construction projects

### Enter hotel development business

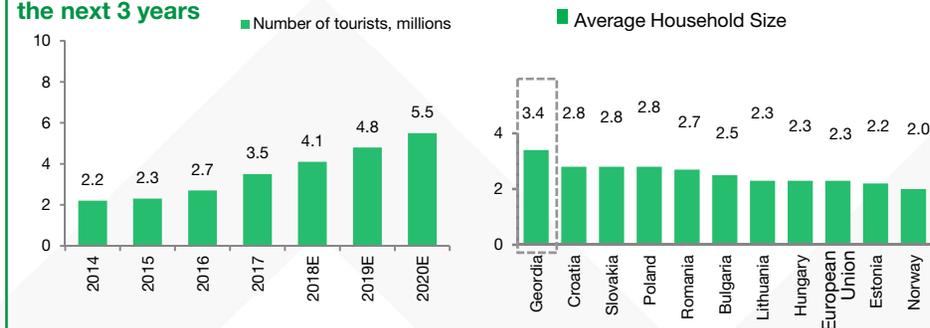
- Build, Sell** (by wrapping into REIT) **and Manage**
- Reach 1000 hotel rooms over the next 3 years. Currently at 150 rooms

## Financial metrics (USD m)

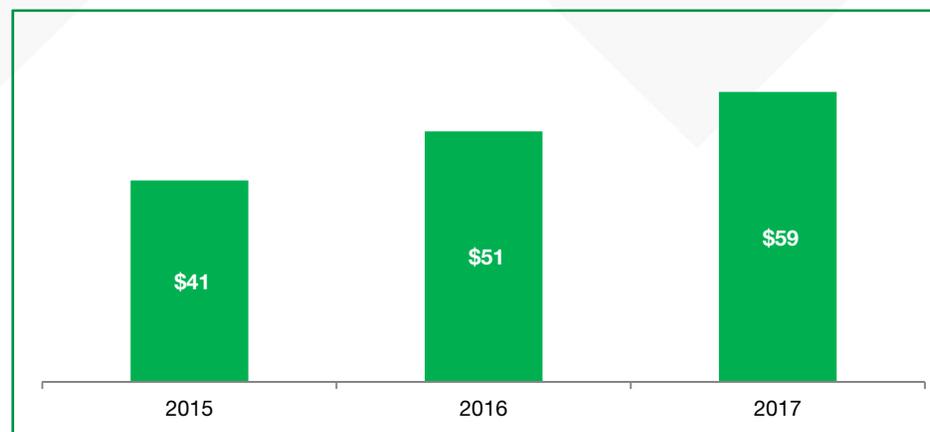
	2015	2016	2017
Gross Revenue from sale of apartments	\$20	\$41	\$37
# of apartments sold	346	407	629
Commercial real estate portfolio	\$14	\$16	\$30
EBITDA	\$7	\$5	\$10
Net Asset Value	\$41	\$51	\$59

## Market opportunity

### Tourist inflow expected to double over the next 3 years



## NAV track record (USD m) - Triple NAV by 2022



## Exit Strategy – Spin-off as REIT

# P&C INSURANCE BUSINESS (ALDAGI) OVERVIEW



## Key facts

### Industry investment rationale

- Underpenetrated insurance market
- Lack of digitalisation providing first-mover advantage
- Compulsory border TPL kicked in from 1 March 2018 and local TPL in 2020
- Untapped retail Casco insurance market
  - c. 50k cars insured out of 1.2m cars, only **4% penetration**
- Aldagi's market share in retail Casco insurance – 41% per GPW (31% per number of policies/number of vehicles) based on 9 month 2017 data

### Solid track record

- Outstanding ROAE performance
- Doubled retail portfolio during the last 3 years

**Target to grow net income to GEL 50 million in 5 years**

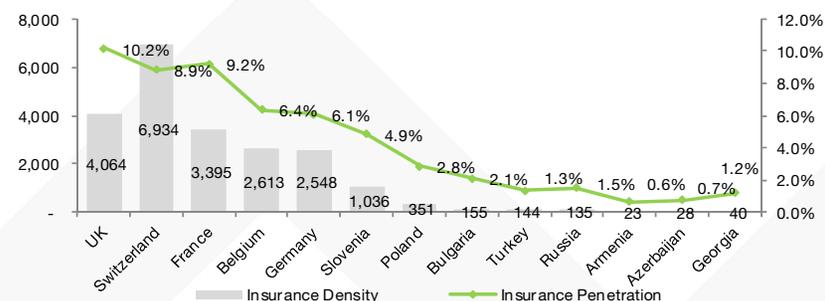
## Financial metrics (GEL m)

	2015	2016	2017
Earned premiums, gross	68	71	86
Net income	12*	14	16
Combined ratio	79%	73%	75%
Loss ratio	43%	35%	40%
ROAE	37%	37%	38%

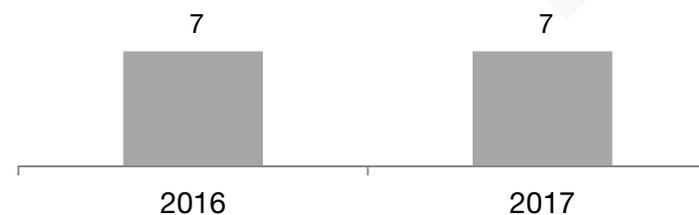
\* Excluding one-off FX contract with GEL 8mln loss

## Market opportunity

Penetration (GPW I GDP) & Density (GPW per Capita USD)<sup>(1)</sup>



## Dividend record (GEL m)



**Exit Strategy – IPO or strategic sale in 5 years**

# BEVERAGE BUSINESS (TELIANI VALLEY) OVERVIEW



## Key facts

### Industry investment rationale

- High growth sector which has doubled during last 5 years to GEL 1.8 billion
- High multiple business
- Best-in-class distribution network platform provides competitive advantage to onboard additional beverage businesses
- Recent free trade agreements with China and EU provide opportunities for growing wine exports
- 10 year exclusivity with Heineken to produce beer to be sold in Georgia, Armenia and Azerbaijan (c.17mln population)

### Wine business

- Market leader with 35% market share in premium HoReCa and modern trade segment based on bottle wine sales

### Beer production business

- Local production – 12.4% market share in 2017 since mainstream beer “ICY” launch in June’17

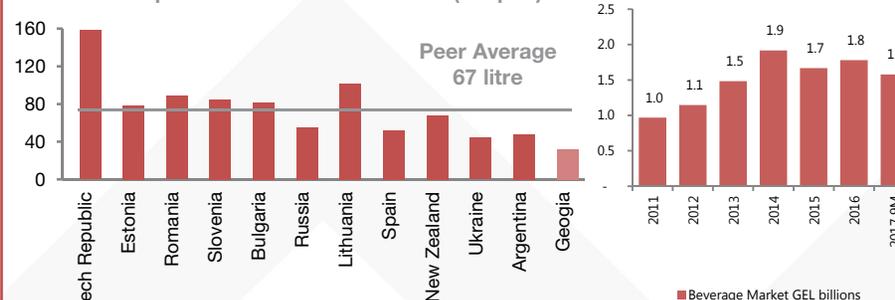
## Financial metrics (GEL m)

	2015	2016	2017
Revenue (wine)	18	18	22
Revenue (beer)	N/A	N/A	18
EBITDA (wine)	2	3	6
EBITDA (beer)	N/A	N/A	(5)

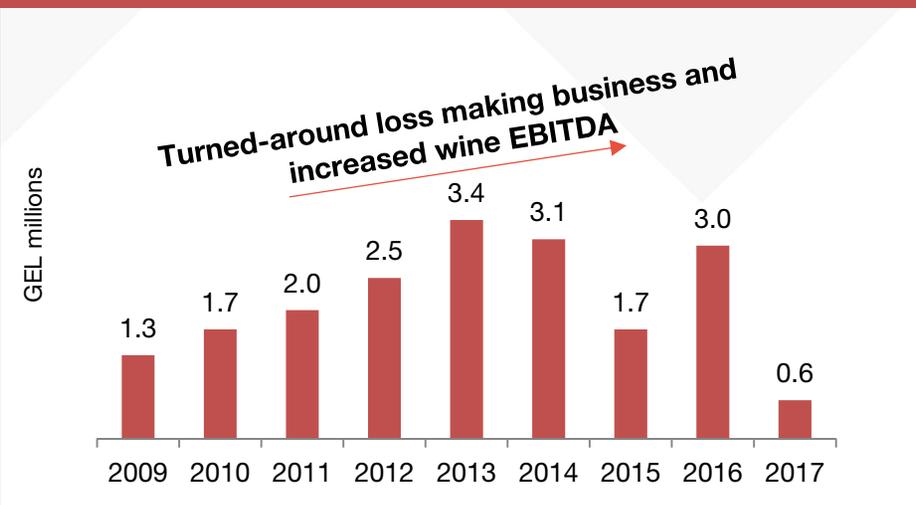
## Market opportunity

### Low consumption per capita compared to peers

Beer consumption in Peer Countries 2015 (l/capita)



