



BANK OF GEORGIA
HOLDINGS PLC

Investment Management

Speaker: Archil Gachechiladze, Deputy CEO

September 2014

New strategy geared towards fee income generation



- Launching WM clients' advisory services in cooperation with brokerage*
- Expanding Int'l offices*
- Leveraging advisory business to offer a diversified portfolio of products to clients*
- Greater collaboration with Solo Banking*

- Integration with WM and Solo allows for regionally unique distribution system*
- Only brokerage with market making capability*
- Only international sub-custodian license in Caucasus region*

- IPOs and private placements*
- Corporate and Eurobonds; Syndicated loans*
- Company acquisition; corporate restructuring*
- Sale of business and/or business unit*

- Renewable Energy Fund: equity investments in hydropower plants*
- Mezzanine Fund: mezzanine investments in growing companies*
- Money Market Fund: government papers and bank deposits in US\$ and local currency in Caucasus region*

Supported by

Research

International Custody

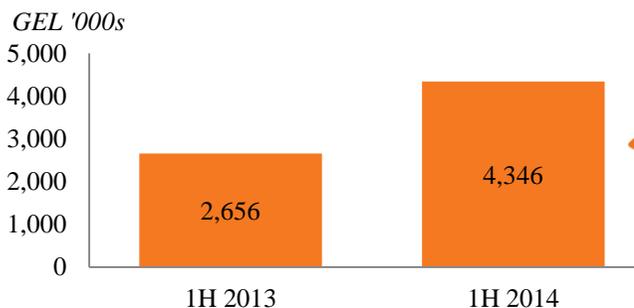
Investments in line with new strategy start to deliver first results

Investing in teams to drive fee income businesses

- Research
- Asset Management
- DCM
- M&A



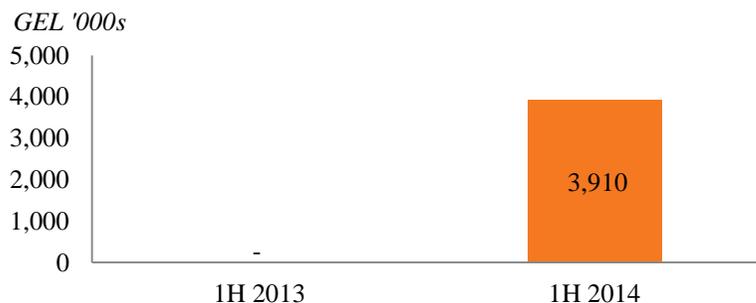
IM operating expenses



GEL 1.7 mln y-o-y increase is the investment BoG made in hiring senior staff

First fee income generated in 1H 2014

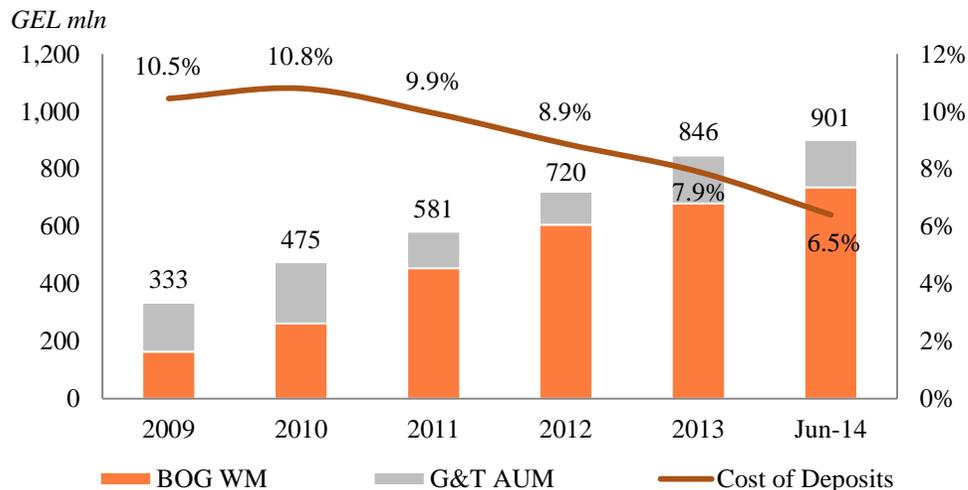
IM advisory fee income



- EBRD local bond issue fee
- Georgian company bond issue fees
- M&A deal advisory fee

