



BANK OF GEORGIA  
HOLDINGS PLC

## *Investment Management*

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*Speaker: Archil Gachechiladze, Deputy CEO*

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*November 2013*

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## *Discussion topics*

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**Private Banking update and new products**

**Asset Management – new initiative**

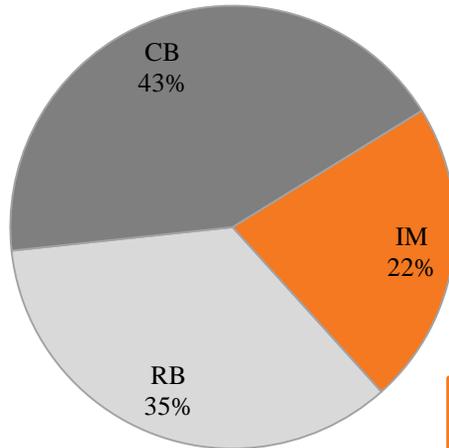
**Research**

**Wealth Management initiative**

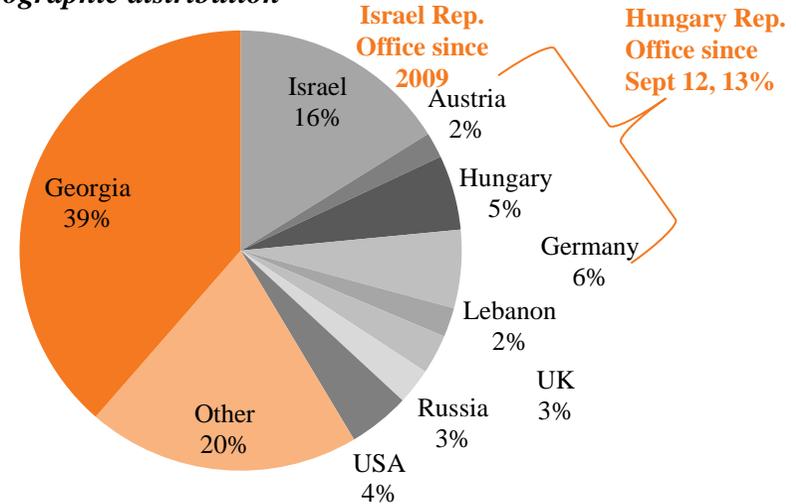
# Deposits

## BoG deposits breakdown

Total IM deposits:  
GEL 615 mln



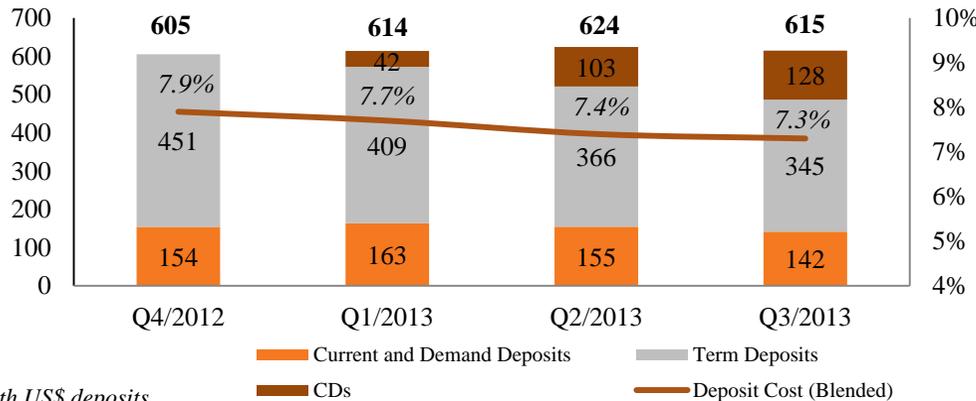
## IM geographic distribution



Since the beginning of the year rates decreased from 8% to 5%\* but portfolio remained flat