## Consolidated EBITDA track record (GEL m)



## Exit Strategy – Strategic Sale

# CONTENT

1 Update on Demerger

2 Bank of Georgia

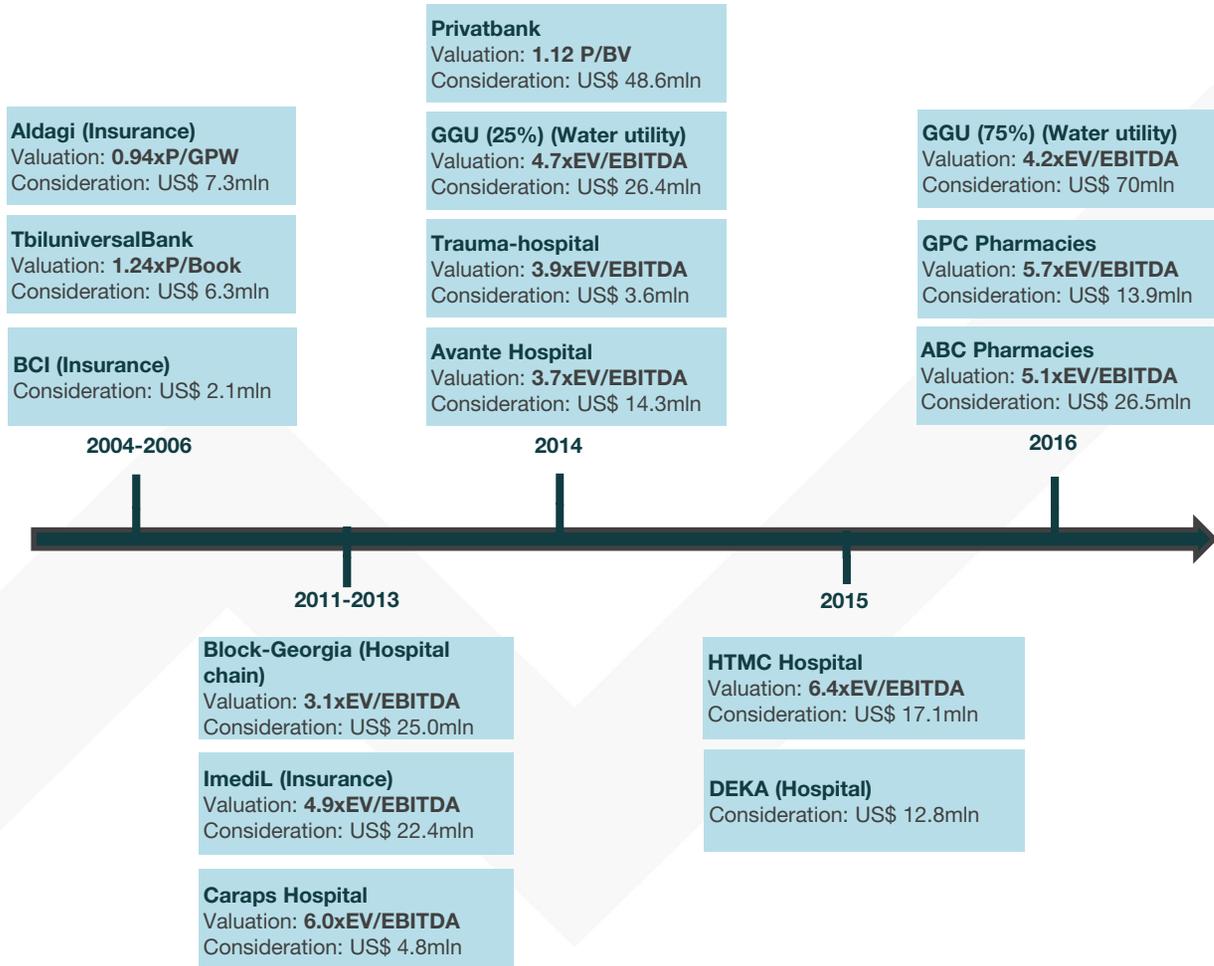
3 Georgia Capital

4 Appendix – Track record of disciplined acquisitions | Georgia Capital

# TRACK RECORD OF DISCIPLINED ACQUISITIONS



## Selected acquisitions



## Key takeaways

- We have been disciplined when investing, by buying cheaply
- For us buying assets cheaply is the first and most important in our investment strategy
- Georgia is an anchor economy and access to capital is limited
- Georgia's GDP has grown on average 12% in nominal terms over the past 10 years and local businesses have been reinvesting over that time to stay competitive and owners of assets are often asset rich, but cash poor

# CONTENT

1 Update on Demerger

2 Bank of Georgia

3 Georgia Capital

4 Appendix – Georgia Market Overview

# GEORGIA'S KEY ECONOMIC DRIVERS

## Liberal economic policy

### Top performer globally in WB Doing Business over the past 12 years

- Liberty Act (effective January 2014) ensures a credible fiscal and monetary framework:
- Public expenditure/GDP capped at 30%; Fiscal deficit/GDP capped at 3%; Public debt/GDP capped at 60%
- Business friendly environment and low tax regime (attested by favourable international rankings)

## Regional logistics and tourism hub

### A natural transport and logistics hub, connecting land-locked energy rich countries in the east and European markets in the west

- Access to a market of 2.8bn customers without customs duties: Free trade agreements with EU, China, CIS and Turkey and GSP with USA, Canada, Japan, Norway and Switzerland; FTA with Hong Kong expected to be signed shortly; FTA with India under consideration
- Tourism revenues on the rise: tourism inflows stood at 18.1% of GDP in 2017 and arrivals reached 7.6mln visitors in 2017 (up 18.8% y-o-y), out of which tourist arrivals were up 27.9% y-o-y to 3.5mln visitors.
- Regional energy transit corridor accounting for 1.6% of the world's oil and gas transit volumes

## Strong FDI

### An influx of foreign investors on the back of the economic reforms have boosted productivity and accelerated growth

- FDI at US\$ 1.9bln (12.3% of GDP) in 2017
- FDI averaged 9.3% of GDP in 2008-2017

## Support from international community

### Georgia and the EU signed an Association Agreement and DCFTA in June 2014

- Visa-free travel to the EU is another major success in Georgian foreign policy. Georgian passport holders were granted free visa entrance to the EU countries from 28 March 2017
- Discussions commenced with the USA to drive inward investments and exports
- Strong political support from NATO, EU, US, UN and member of WTO since 2000; Substantial support from DFIs, the US and EU

## Electricity transit hub potential

### Developed, stable and competitively priced energy sector

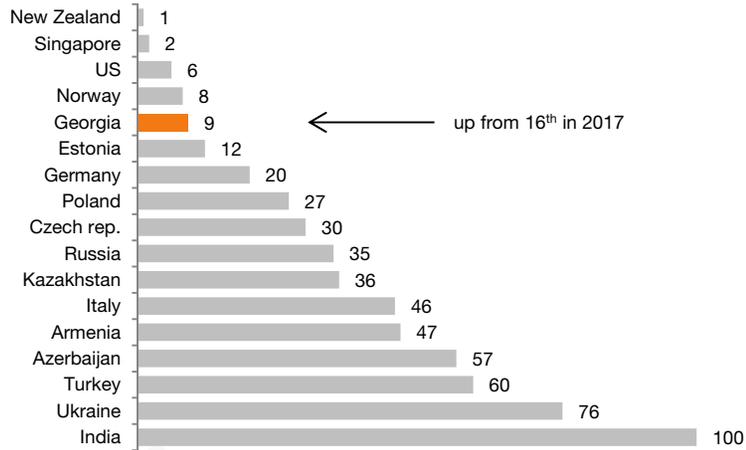
- Only 20% of hydropower capacity utilized; 145 renewable (HPPs/WPPs/SPPs) energy power plants are in various stages of construction or development
- Georgia imports natural gas mainly from Azerbaijan
- Significantly boosted transmission capacity in recent years, a new 400 kV line to Turkey and 500 kV line to Azerbaijan built, other transmission lines to Armenia and Russia upgraded
- Additional 2,000 MW transmission capacity development in the pipeline, facilitating cross-border electricity trade and energy swaps to Eastern Europe

## Political environment stabilised

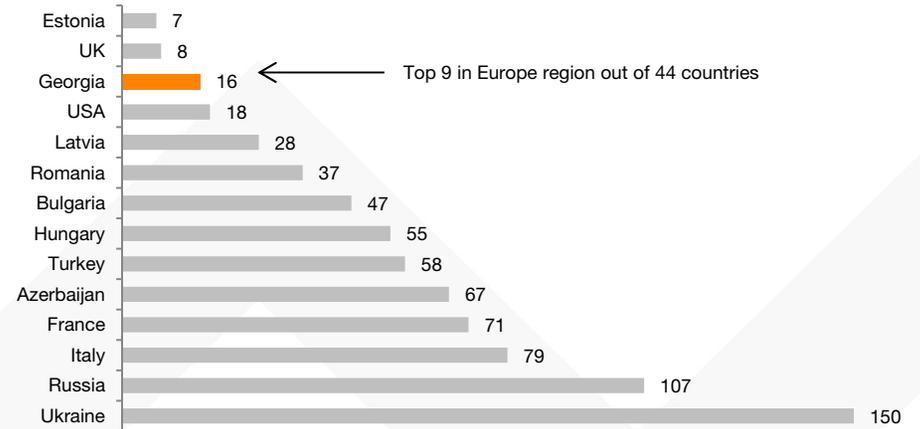
- Georgia underscored its commitment to European values by securing a democratic transfer of political power in successive parliamentary, presidential, and local elections and by signing an Association Agreement and free trade agreement with the EU
- New constitution amendments passed in 2013 to enhance governing responsibility of Parliament and reduce the powers of the Presidency
- Continued economic relationship with Russia, although economic dependence is relatively low
- Russia began issuing visas to Georgians in March 2009; Georgia abolished visa requirements for Russians – Russia announced the easing of visa procedures for Georgians citizens effective December 23, 2015
- Direct flights between the two countries resumed in January 2010
- Member of WTO since 2000, allowed Russia's access to WTO; In 2013 trade restored with Russia
- In 2017, Russia accounted for 14.5% of Georgia's exports and 9.9% of imports; just 3.5% of cumulative FDI over 2003-2017

# INSTITUTIONAL ORIENTED REFORMS

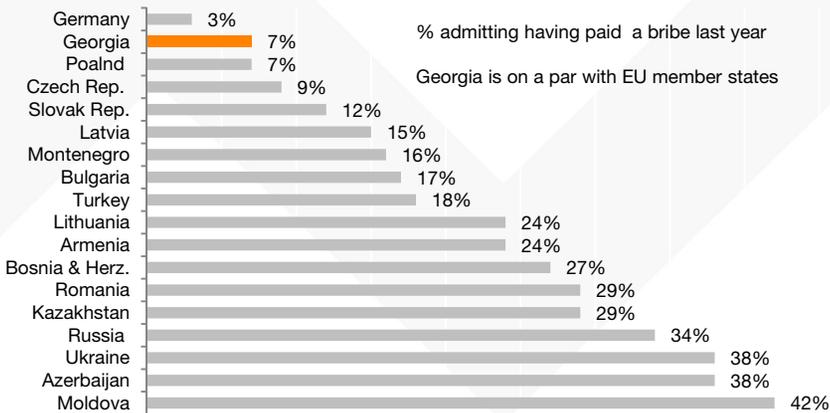
## Ease of Doing Business | 2018 (WB-IFC Doing Business Report)