Wealth Management: AUM growth despite reduced yields

Assets under management



Six offices

-  Tbilisi
-  Tel Aviv
-  Budapest
-  London

-  Baku **Advisory offices**
-  Istanbul **Advisory offices**

Preparation for Advisory Business – Private Banker training

❖ Claritas Investment Certificate

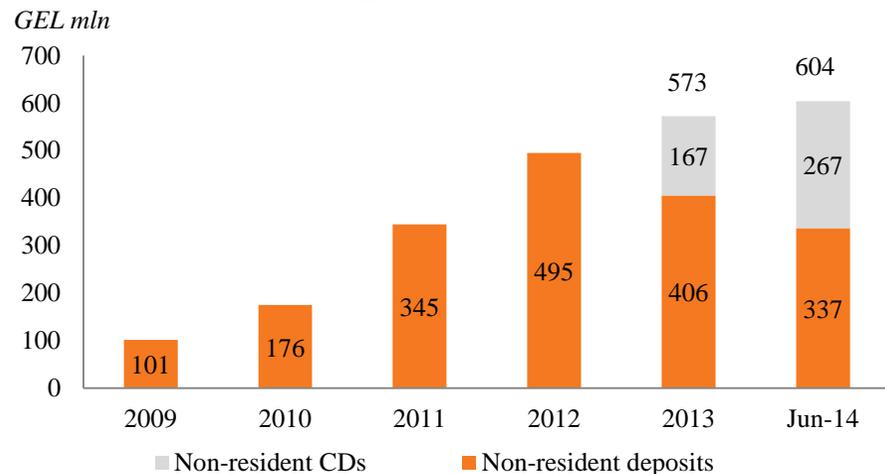


❖ Certified Private Banker

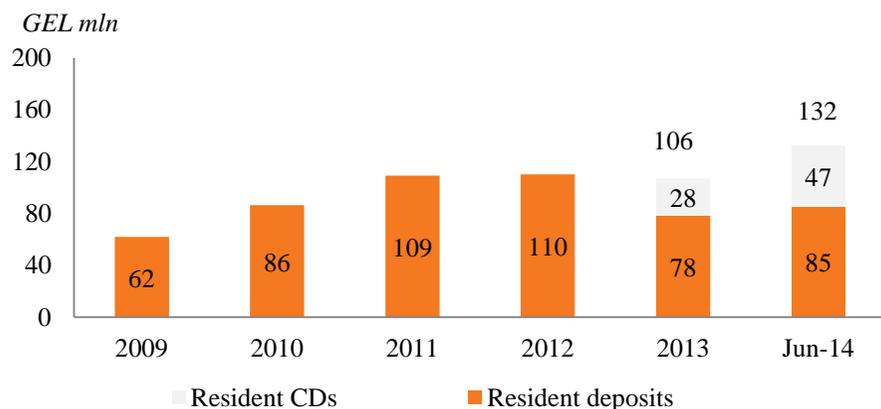


Wealth Management: replacing non-resident deposits with CDs

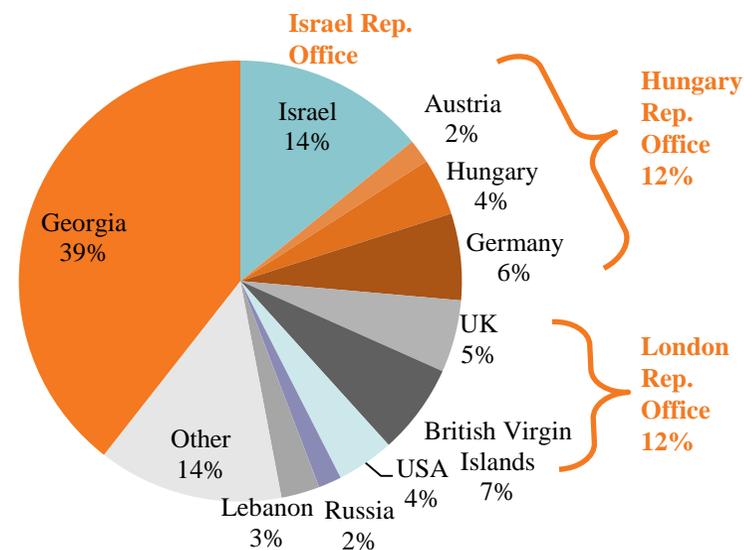
Non-resident client deposits and CDs



Resident client deposits and CDs

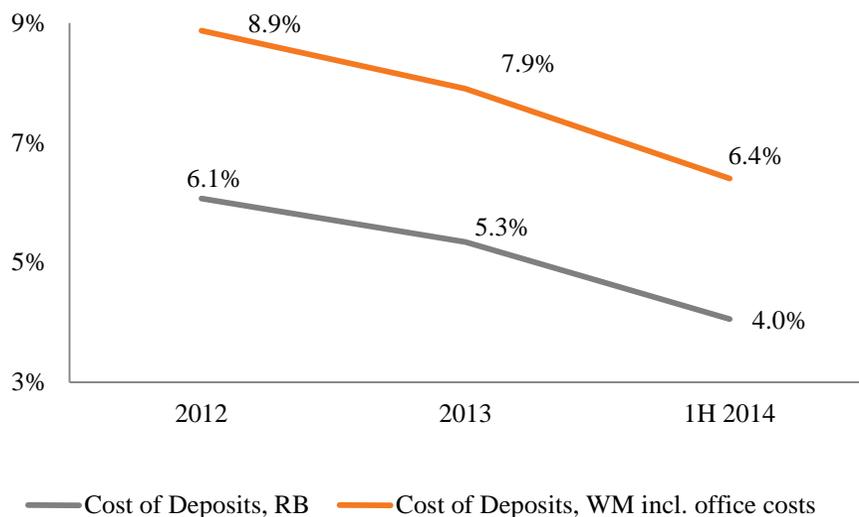


BoG WM geographic distribution, 30 June 2014



Ongoing re-pricing of WM Cost of Funds

Cost of client deposits WM vs. RB



Weighted average maturity 20.4 months

Weighted average maturity 14.9 months

Brokerage acquiring a much broader front

Integration with WM and Solo

- Personal banker will become client's broker
- Brokerage account will be accessible through internet banking
- Clients shall be able to place trade orders with personal banker

Custody

- Enabling international investors to hold securities in Georgia and the Caucasus region
- BoG is State Street and Citi Bank sub-custodian (2 year process for any competitor)
- The only international sub-custodian in the Caucasian region

Market making

- Well capitalised brokerage – the only brokerage in Georgia with resources to offer market making to bond issuers

The screenshot displays a banking interface with the following sections:

- Assets:** 19,186.46 GEL
- Liabilities:** 3,974.23 GEL
- Membership Rewards:** 55,931 MR Points
- Latest documents:** A table of transactions from 01/09/2014, including outgoing transfers and debit visa transactions.
- Accounts:** A table listing account numbers, names, and amounts for USD, GEL, and Debit Visa.