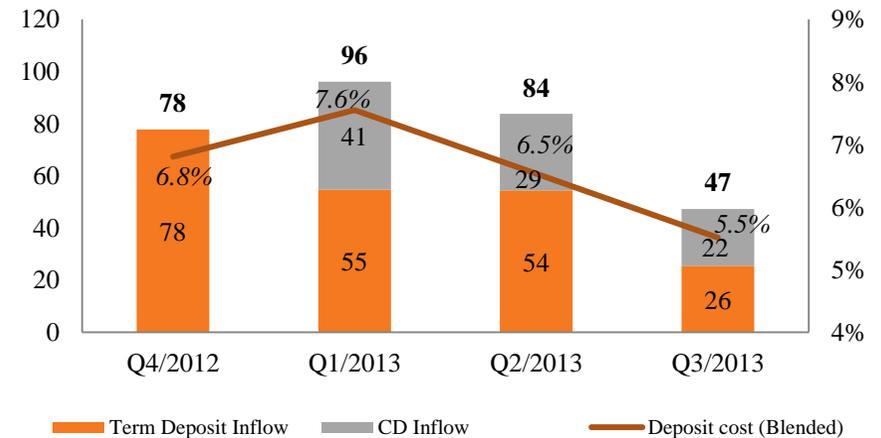
## IM deposits and CDs

GEL mln



## New deposit and CD inflow at reduced interest rate

GEL mln

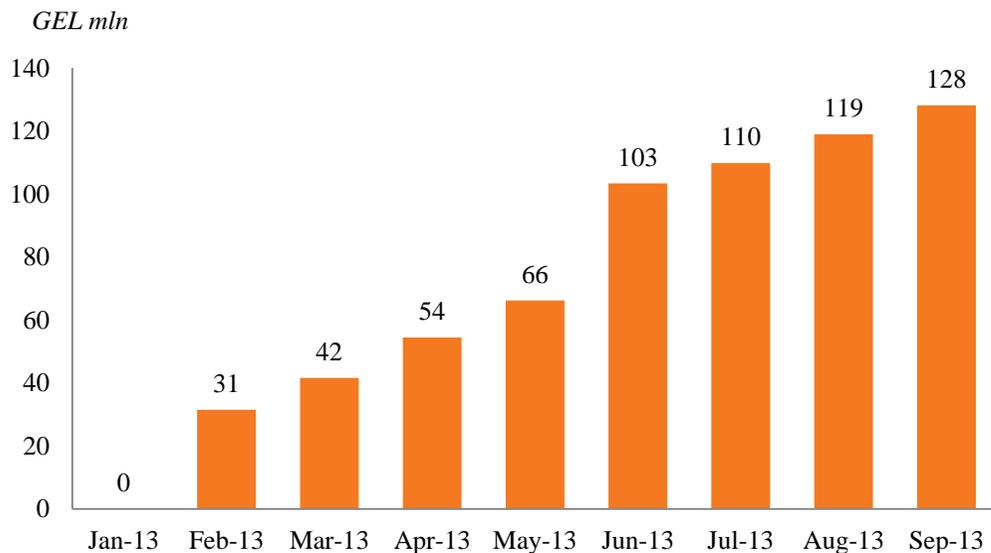


\* 12 month US\$ deposits

# Certificate of Deposit – new introduction

- Certificates of Deposit introduced in the beginning of 2013
- Certificates of Deposits (CDs) are non-callable instruments and thus significantly reduce the risk of liquidity shocks in bad times
- Therefore regulator has lower liquidity requirement for CDs than for deposits
- While reducing interest rates on deposits significantly, we offered certain incentives for CD investors and converted 21% of the portfolio into CDs

- Due to regulatory changes Swiss and Austrian banks are avoiding fiduciary accounts, but are willing to distribute BoG tradeable CDs among their clients
- End of November we are launching tradeable CDs to be offered through Swiss and Austrian Private Banks



 <p>\$20 mln 5.25% 1 year Certificate of Deposit</p>	 <p>\$20 mln 6.25% 2 year Certificate of Deposit</p>	 <p>\$20 mln 6.25% 3 year Certificate of Deposit</p>
 		

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## *Discussion topics*

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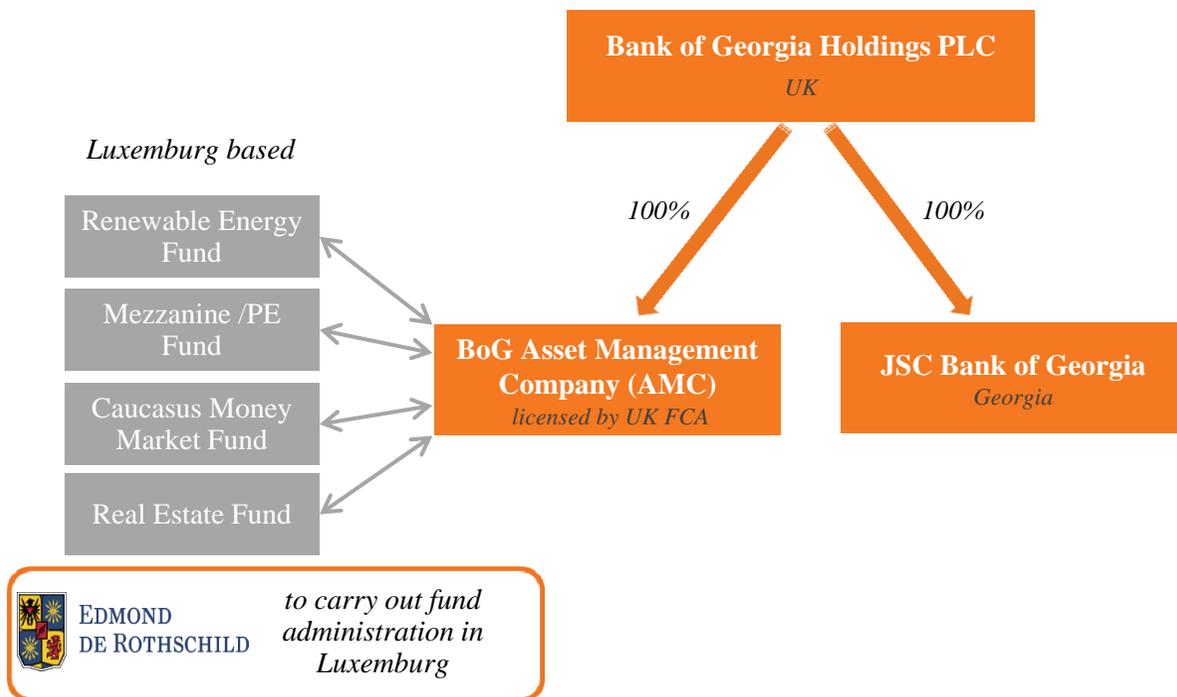
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## Asset management creates new opportunities for investors



*European investors have a strong preference and often regulatory requirements to invest in European structures only*

- As deposit rates decrease, investors are looking for alternative investment opportunities in Georgia, while offering is limited: there is no stock market, and minority investments in private companies are plagued with risks.
- Bank of Georgia Asset Management offers a package of portfolio investments at various levels of risk appetite.

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Mezzanine/Private Equity Fund

Renewable Energy Fund

Real Estate Fund

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# Caucasus Money Market Fund: arbitrage opportunity

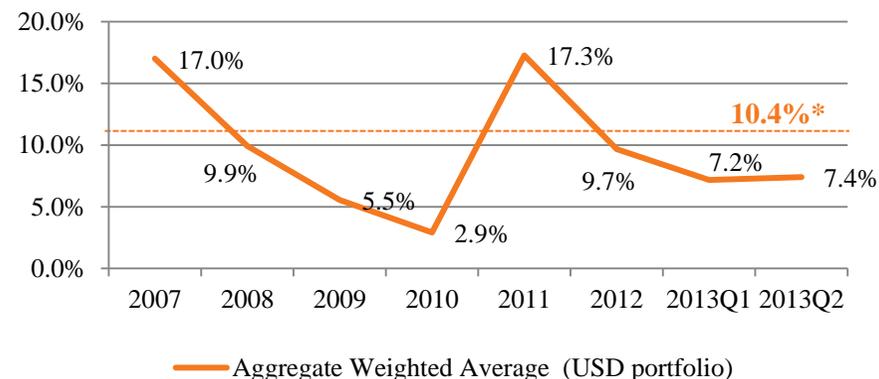
## Rationale for the opportunity

- ❏ Caucasus is under-researched and under-discovered by investors
- ❏ Yet three Caucasus countries have stable economies, strong banking sector and much lower debt level than most of Eastern Europe
- ❏ Georgia, Azerbaijan and Armenia offer an excellent opportunity to diversify portfolio for Western investors
- ❏ Ongoing effort by banks, driven by national banks, to de-dollarize balance sheets, creates particularly favorable environment for investing in local currencies