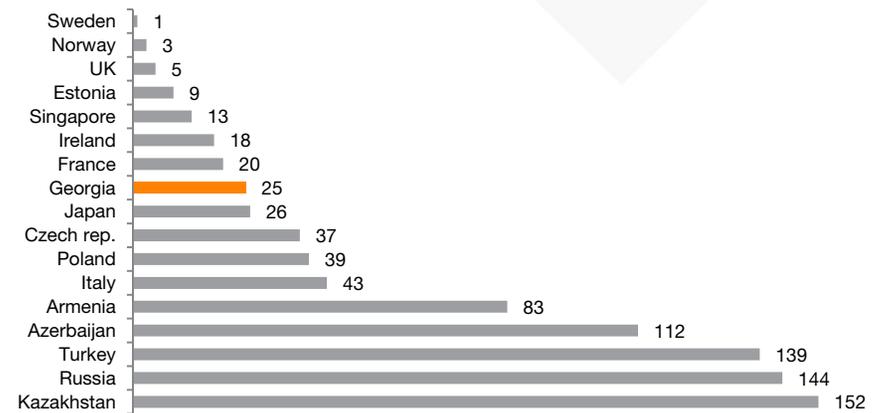
## Economic Freedom Index | 2018 (Heritage Foundation)



## Global Corruption Barometer | TI 2016



## Business Bribery Risk, 2017 | Trace International



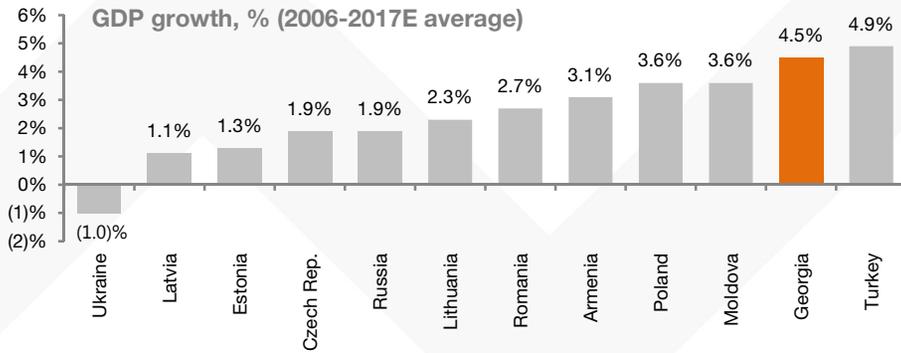
Sources: Transparency International, Heritage Foundation, World Bank, Trace International

# DIVERSIFIED RESILIENT ECONOMY

## Economy

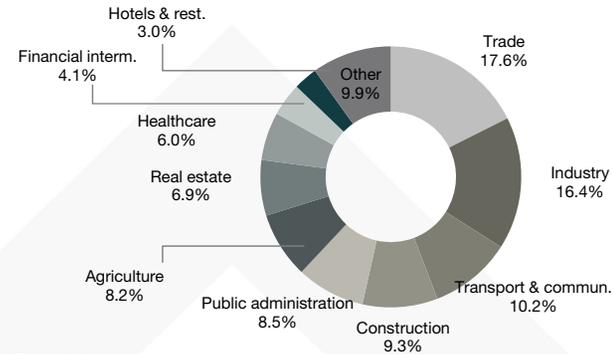
- Leading economy in the region on the back of wide sector activities**
  - Diversified non-commodity reliant economy with consistently high GDP growth across the last decade
- Top-ranked in economy environment indices**
  - Global top performer in World Bank Doing Business report since the launch of rankings in 2003 (#9 in 2018), Top-9 in Europe region by Economic freedom Index (Heritage Foundation, 2018) and #16 internationally, Low corruption and bribery risk (TI, 2017 and Trace international, 2017)<sup>(1)</sup>
- Investment-led GDP growth with 5.5% growth potential expected upon the execution of the institutional 4-Pillar reform initiative<sup>(2)</sup>**
  - Comprehensive 4-Pillars of reform initiative focused on structural reforms, promotion of transit and tourist hub, open governance and education
  - Development of large public infrastructure programs backed by multilateral international funding
- Historically low inflation with 3% target set for 2018-2020 by NBG<sup>(3)</sup>**

## One of the Fastest Developing Economies in the Region<sup>(4)</sup>



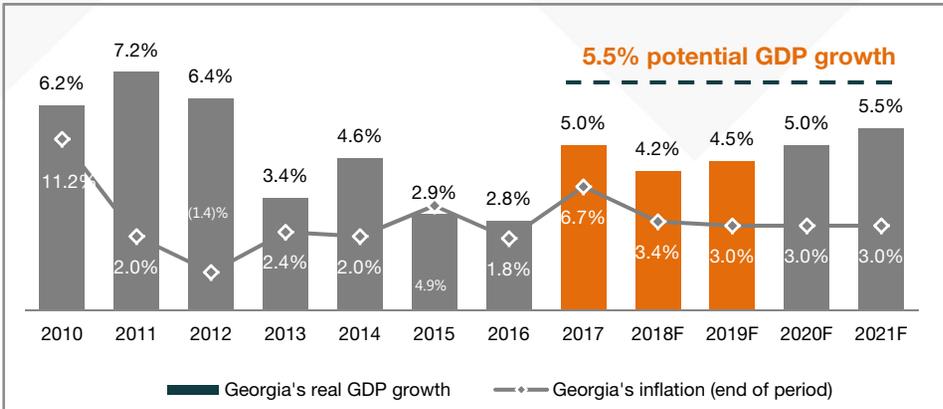
1) Source: World Bank Doing Business Reports, The Heritage Foundation Index of economic Freedom, Transparency International Global Corruption Barometer 2015/2017 and Trace International Global Business Bribery Risk Index 2017  
 2) 4-point reform plan announced by the Government of Georgia (see p.44 for details)  
 3) Source: NBG

## Diversified Nominal GDP Structure, 2017<sup>(5)</sup>



Source: Geostat

## Attractive 5% GDP Growth Potential and Decreasing Inflation<sup>(6)</sup>



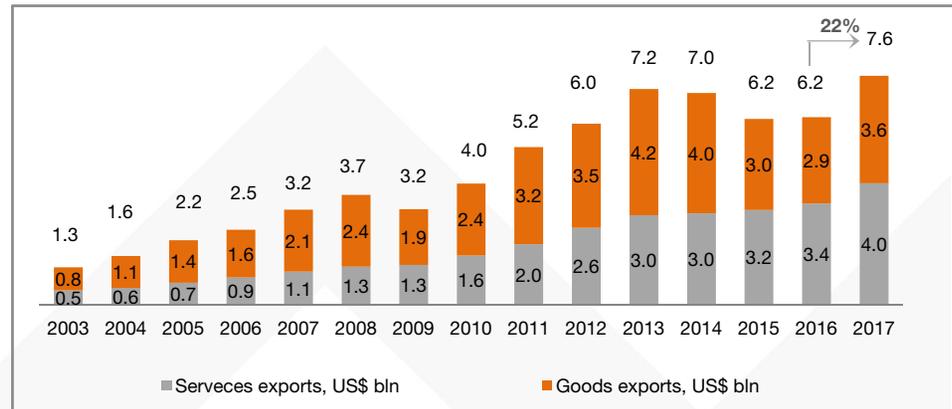
4) Source: IMF  
 5) Source: National Statistics Office of Georgia ("GeoStat")  
 6) Source: GeoStat, IMF

# GROWING HUB WITH DIVERSIFIED BUSINESS OPPORTUNITIES

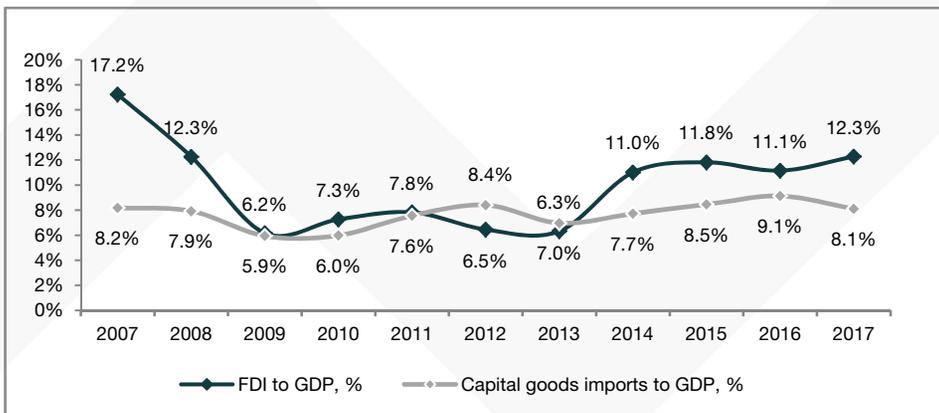
### Rising Tourism Revenue<sup>(1)</sup>



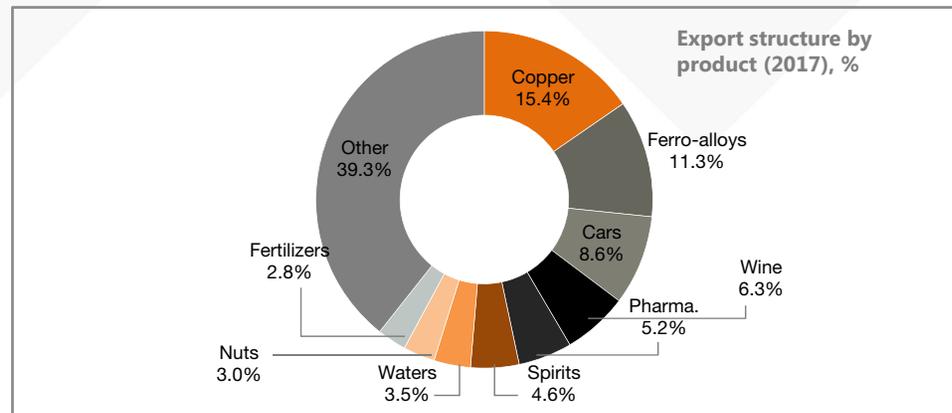
### Exports of Goods and Services<sup>(2)</sup>