- Deposits:** A table listing deposit numbers, names, and amounts for CD GEL.
- Credit cards:** A table listing account numbers, names, types, and amounts for American Express cards.
- GALT & TAGGART BROKERAGE:** A summary table showing capital from M2, Bank of Georgia, and Teliani Valley, totaling 270,000.00 GEL.

Debt & Equity Investor Conference - an annual event

Selected investor attendees

Logos of selected investor attendees include: Goldman Sachs, Asset Management, HSBC, Terra Partners, Carnegie Asset Management, Finasta, T. Rowe Price, Prince Street Capital Management, Citi, FIM, Renaissance Capital, Sloane Robinson, Firebird Management LLC, Sturgeon Capital, and Handelsbanken.

GALT & TAGGART
CREATING OPPORTUNITIES



- 📍 31 investors from around the world and 17 target companies from Georgia and Azerbaijan participated in the first conference
- 📍 199 one-on-one meetings took place within the framework of our conference

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GALT & TAGGART PRIVATE EQUITY

RENEWABLE ENERGY FUND (REF)

To launch REF with rpGlobal (experienced Austrian developer) in the beginning of 2015

\$100mln+ REF will develop medium size (10-30MW installed capacity) hydropower plants in Georgia. REF to invest in equity and raise debt financing from local and international lenders. REF to be set up in Luxemburg

The fund will target 18% return (after fees) for its investors

MEZZANINE FUND

To launch Mezzanine Fund in mid-2015, addressing the demand for growth capital and leveraging experience of corporate banking in finding and financing high potential businesses in Georgia

\$50mln fund will focus on 8-10 projects, \$2-8mln investment per project. The fund to be set up in Luxemburg for maximum transparency and accountability