## Project profile:

- ❏ BoG to set up US\$200mln fund in 2014 targeting high single digit returns for its investors
- ❏ 1-3 months liquidity access
- ❏ The Fund to be initially invested in Georgian assets, and expanded to Armenia and Azerbaijan
- ❏ To keep a low risk profile and achieve targeted returns we will invest in the mix of: sovereign treasury debt instruments in South Caucasus (Georgia, Armenia, Azerbaijan) and bank deposits in local currencies and US\$

## 2007-2013 yields by BoG Treasury (percent)



Source: BoG

## Bank of Georgia expertise

- ❏ BoG for more than 6 years has profitably placed its own funds in bank deposits and sovereign bonds in all three countries in Caucasus and repeatedly received high single digit or even double digit yields
- ❏ BoG has an experienced research team covering Georgia and Azerbaijan macro, as well as different sectors of Georgian economy and debt securities of several prominent Georgian issuers
- ❏ The bank has more than 10 years experience assessing credit risk of the banks in the region

\* Yields on US\$ investments taking into consideration exchange rates for each year; Average yield is calculated on 2007-2012 full year results

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# Mezzanine/PE Fund: funding growth

## Rationale for the opportunity

- Number of high performing companies, with whom BoG is familiar through its corporate lending, are experiencing shortage of growth capital
- There is a shortage of players in Georgia offering growth capital to mature successful companies
- Senior debt providers in Georgia as a rule are unwilling to share expansion and other transformational risks even with their most capable borrowers

## Project profile:

- BoG to seed US\$100mln fund in 2014 and raise equity from investors
- The Fund will provide growth capital to high performing Georgian (potentially Azerbaijani and Armenian) companies
- Fund will offer limited horizon participation (up to 3-5 year )
- Fund will always retain exit options, including put-option and tag-along/drag- along rights
- Fund will target up to 20% IRR on its investments
- When opportunity presents itself, Fund will also share in equity upside
- Fund will have 10 year horizon

## Investment Projects currently under review

- JSC Nikora is a leader in Georgian meat processing sector and an owner of 89 stores around Georgia. Company wants to establish large commercial pig farm in 2014 and is seeking up to US\$5 mln equity or quasi-equity financing.
- Chain of neighborhood stores 2 Nabiji (2 Steps) has grown from 6 to 16 in last two years. Company's goal is to have 50 stores by 2016. They are seeking up to US\$1.5 mln
- JSC Healthy Water bottles and sells one of the top Georgian mineral water brands – Nabeghlavi. Currently company is seeking up to US\$10 mln equity or quasi-equity which will be used for financing a new bottling factory



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# Renewable Energy Fund: right time to invest

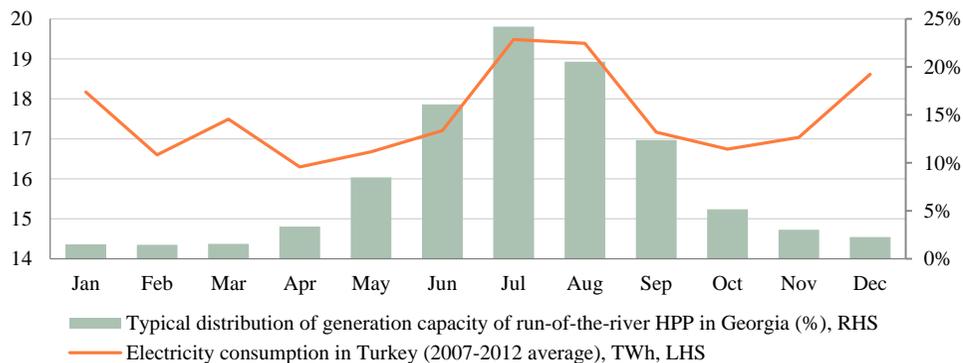
## Rationale for the opportunity

- Strong potential in renewable energy - the cheapest electricity in the region, strong demand in Turkey for electricity
- Build-Operate-Own (BOO) scheme offered to investors in hydropower (vs. more “traditional” Build-Operate-Transfer (BOT))
- Strong prospects for export development: Based on TEIAS forecasts Turkey will have an electricity deficit of 82-118 TWh by 2020.
- Georgian hydropower is one of the cheapest options for Turkey to fill its electricity deficit while the average tariff in Turkey has been at US\$ 0.09 and above
- A powerful transmission line (500kv) connecting Georgian electricity system with Turkey completed in 2013

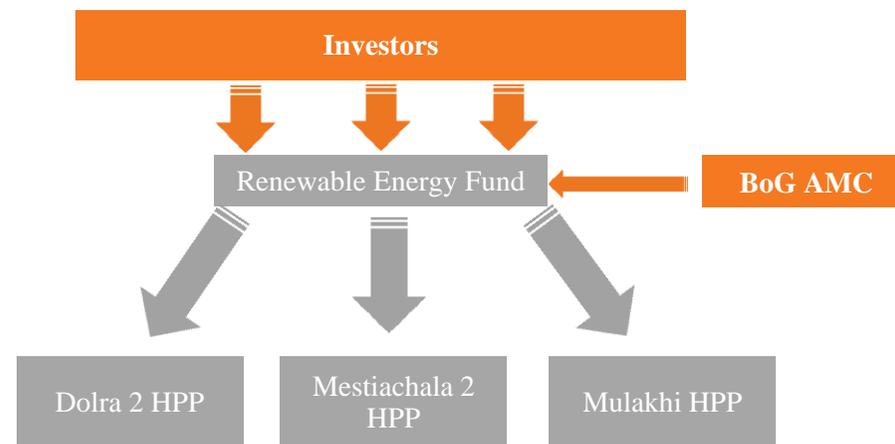
## Project profile:

- BoG to set up US\$100M private equity fund, with BoG and partner seed capital of US\$10M
- Develop medium size (up to 30MW installed capacity) hydro power plants
- The targeted projects are within geographic proximity which will reduce challenges (and costs) of logistics
- Leverage BoG experience in Georgian markets, including in funding HPP projects
- Bring on-board highly experienced international developer of HPP projects to acquire a strong technical expertise