### FDI and Capital Goods Import<sup>(3)</sup>



### Broad Exports Diversity<sup>(4)</sup>



(1) Source: NBG, GeoStat  
 (2) Source: Source: NBG  
 (3) Source: GeoStat  
 (4) Source: GeoStat

# SOVEREIGN RATINGS WITH STABLE OUTLOOK AND FAVORABLE MACRO FUNDAMENTALS

## Key Ratings Highlights

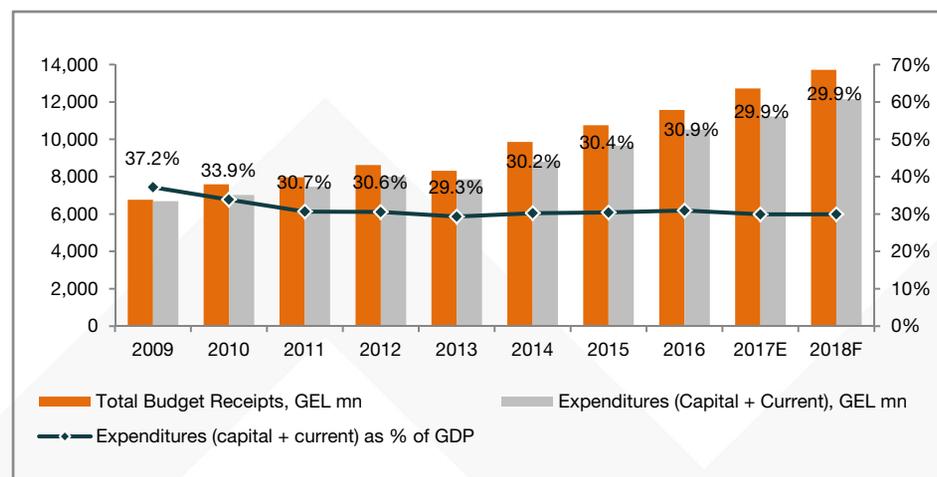
Rating Agency	Rating	Outlook	Affirmed
	Ba2	Stable	September 2017
	BB-	Stable	November 2017
	BB-	Positive	March 2018

## Georgia is favorably placed among peers

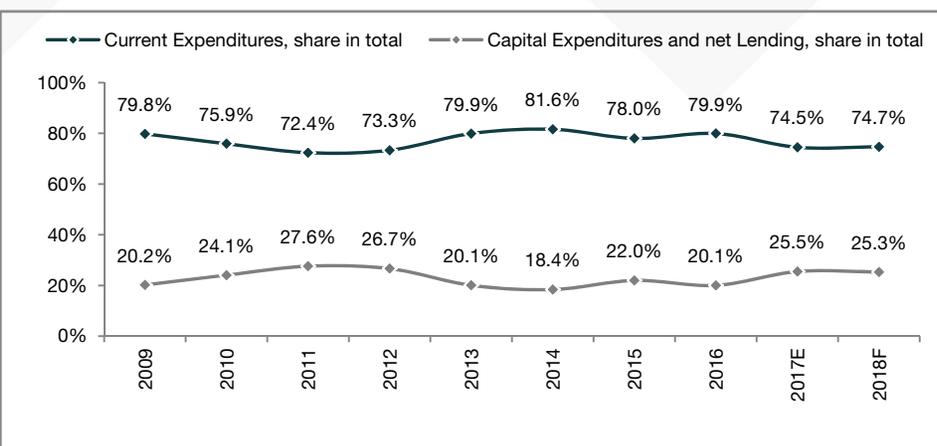
Country	Country Rating	Rating Outlook
Armenia	B+	Positive
Azerbaijan	BB+	Stable
Belarus	B	Stable
Czech Republic	A+	Positive
<b>Georgia</b>	<b>BB-</b>	<b>Stable</b>
Kazakhstan	BBB	Stable
Turkey	BB+	Stable
Ukraine	B-	Stable

(1) Source: Ministry of Finance

## Revenues and expenditures, consolidated budget<sup>(1)</sup>

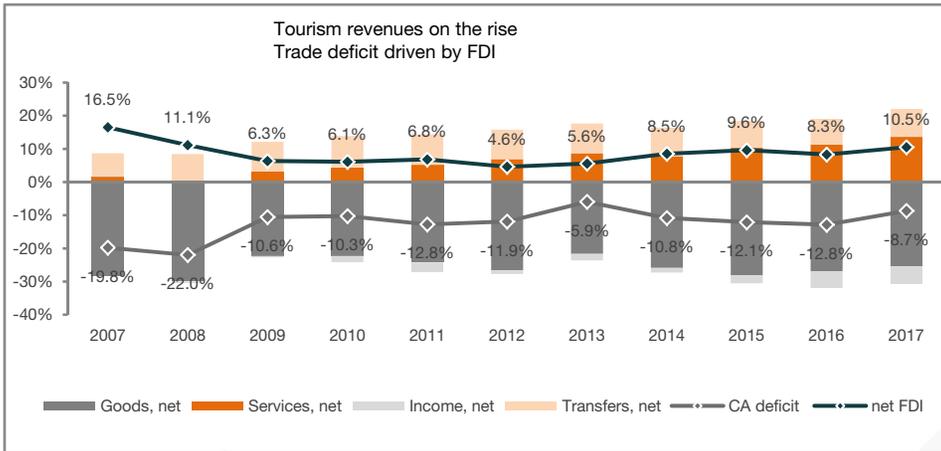


## Current and capital expenditure<sup>(1)</sup>

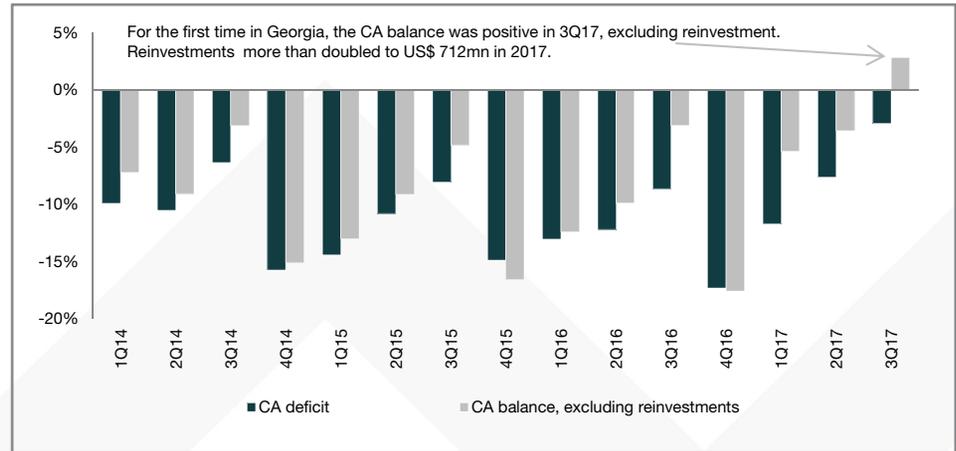


# CURRENT ACCOUNT DEFICIT SUPPORTED BY FDI

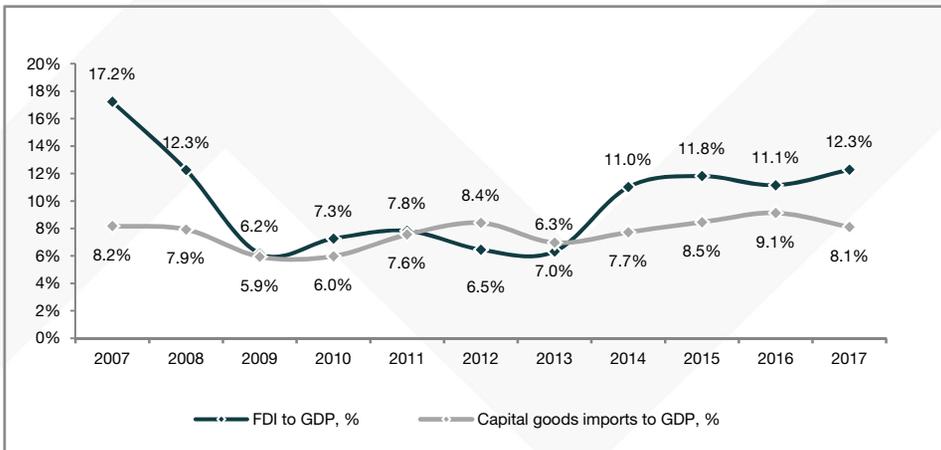
## Current Account Balance (% of Nominal GDP)<sup>(1,2)</sup>



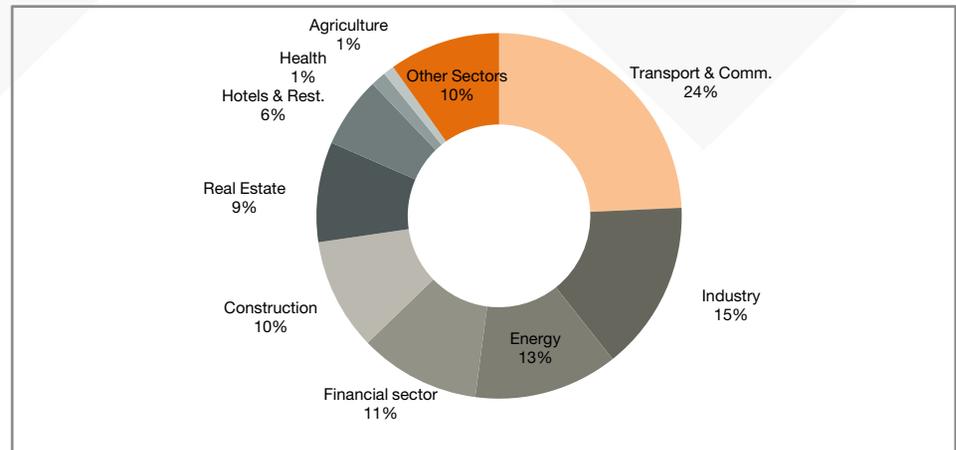
## Current Account Balance: original vs. adjusted (% of Nominal GDP)<sup>(1,2)</sup>