The fund will target 15%+ return

MONEY MARKET FUND

To launch Money Market Fund in 2015, leveraging experience in successfully managing Bank of Georgia's own liquid assets of over \$1bln with a 3-year return of 10% p.a

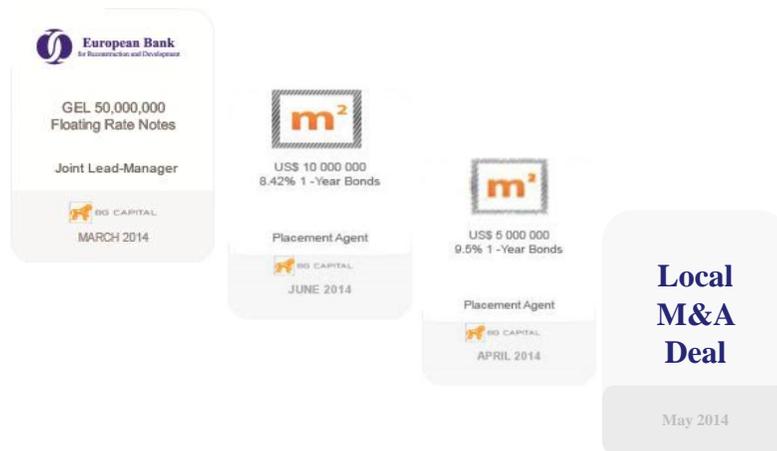
The fund is to invest in Georgian sovereign debt instruments and bank deposits. Expand to Azerbaijan and Armenia. Targeting \$200mln fund size in three years' time

The fund will target high single digit returns for its investors while maintaining 1 month liquidity access

M&A Advisory & DCM already generating fees in 2014

DCM

- ❑ GEL 50 mln EBRD local bonds placed
- ❑ m² Real Estate US\$5 mln bonds placed
- ❑ m² Real Estate US\$10 mln bonds placed
- ❑ Announcing GLC 3-year bond placement of US\$10 mln
- ❑ Corporate bonds to follow



M&A

- ❑ Developing G&T Advisory on the back of BoG's strong corporate relationships
- ❑ Substantial existing deal pipeline

ECM

- ❑ Expecting 1-2 deals per year in ECM
- ❑ Teaming-up with International Investment Banks for international IPOs

Private Equity: project developments underway

Hydropower Fund

Investing equity in up to
30 MW HPPs

Luxembourg

**A US\$100mln fund, US\$10mln seed capital.
~18% target net IRR, JV with rpGlobal (Austria)**

20MW Mestiachala: hydrological study and topography of the project area completed. Power grid connection rights secured. Basic design, environmental & geological studies underway. Targeting start of construction Spring 2015

Mezzanine Fund

Extending mezzanine loans to
growing businesses

Luxembourg

**BoG to seed US\$50mln fund and raise equity
from investors. ~14% target net IRR**



First investment of US\$1.3 mln made in the chain of neighborhood stores 2 Nabiji (2 Steps). Advanced discussion with a potential client on US\$2mln mezzanine investment; healthy pipeline of deals

Money Market Fund

Allocating money in low risk
regional papers and deposits

Georgia

Registration is in process

- Fund size: targeting US\$200 mln in 2-3 years' time. Initially invested in Georgian assets to expand to Azerbaijan and Armenia as a next step
- The instruments are: sovereign treasury debt instruments in Georgia, Armenia, Azerbaijan and bank deposits in local currencies and US\$ in three countries

Research gaining reputation and consumers

- ❑ A dedicated team of 5 members
 - ❑ Two economists, each in Georgia and Azerbaijan
- ❑ New analyst joining in September, 2014

Sector coverage:

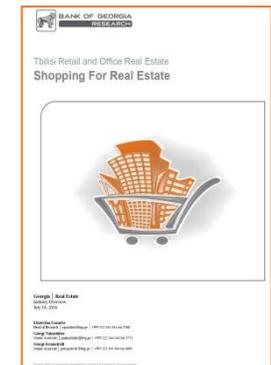
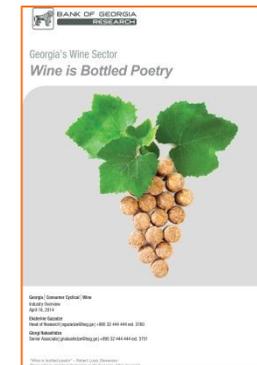
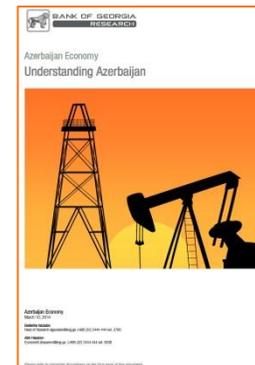
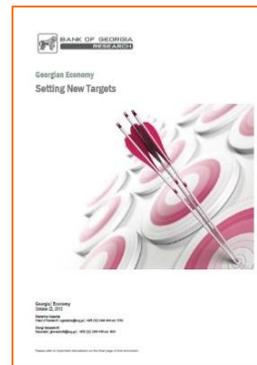
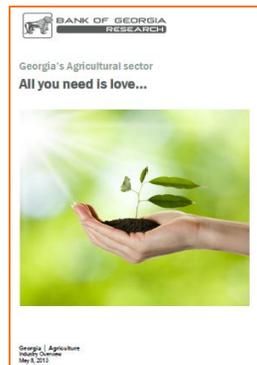
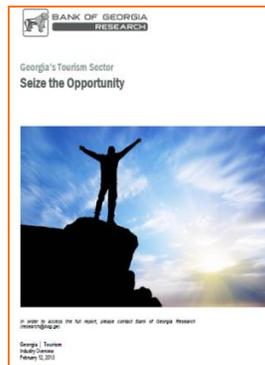
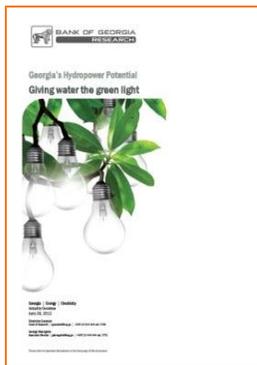
- ❑ Hydropower
- ❑ Tourism
- ❑ Agriculture
- ❑ Wine Industry
- ❑ Commercial and Retail Real Estate

Corporate coverage:

- ❑ Georgian Oil and Gas Corporation
- ❑ Georgian Railways
- ❑ Coverage to increase in the future:
 - ❑ International Bank of Azerbaijan
 - ❑ SOCAR

Macro coverage:

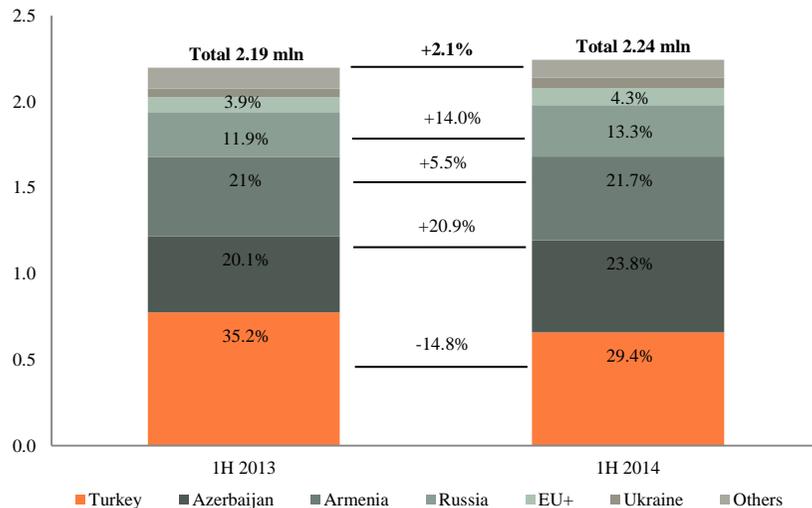
- ❑ Georgian economy
- ❑ Azerbaijan economy
- ❑ Notes on Georgian Economy (Russia – Ukraine conflict)