## Hydroelectricity supply seasonality in Georgia nicely matches electricity demand peaks in Turkey



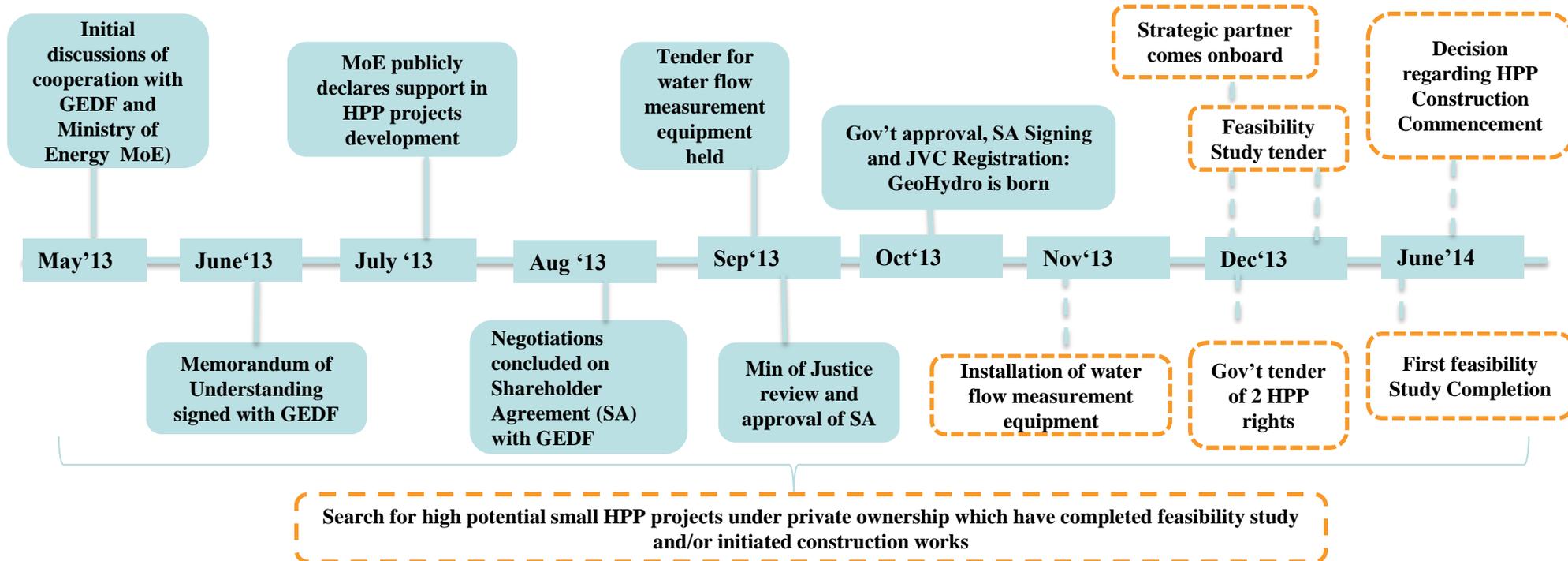
Source: TEIAS, Deloitte HIPP, BoG analysis



# Renewable Energy Fund: milestones

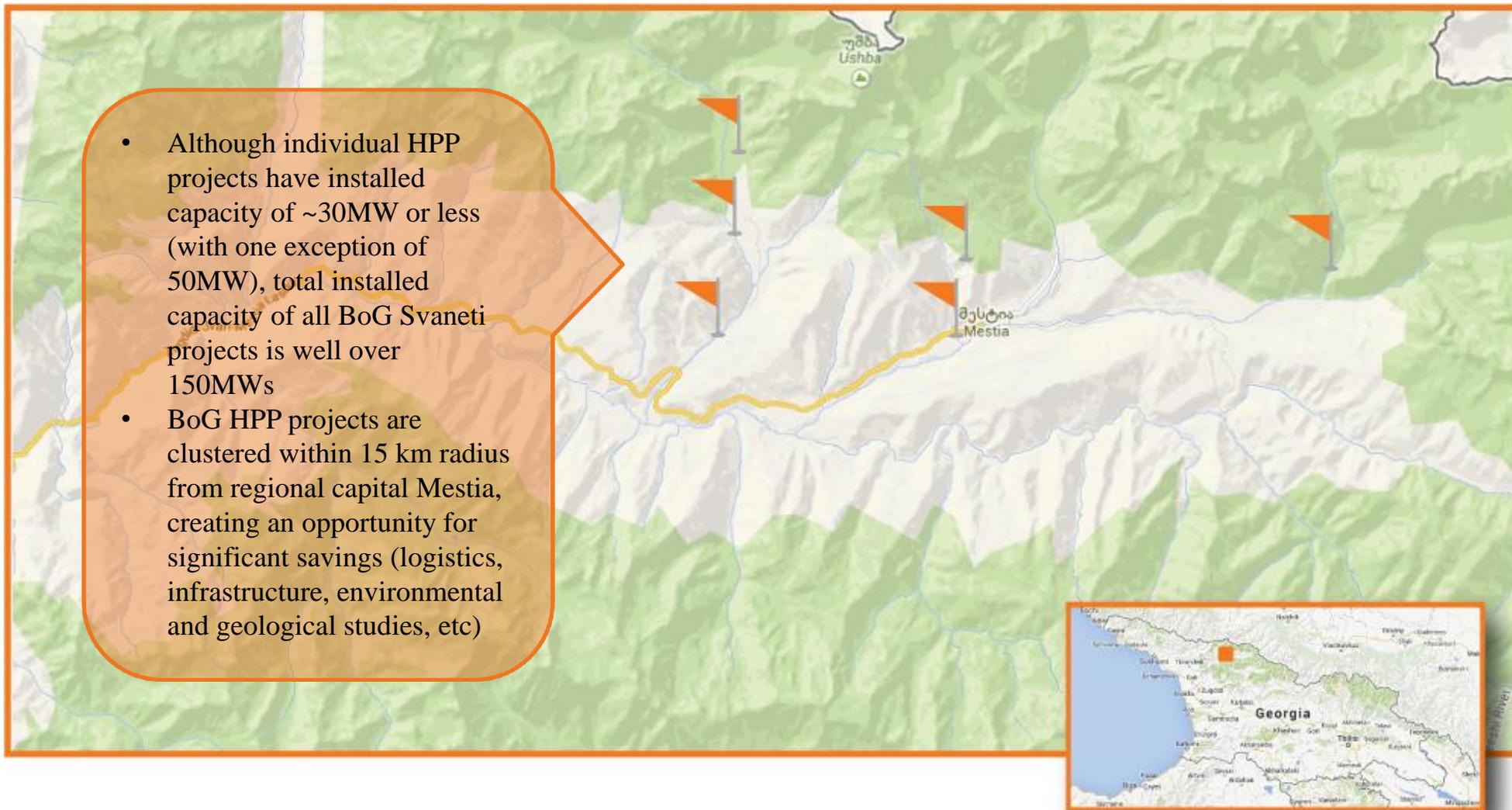
- Renewable Energy Fund (REF) will source its HPP projects from:
  - Ministry of Energy (MoE), via partnership with government owned and MoE controlled Georgian Energy Development Fund (GEDF)
  - Private entities having gone through initial stages of HPP project development