## FDI and Capital Goods Import<sup>(1)</sup>



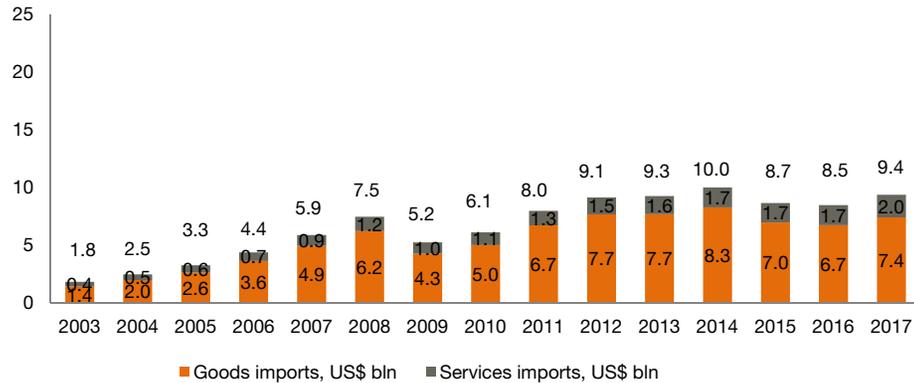
## FDI by sectors (2007-2017) <sup>(1)</sup>



(1) Source: GeoStat  
(2) Sources: NBG

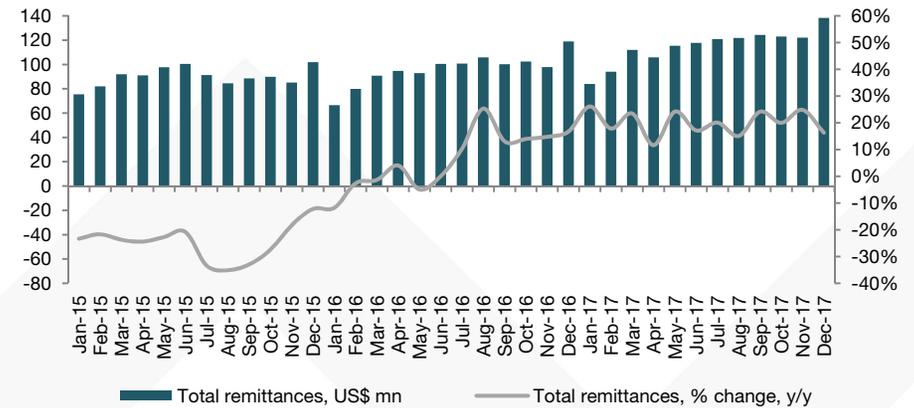
# DIVERSIFIED FOREIGN TRADE

## Imports of goods and services



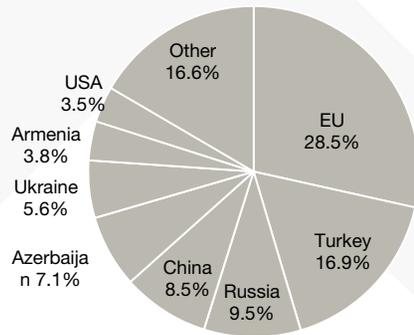
Source: NBG – BOP statistics

## Remittances up from all major countries



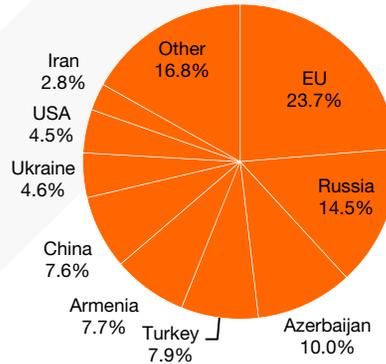
Source: NBG – BOP statistics; G&T

## Imports, 2017



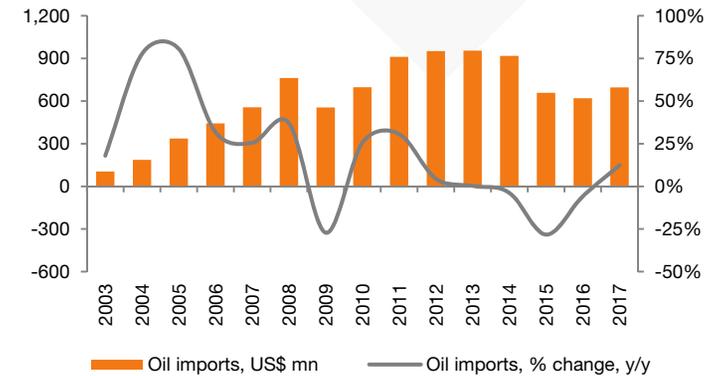
Sources: GeoStat

## Exports, 2017



Sources: GeoStat

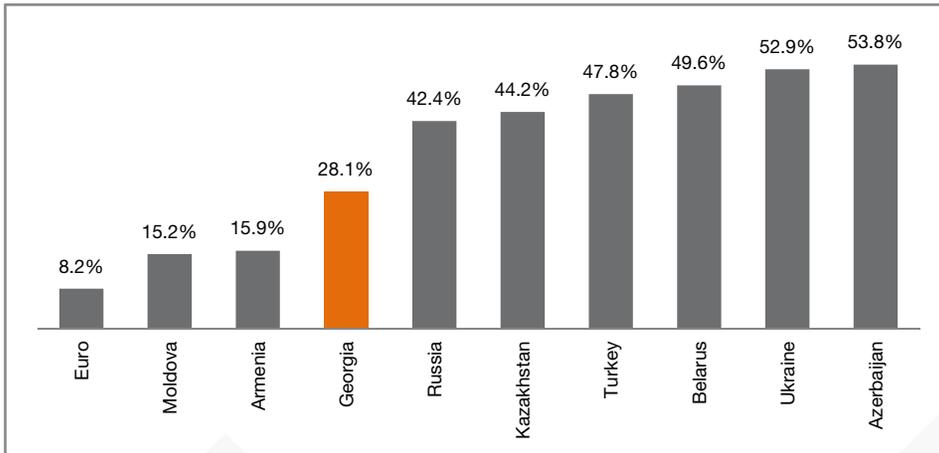
## Oil imports



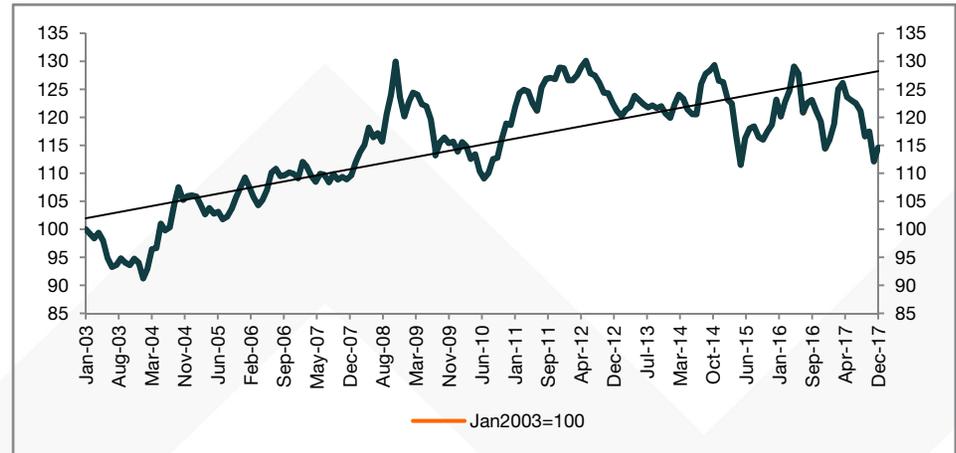
Sources: GeoStat

# FLOATING EXCHANGE RATE - POLICY PRIORITY

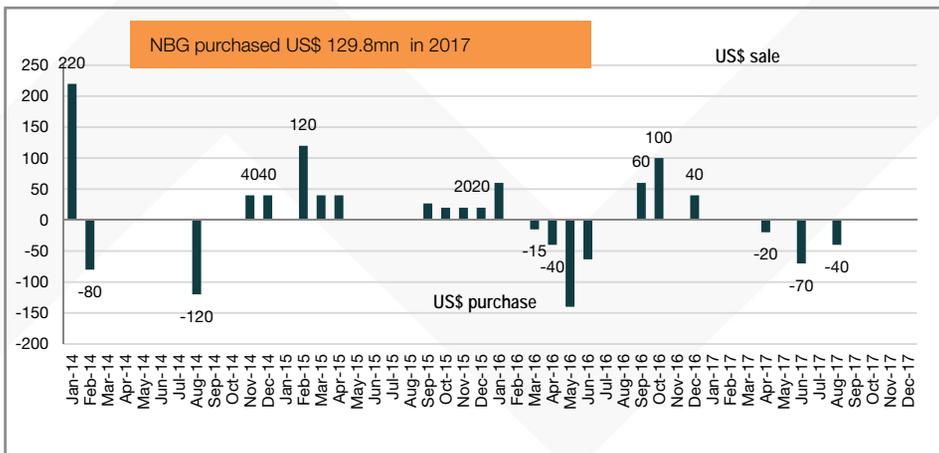
## Currency weakening vs US\$(1)