Georgian economy update: tourism and remittances

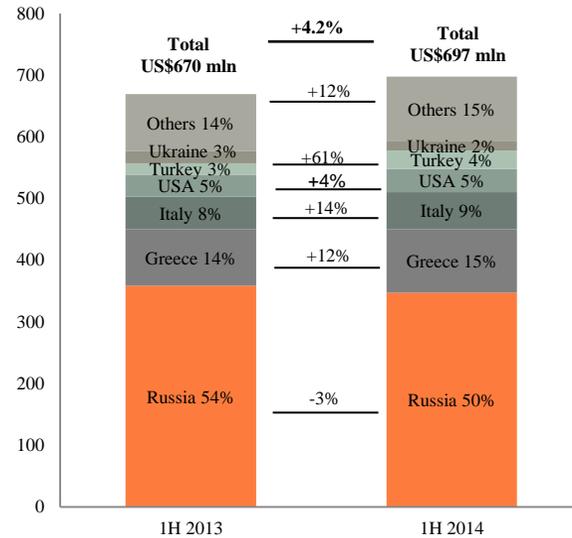
- In 1H 2014 international visitors increased 2.1% y-o-y, as arrivals from Turkey declined 14.8% y-o-y (-5.2 ppts share in growth)
- Drop in Turkish arrivals was fully compensated by Azerbaijani (+20.9%, 4.2 ppts share in growth) and Armenian (+5.5%, 1.1 ppts share in growth) visitors growth
- Arrivals also increased from Russia (+14.0%, 1.7 ppts share in growth), EU (+14.0%, 0.5 ppts share in growth) and Ukraine (+22.8%, 0.5 ppts share in growth)

Tourist arrivals (mln), shares and growth



Source: GNTA

Remittances (US\$ mln), shares and growth



Source: NBG

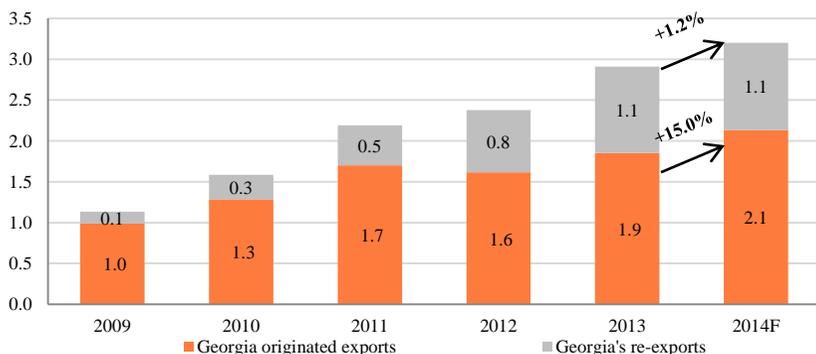
- Total remittances grew 4.2% y-o-y in 1H 2014, despite remittances from Russia decreasing 3.1% y-o-y
- 1H14 remittances increased from large donor countries: Greece (+12.3%), Italy (+14.1%), USA (+4.5%), Turkey (+61.3%) and also from other countries (+12.0%)
- As remittances have proven resilient during the turbulent times in the past, we anticipate that net transfers (a proxy for remittances) to account for 9.2% of GDP in 2014

Foreign trade: diversification in action

- 2Q 2014 export growth remained well above zero (+8.0% y-o-y) despite negative developments in Azerbaijani (car re-exports are down) and Ukrainian markets
- In recent years, export growth was driven by Georgia originated products and re-exports remained relatively flat
- Thus, car re-export drop may be outweighed by Georgia originated goods export, which continued to grow robustly in 1H 2014 (wines +152.4%, mineral waters +63.7%, ferro-alloys +24.5%)
- Deteriorated economic outlook for trading partners (Russia and Ukraine) will limit strong export growth in 2014 vs 2013 (+22.4% y-o-y)