Bank of Georgia and Gov't owned GEDF established JVC with BoG owning 85% stake and GEDF 15%



## *Renewable Energy Fund: cluster of projects*

- Although individual HPP projects have installed capacity of ~30MW or less (with one exception of 50MW), total installed capacity of all BoG Svaneti projects is well over 150MWs
- BoG HPP projects are clustered within 15 km radius from regional capital Mestia, creating an opportunity for significant savings (logistics, infrastructure, environmental and geological studies, etc)



## *BoG's potential co-manager for Renewable Energy Fund*

- ❏ Strategic Partner Company CEO and CTO visited Georgia in August 2013 and undertook site visit together with BoG team and local technical team to several potential sites in Svaneti. In October their team of experts also visited Georgia to conduct a field study
- ❏ The company has expressed strong interest in cooperation in development of these projects
- ❏ Currently negotiations underway to co-manage REF once it is set up
- ❏ Terms under discussion:
  - ❏ 30-45% participation from the Company in management and taking responsibility for the technical execution of the projects
  - ❏ Matching their commitment with proportional participation in seeding of the REF (c.US\$ 4M along with BoG US\$6M)

- ❏ The company has been active since 1980s in small hydro and wind energy
- ❏ Project pipeline of >1,000 MW, of which by 2015 min 300 MW will be developed (investment of € 600 - 800 million)
- ❏ Presence in 7 countries in Europe and South America.
- ❏ Their projects include:
  - ❏ Developed 10 small Hydros in Portugal (3 of them still owned and managed by the company)
  - ❏ Sold Spanish subsidiary that owned 10 small Hydros in 2011
  - ❏ Developing portfolio of 150 MW small Hydros in Chile (water rights secured)

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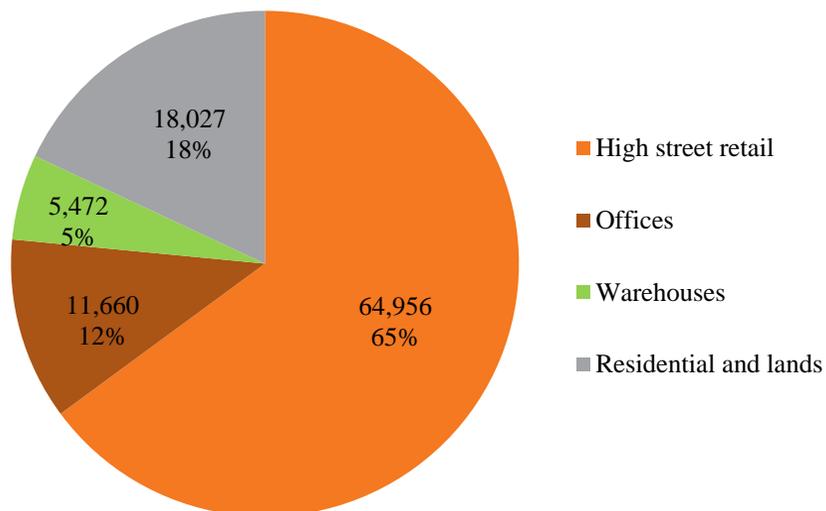
Real Estate Fund

Research

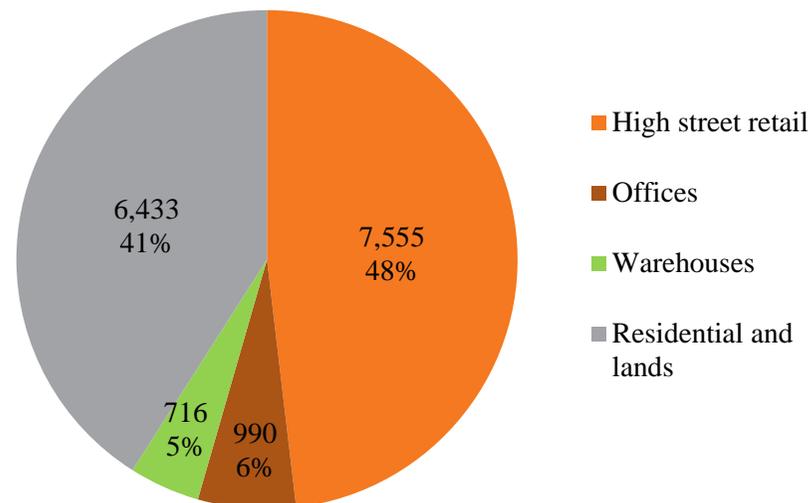
Wealth Management initiative

# Portfolio of assets,

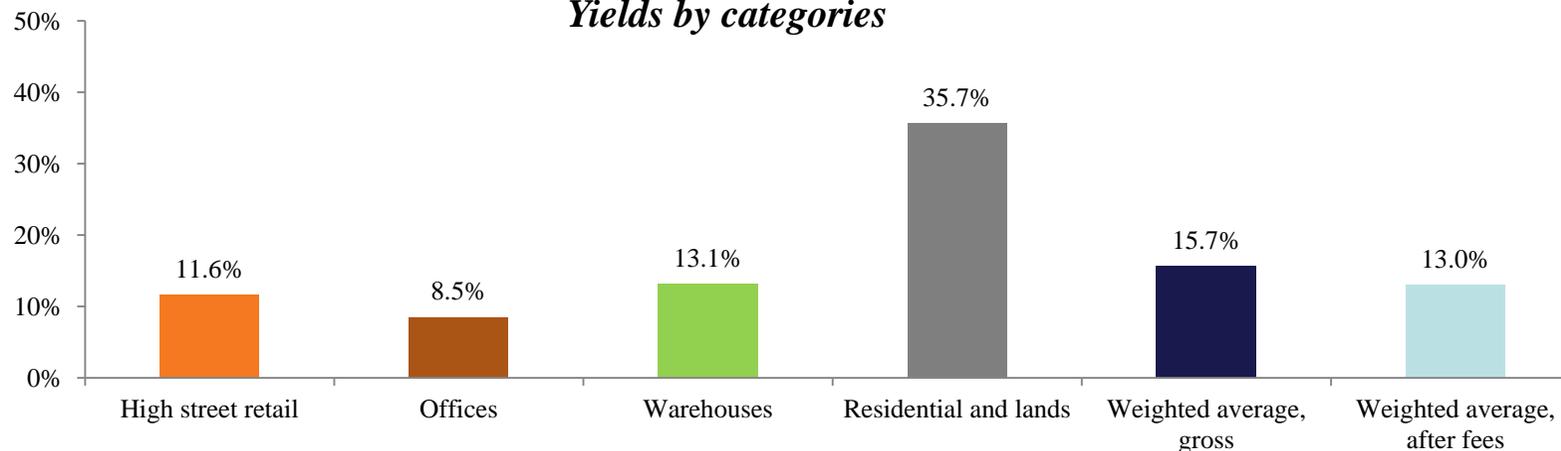
*Distribution of assets by categories, US\$'000 (excl. VAT)*