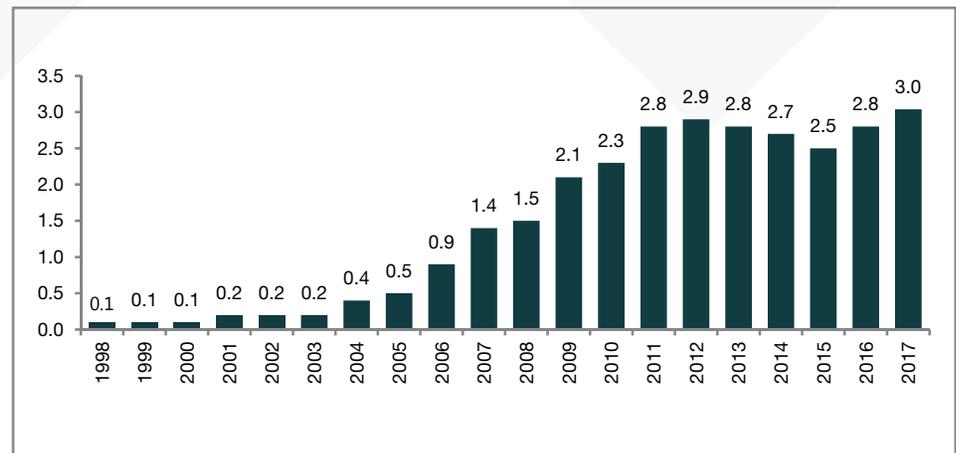
## Real Effective Exchange Rate (REER) (1)



## Limited FX interventions(2)



## Building International Reserves(1)

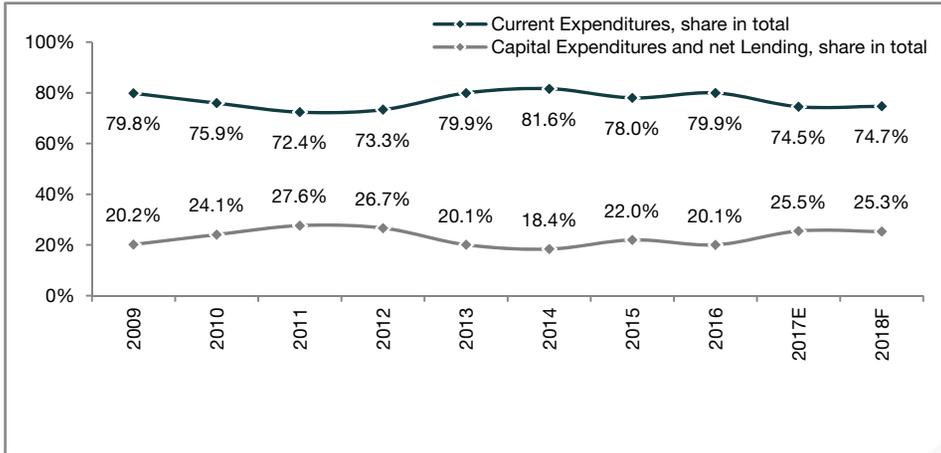


(1) Sources: Bloomberg, US\$ per unit of national currency, 1 Aug 2014 – 13 Apr 2018

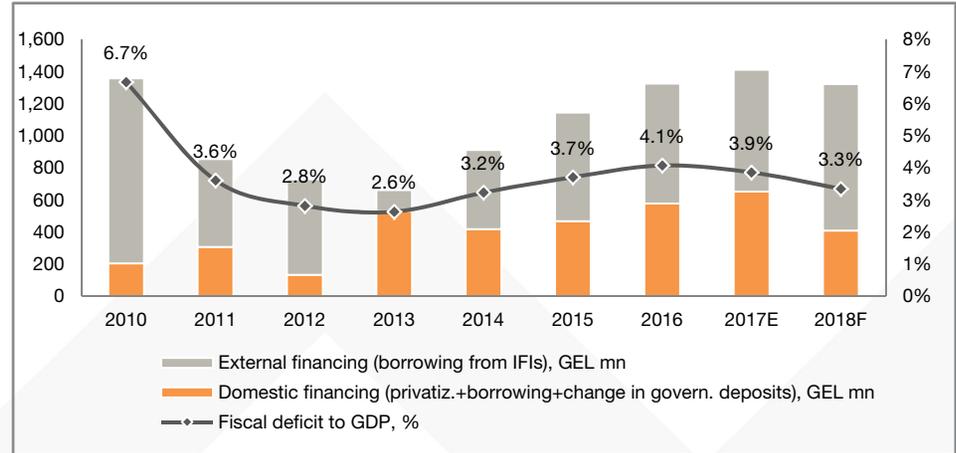
(2) Source: NBG

# DEMONSTRATED FISCAL DISCIPLINE

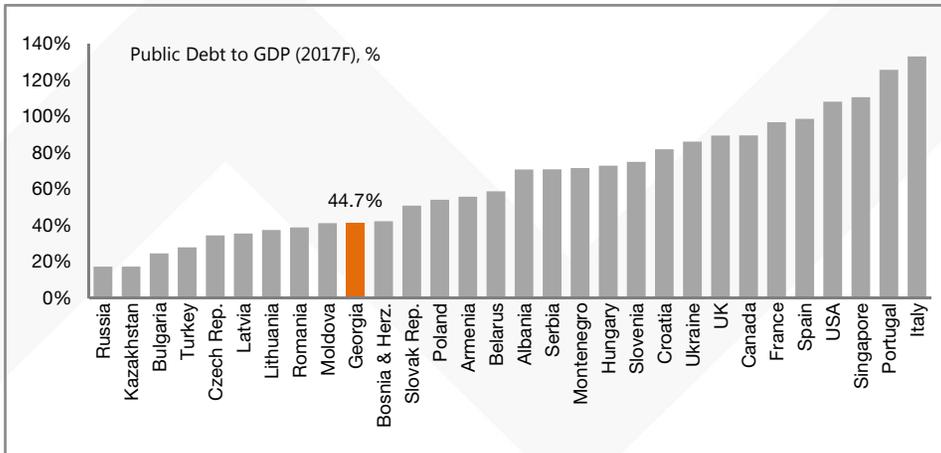
## High Ratio of Government Capital Spending...<sup>(1)</sup>



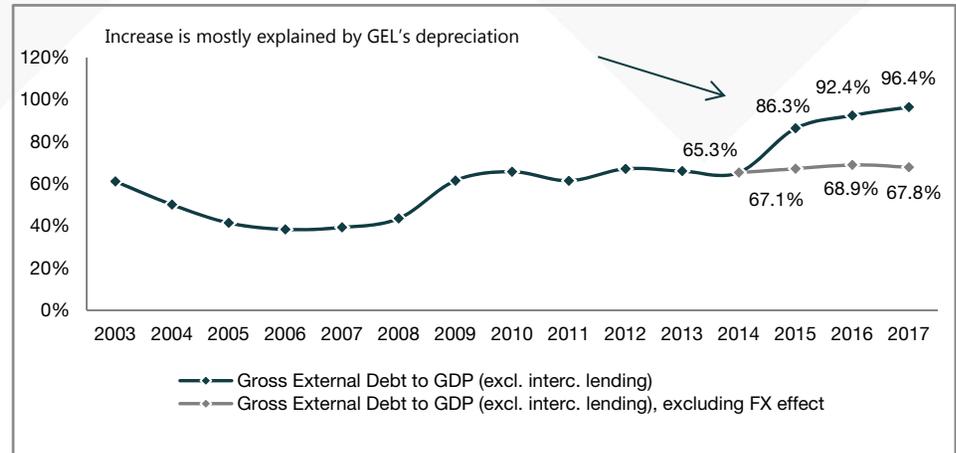
## ...Provides Low Cost Fiscal Stimulus to the Economy...<sup>(1)</sup>



## ...while Public Debt Stock Remains Low - Georgia vs. Others<sup>(2)</sup>



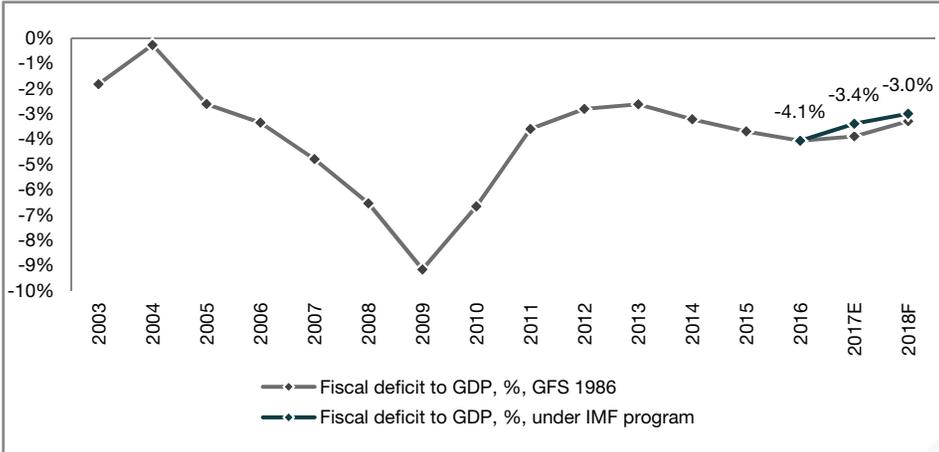
## Gross External Debt of Georgia is Mostly Concessional<sup>(3)</sup>



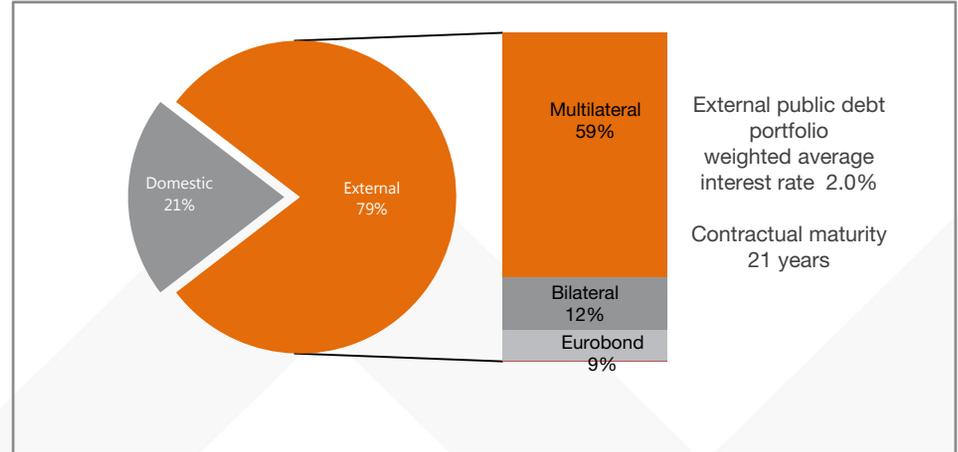
(1) Source: MOF, GeoStat  
 (2) Source: IMF  
 (3) Source: NBG, GeoStat