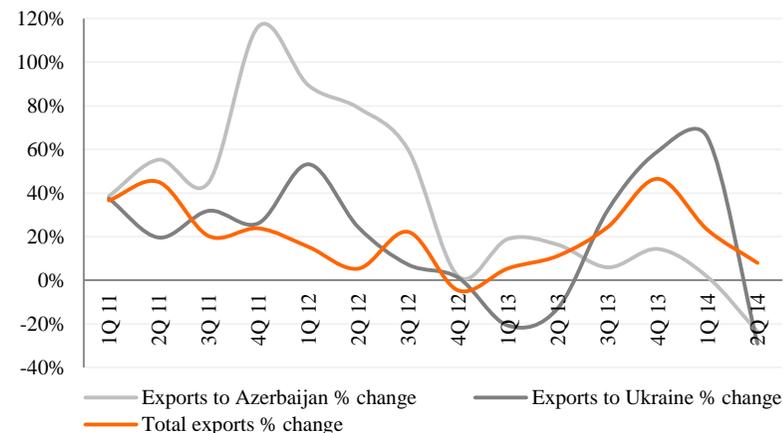
Georgia's export structure

US\$ bln



Source: WITS, BoG Research

Export growth, y-o-y

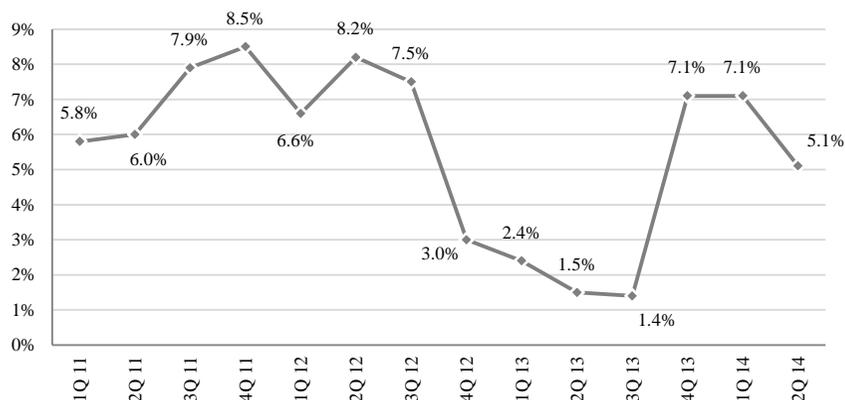


Source: GeoStat

- In 2013, Russia's share in total exports was 6.5% and reached 9.4% in 1H 2014
- Taking into account potential suspension of Russia-Georgia free trade agreement and Georgia's limited production capacity, we expect that Russia's share in total exports will not grow beyond 11%
- Along with pick-up in imports (+15.0% in 1Q 2014 and +16.5% in 2Q 2014) investment goods import growth recovered at 7.8% and 17.3% in 1Q 2014 and 2Q 2014 respectively

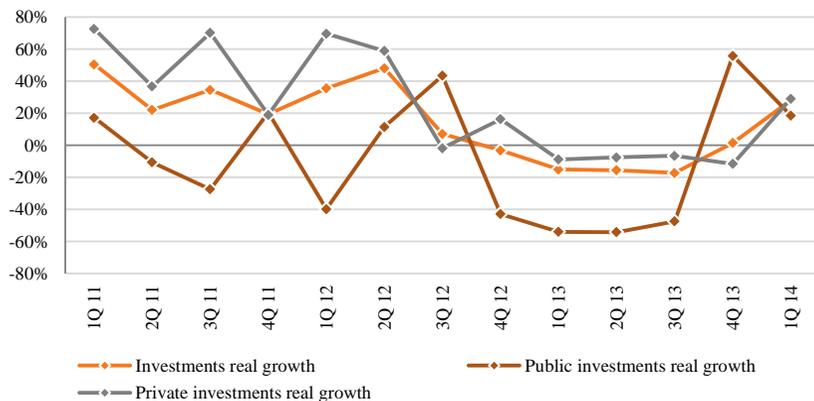
Georgian economy: gaining momentum

Real GDP y-o-y growth



Source: Geostat. Note: 2Q 2014 data is preliminary

Investments real y-o-y growth



Source: Geostat, MOF, BoG Research

- In 2014 we expect real GDP growth to reach 5.3 - 5.8%, driven by renewed private investments and fiscal and monetary stimulus

1Q 2014 highlights:

- Real GDP grew 7.1% y-o-y
- Total Investments increased 28.1% y-o-y (of which private +28.9% y-o-y, public +18.5%)
- Manufacturing +16.7% y-o-y, construction +14.0% y-o-y, trade +11.1% y-o-y, real estate +10.1% y-o-y

2Q 2014 highlights:

- Real GDP grew 5.1% y-o-y (preliminary)
- Tax collection increased 9.2% y-o-y
- Trade turnover increased 14.3% y-o-y
- Commercial bank lending to the real sector increased 21.3% y-o-y
- Inflation remains subdued (2.0% y-o-y in 1H 2014) and central bank keeps policy rate unchanged at 4.0% stimulating the economy
- Regional tensions pose a limited risk on the growth outlook – Georgia's dependence on Russia and Ukraine is relatively limited (13.2% of exports in 2013, 4.2% of net cumulative FDI in 2004 to 1Q 2014, 16.6% of tourists in 2013, resilient remittances)