*Distribution of revenue by categories, US\$'000 (excl. VAT)*



*Yields by categories*



# NAV upon launch

## Real Estate Fund NAV upon launching

Amounts in US\$ if not specified otherwise

GEL/US\$ exchange rate

1.65

<b>BoG Group ownership</b>	<b>US\$</b>	<b>%</b>
Third party high street retail	60,000,000	60%
<i>Subtotal to be raised</i>	<i>60,000,000</i>	<i>60%</i>
BoG Group: warehouses	5,471,969	5%
BoG Group: retail	4,956,127	5%
BoG Group: offices	11,660,359	12%
BoG Group: residential developments & land plots	13,026,614	13%
BoG Group: cash equity	5,000,000	5%
<b>BoG contribution</b>	<b>40,115,070</b>	<b>40%</b>
<b>GRAND TOTAL</b>	<b>100,115,070</b>	<b>100%</b>

## Real Estate Fund NAV upon launching

Amounts in US\$ if not specified otherwise

GEL//US\$ exchange rate

1.65

<b>ITEM</b>	<b>AMOUNTS</b>
Cash & cash equivalents	5,000,000
<i>Real Estate</i>	
<i>High street retail</i>	<i>64,956,127</i>
<i>Offices</i>	<i>11,660,359</i>
<i>Warehouses</i>	<i>5,471,969</i>
<i>Land for future development</i>	<i>13,026,614</i>
Total real estate	95,115,070
<b>NET ASSET VALUE (NAV)</b>	<b>100,115,070</b>

## Key terms

Key terms	
Fund type	Equity REIT
Domicile	TBD
Asset class	Real estate and companies possessing real estate
Property type	Commercial (high street retail, offices and warehouses) and residential developments
Geographic focus	Georgia
Fund size	US\$100 million
Term	Evergreen
Management fee (REIT)	1.2% of portfolio value net of land and residential developments payable quarterly in arrears
Management & developer fees (residential developments only)	6% of total project cost incl. land value payable quarterly in arrears throughout development stage
Performance fee (residential developments only)	20% of IRR with a high watermark of 10% p.a. payable upon completion of each project
Anchor investor	JSC Bank of Georgia
Anchor investor's expected investment & share	US\$40 million/40%
Management company	JSC m2 Real Estate
Auditor	[Ernst & Young Georgia LLC]
Property appraisals	[Cushman & Wakefield]

## *M2 Real Estate experience in housing developments*



***Housing project on Chubinashvili St.,  
Tbilisi, Georgia***

- Status: Completed
- Launched in 09/2010
- Completed in 09/2012
- Total number of apartments: 123
- Apartments sold: 100%
- IRR (est.): 47%



***Housing project on Tamarashvili St.,  
Tbilisi, Georgia***

- Status: Under construction
- Launched in 04/2012
- Expected completion in 05/2013
- Total number of apartments: 522
- Apartments sold: 83%
- Expected IRR: 46%

## M2 Real Estate: new housing projects

### Tamarashvili 13 Development

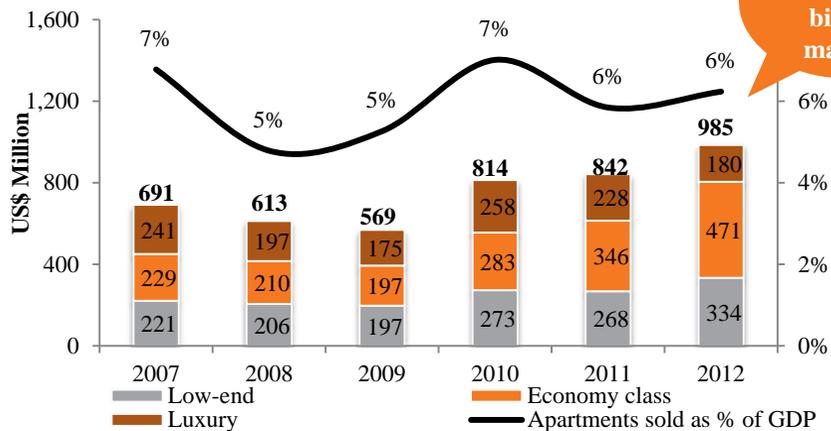
#### m2 Real Estate affordable housing projects' comparison

Amounts in US\$ if not specified otherwise

	Total of 3 new projects	13 Tamarashvili st. project	Comparison
Land area, m2	17,611	15,000	+17%
Building area, m2	83,620	63,247	+32%
Efficiency ratio (sellable area/building area)	74%	66%	+12%
Project duration, years	2.5	2.5	+0%
Expected revenue, US\$ (incl. VAT)	74,882,024	50,761,065	+48%
Project estimated cost (incl. VAT)	54,146,701	40,439,943	+34%
VAT	5,380,435	3,515,621	+53%
EBITDA	17,317,702	11,516,069	+50%
Estimated ROE of the project	39%	28%	+40%
Estimated IRR of the project	72%	46%	+57%
m2RE ownership	100%	100%	0%
Net income of the project	13,051,655	5,784,676	+126%
<b>Financing structure</b>			
Equity (land value)	8,530,000	5,400,000	+58%
Cash equity	5,000,000	3,000,000	+67%
Equity	13,530,000	8,400,000	+61%
Pre-sales	31,116,701	22,039,943	+41%
Debt	9,500,000	10,000,000	-5%
<b>Total</b>	<b>54,146,701</b>	<b>40,439,943</b>	<b>+34%</b>
<b>Project costs</b>			
Demolition costs	244,286	0	
Soft costs	1,254,306	1,018,386	+23%
Land cost	8,530,000	5,400,000	+58%
Construction costs	30,501,667	21,390,601	+43%
Other costs (marketing, management, insurance and brokerage fees and taxes)	4,043,602	2,615,160	+55%
VAT	6,042,247	4,227,592	+43%
Interest	1,962,814	4,710,568	-58%
Contingency	1,567,779	1,077,636	+45%
<b>Total</b>	<b>54,146,701</b>	<b>40,439,943</b>	<b>+34%</b>