# LOW PUBLIC DEBT

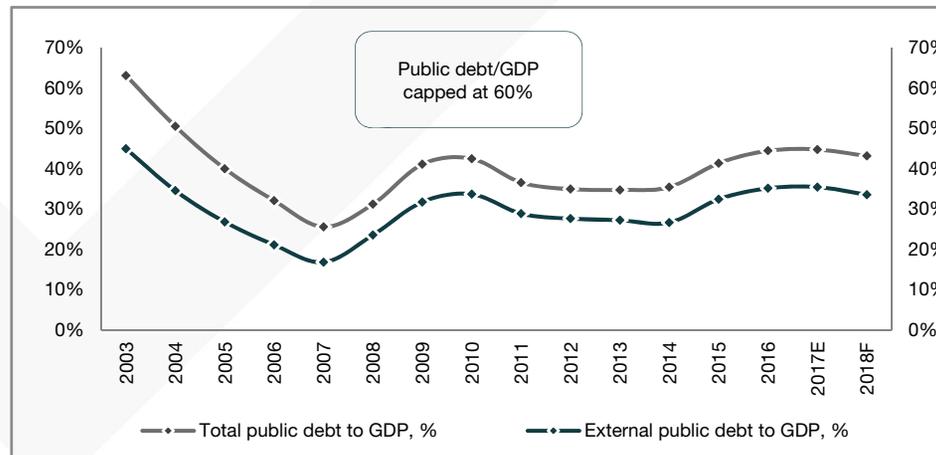
## Fiscal Deficit<sup>(1)</sup>



## Breakdown of Public Debt<sup>(1)</sup>



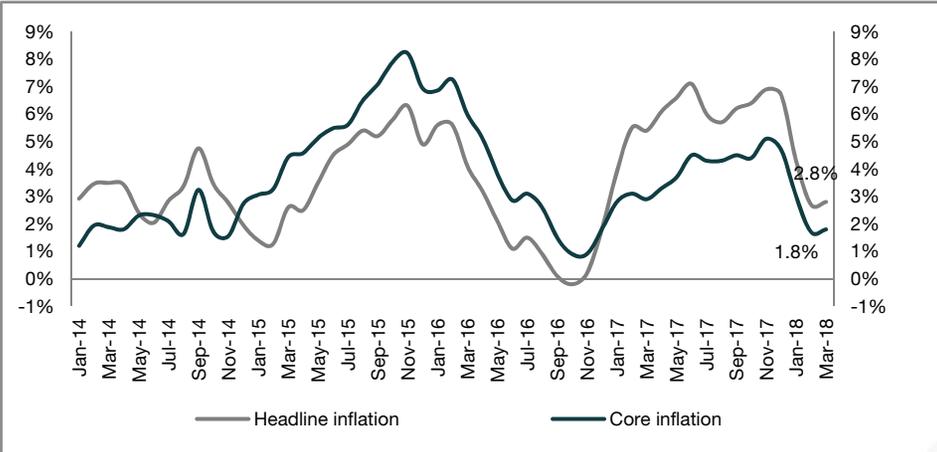
## Public Debt as % of GDP<sup>(1,2)</sup>



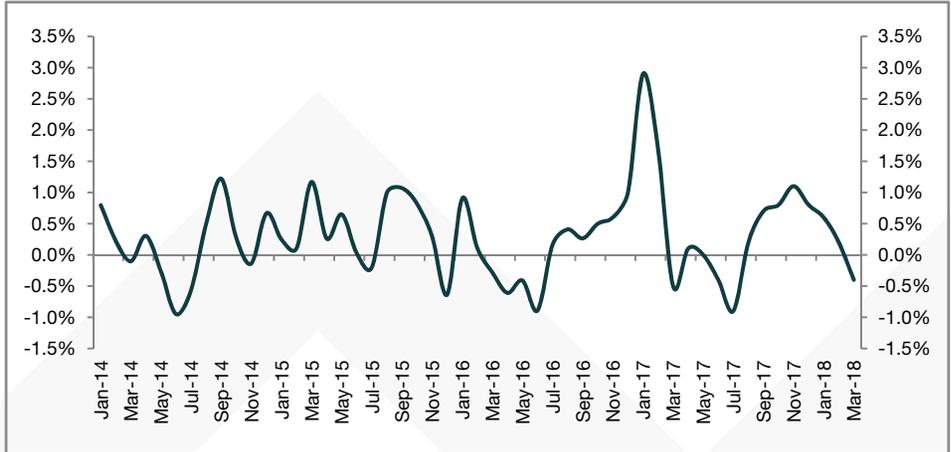
(1) Source: MOF  
 (2) Sources: GeoStat

# INFLATION TARGETING SINCE 2009

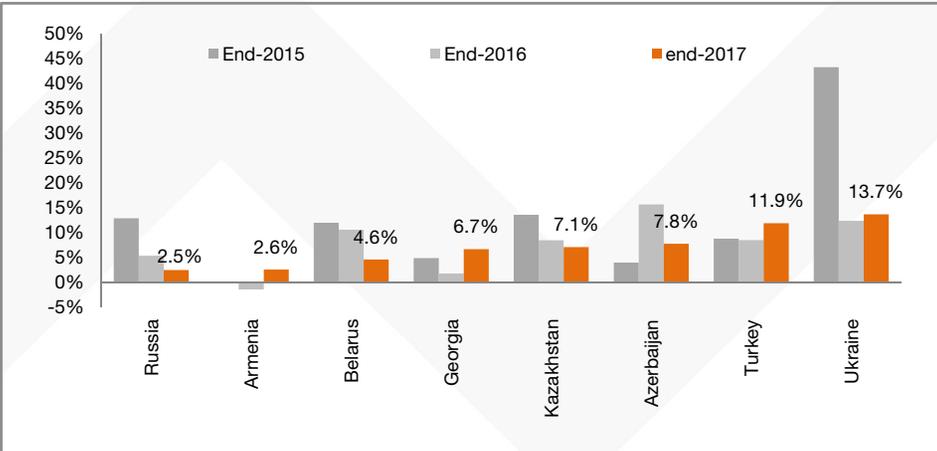
## Annual Inflation<sup>(1)</sup>



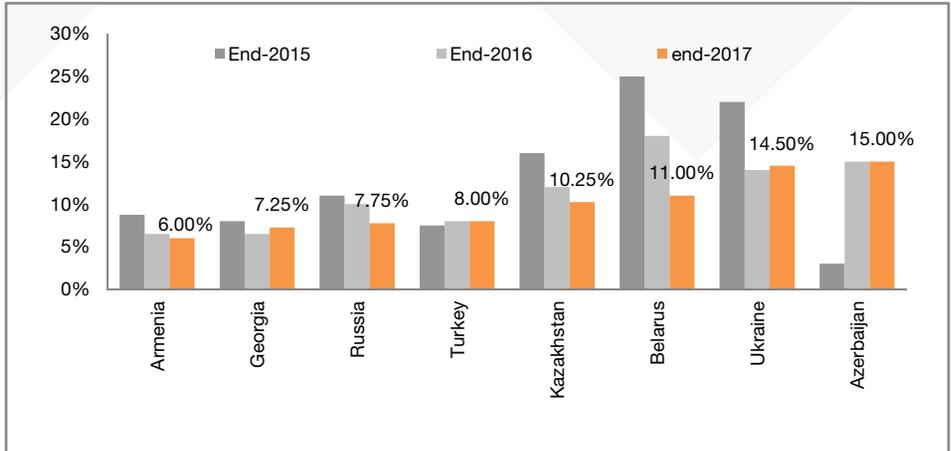
## Monthly Inflation Rate<sup>(1)</sup>



## Inflation Increased due to One-offs in Georgia<sup>(2)</sup>...



## ... and Monetary Policy rate Remains Low vs. Peers<sup>(3)</sup>



(1) Sources: GeoStat  
 (2) Source: National Statistics Offices  
 (3) Source: Central banks

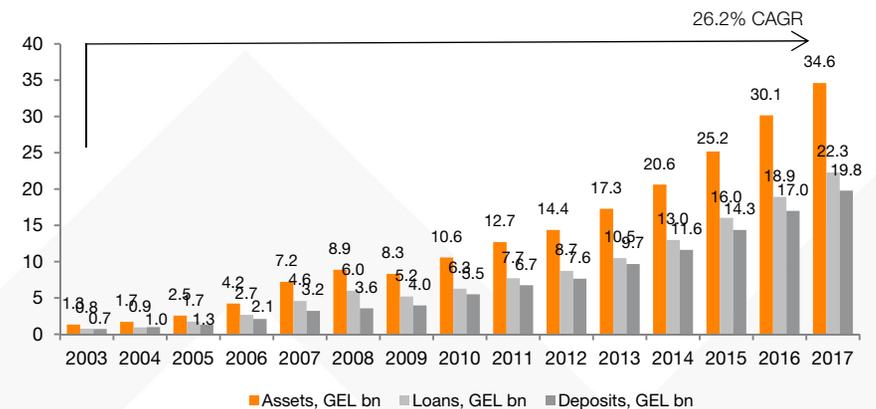
# GROWING AND WELL CAPITALISED BANKING SECTOR

## Summary

- **Prudent regulation ensuring financial stability**
  - High level of liquidity requirements from NBG at 30% of liabilities, resulting in banking sector liquid assets to client deposits of 40% as of Dec 2016
- **Resilient banking sector**
  - Demonstrated strong resilience towards both domestic and external shocks **without single bank going bankrupt**
  - **No nationalization** of the banks and no government ownership since 1994
  - **Very low leverage** with retail loans estimated at 31% of GDP and total loans at 56% of GDP as of 2017 resulting in low number of defaults in face of different shocks to the economy