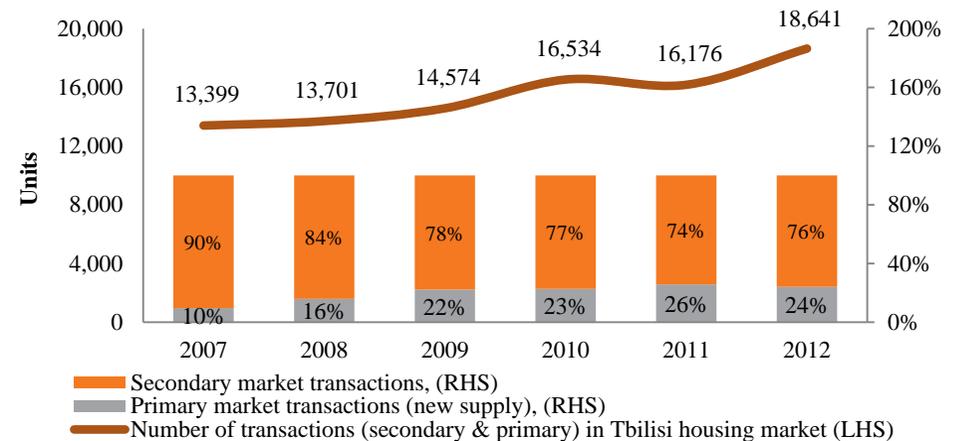
# Tbilisi housing market

## Housing market size in Tbilisi



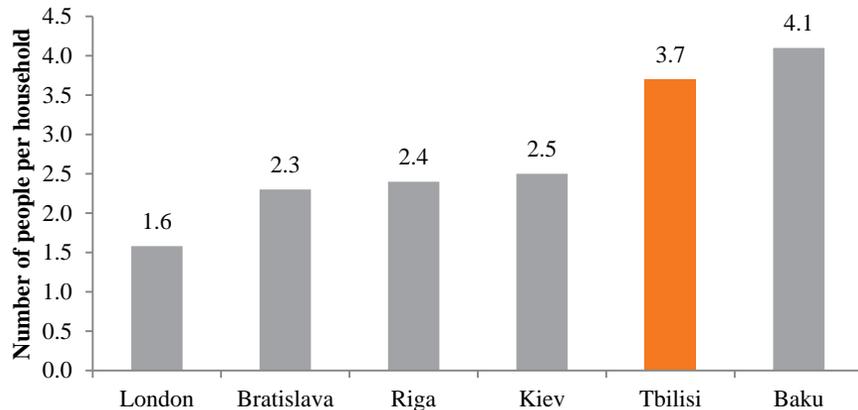
Source: NPRG, Gremic, Paragon, company own data

## Housing stock sold in Tbilisi



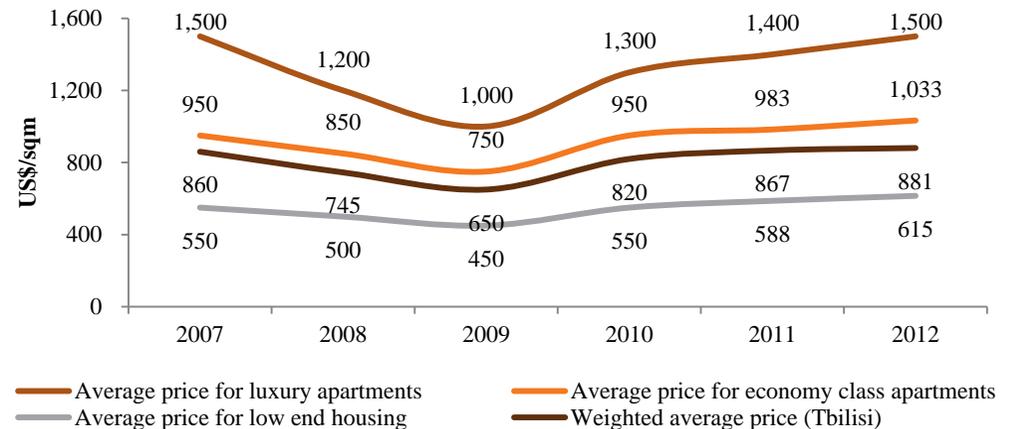
Source: NPRG, Gremic, Paragon, company own data

## Household size in Tbilisi



Source: NPRG, Gremic, Paragon, company own data

## Housing prices in Tbilisi



Source: NPRG, Gremic, Paragon, company own data

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## *Discussion topics*

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Private Banking update and new products

Asset Management – new initiative

**Research**

Wealth Management initiative

## *...and all of this is supported by strong in-house research*

Launched in June 2012

### Sector coverage:

- Hydropower
- Tourism
- Agriculture

### Corporate coverage:

- Georgian Oil and Gas Corporation
- Georgian Railways

### Macro coverage:

- Georgian economy
- Azerbaijan economy – economist for Azerbaijan has joined the research team and Azerbaijan economic coverage will be available before end 2013.



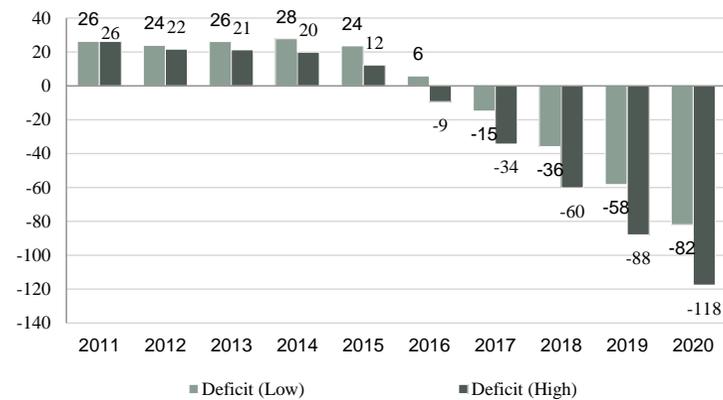
- Acts as the first contact for investors for information on Georgia
- Provides insight into Georgian sectors and economy (Azerbaijan in the future) to Asset Management and Wealth Management platforms
- Supports corporate business in attracting more clients and investments into the country
- Is accessible online, free of charge at web-site: [www.bogr.ge](http://www.bogr.ge)

# Research: key takeaways

## Hydropower – key takeaways:

- Georgia boasts an electricity production potential of 32 TWh annually, or 4.5x larger than its 2012 generation.
- Turkish electricity demand grows on average 7% annually and according to Turkish TEIAS the country is on the way to posting a deficit of 82-118 TWh by 2020.
- A new 500kv line connecting Georgia to Turkey is completed in 2013 increasing capacity to export electricity to Turkey 4.6x.

## Estimated Electricity deficit in Turkey 2011-2020 (TWh)

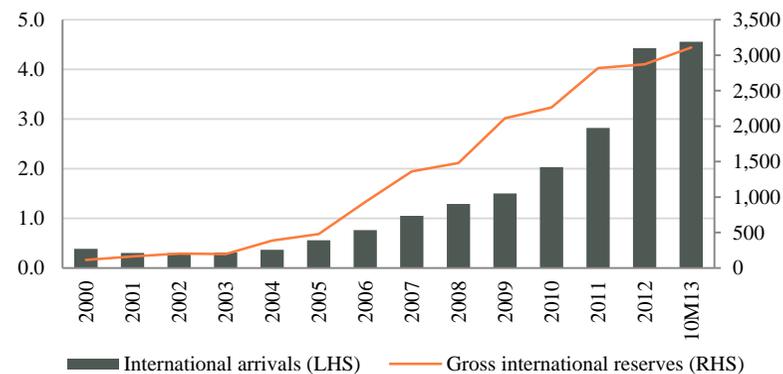


Source: TEIAS, BOGR

## Tourism – key takeaways:

- Annualized 10M13 numbers suggest that Georgia is on track to host around 5.5mn international visitors or 1.2x of its current population in 2013. The number of international arrivals was up 56% y/y in 2012 to 4.4mn.
- We forecast 8.8mn international arrivals or 2x of Georgia's population in 2019. To compare - Croatia, Cyprus, Estonia and Montenegro hosted 2.3x, 2.1x, 2.0x and 1.9x of their respective populations in 2011.
- Increasing tourism receipts contribute to growth in international reserves: NBG's net FX buying reached US\$ 555mn in 9M13, or 3.6x of that in 9M12.

## International arrivals and gross international reserves



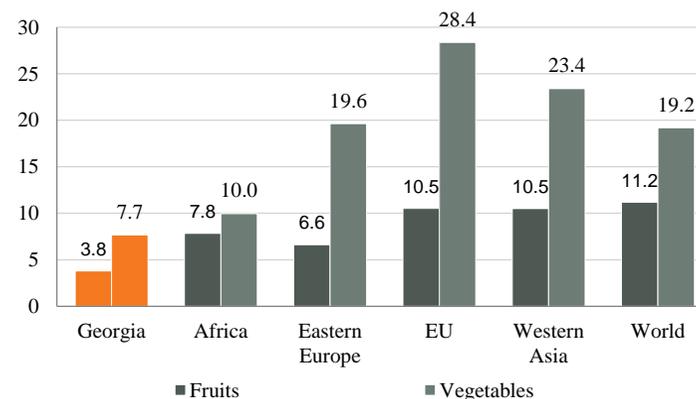
Source: National Bank of Georgia and Georgian National Tourism Agency

## Research: key takeaways continued...

### Agriculture – key takeaways:

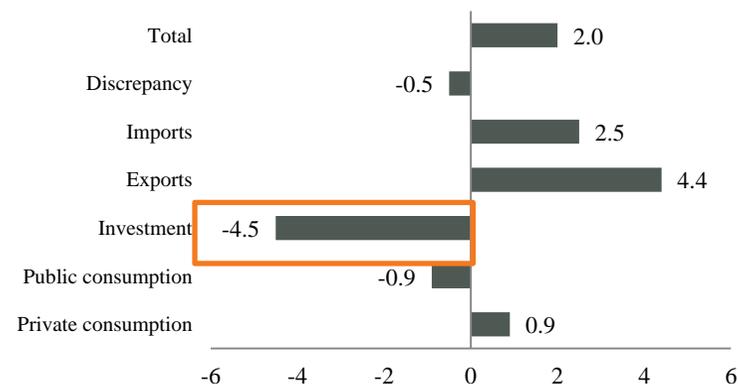
- Agricultural yields in Georgia remain 2.9x below global average yields on fruit and 2.5x on vegetables, and 1.7x and 2.6x lower than Eastern European fruit and vegetable yields, respectively.
- State investments will introduce irrigation up to 278tha by 2017, more than 11x the current 25tha. Georgia has renewable water resources of around 14,000m<sup>3</sup> per capita or 14x the 1,000m<sup>3</sup> threshold for national water scarcity.

### Agriculture yield comparison, 2011 tonnes/ha



Source: FAOStat, BOGR

### Contribution to the annual nominal GDP growth (1H13 vs 1H12, % change y/y)



Source: IMF: Regional Economic Outlook, with reference to GeoStat

### Georgian Economy – key takeaways:

- Given the weakened investor confidence between two election periods in late 2012 and 2013 the economy had slowed down to 1.7% in 1H13.
- However, the simple calculations suggest that if the investment had been flat, the growth of GDP would have been back to historical average of around 6%.

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## Wealth Management distribution



- European asset management structure investing in Caucasus ✓
- EU residency permit possibilities ✓
- Private Banking platform in Europe ✓

*Diversifying and growing portfolio of offerings to wealth management and private banking customers*

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# Q&A

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## *Forward looking statements*

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This presentation contains forward-looking statements that are based on current beliefs or expectations, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and JSC Bank of Georgia and/or the Bank of Georgia Holdings' plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are various factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, legal, business and social environment. The forward-looking statements in this presentation speak only as of the date of this presentation. JSC Bank of Georgia and Bank of Georgia Holdings undertake no obligation to revise or update any forward-looking statement contained within this presentation, regardless of whether those statements are affected as a result of new information, future events or otherwise.