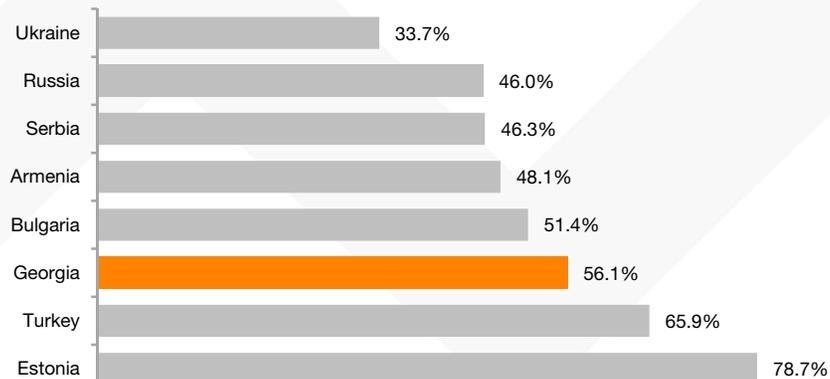
Source: National Bank of Georgia, GeoStat

## Banking sector assets, loans and deposits



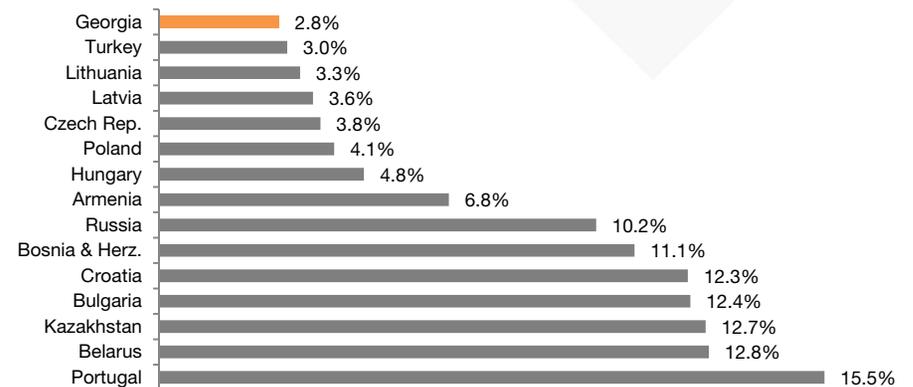
Source: NBG

## Peer comparisons: Banking sector loans to GDP, 2017



Source: Statistic Offices, Central Banks

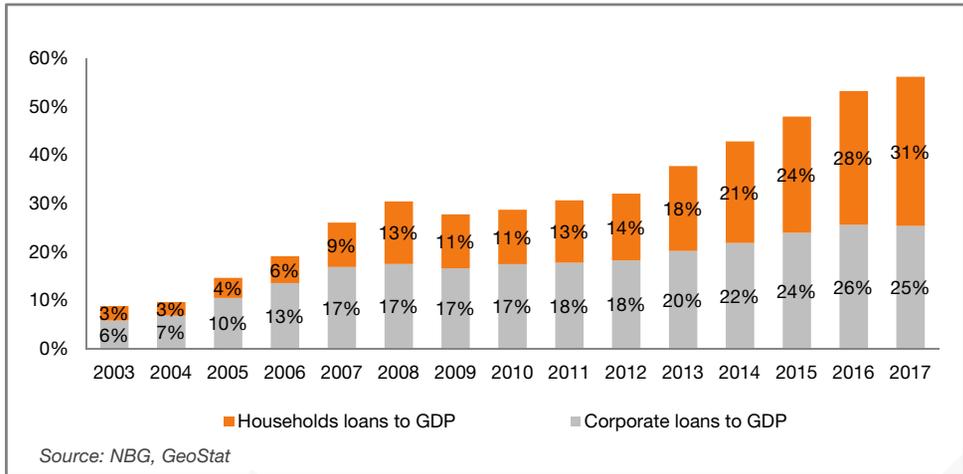
## NPLs to Gross loans (%), latest 2017 data



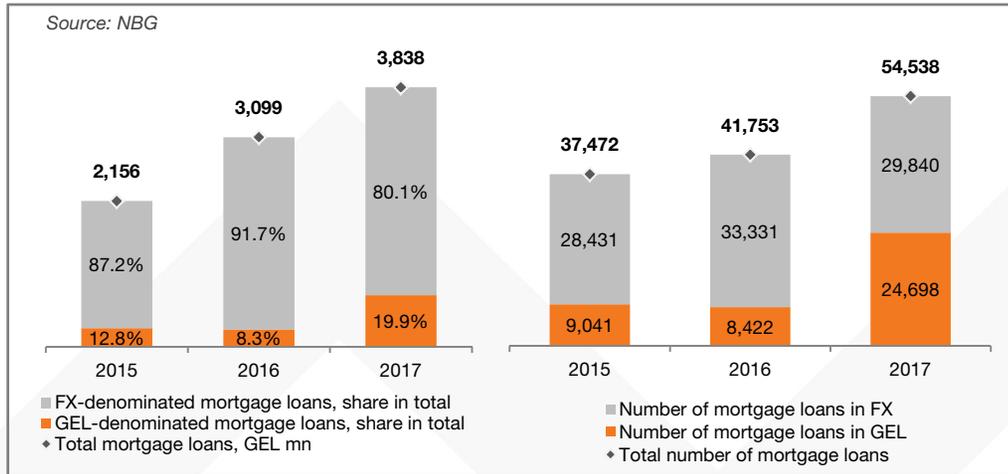
Source: IMF, NBG

# UNDERPENETRATED RETAIL BANKING SECTOR PROVIDES ROOM FOR FURTHER GROWTH

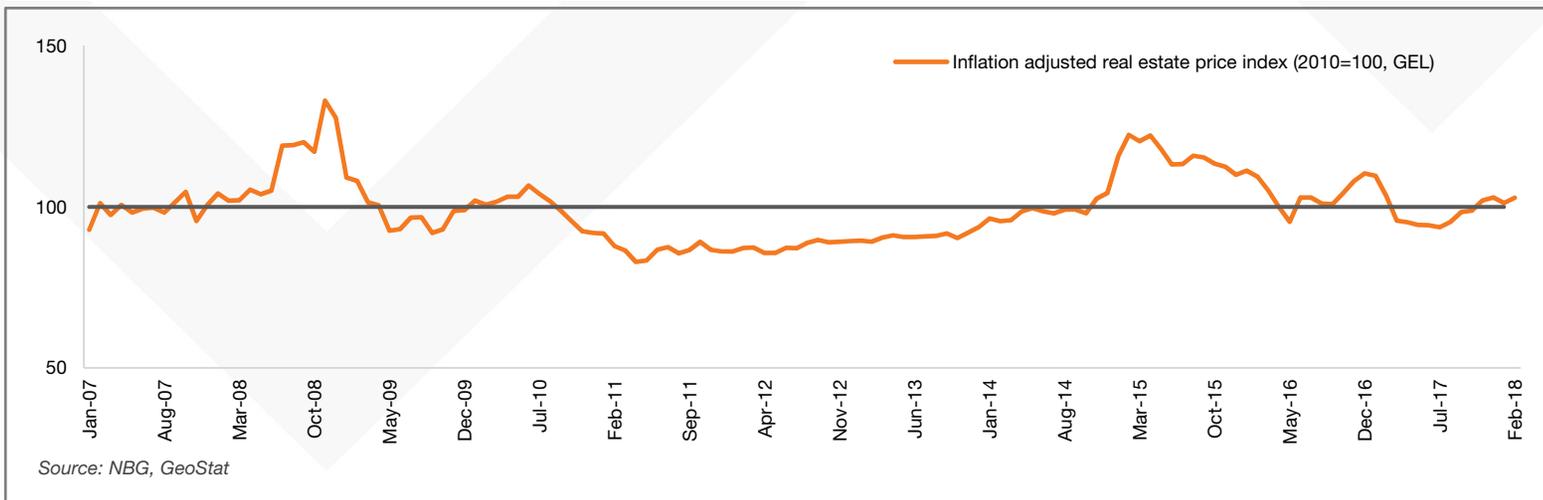
## Banking sector corporate and households loans to GDP



## Mortgage loans



## Real estate price index



# GOVERNMENT 4-PILLAR OF REFORMS

## 1 Structural Reforms

- **Tax Reform**
  - Corporate income tax reform
  - Enhancing easiness of tax compliance
- **Capital Market Reform**
  - Boosting stock exchange activities
  - Developing of local bond market
- **Pension Reform**
  - Introduction of private pension system
- **PPP Reform**
  - Introduction of transparent and efficient PPP framework
- **Public Investment Management Framework**
  - Improved efficiency of state projects
- **Deposit Insurance**
  - Boosting private savings
  - Enhancing trust to financial system
- **Accounting Reform**
  - Increased Transparency and financial accountability
  - Enhanced protection of shareholder rights
- **Association Agreement Agenda**

## 2 Promoting Transit & Tourism Hub

- **Roads**
  - Plan to finish all spinal projects by 2020 – East-West Highway, other supporting infrastructure
- **Rail**
  - Baku – Tbilisi Kars new railroad line
  - Railway modernization project
- **Air**
  - Tbilisi International Airport
    - 2nd runway to be constructed
    - International Cargo terminal
- **Maritime**
  - Anaklia deep water Black Sea port
    - Strategic location
    - Capable of accommodating Panamax type cargo vessels
    - High capacity – up to 100mln tons turnover annually
  - **Up to USD 1bln** for first phase (out of 9) in Georgia

## 3 Promoting Open Governance

- **Improvement of Public Services offered to the Private Sector**
  - Creation of “Front Office”
  - Application of “Single Window Principle”
- **Involvement of the Private Sector in Legislative Process**
  - Discussion of draft legislation at an early stage
- **Strict monitoring of implementation of government decisions**
  - Creation of special unit for monitoring purposes

## 4 Education Reform

- **General Education Reform**
  - Maximising quality of teaching in secondary schools
- **Fundamental Reform of Higher Education**
  - Based on the comprehensive research of the labour market needs
- **Improvement of Vocational Education**
  - Increase involvement of the private sector in the professional education