



BGEO Investor Day

23 November, 2015
London

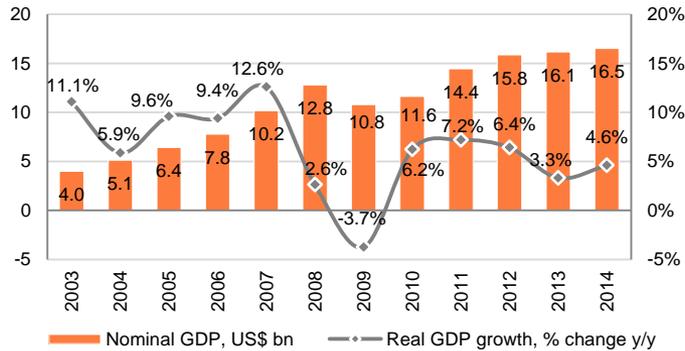
Capturing Growth Opportunities

Macroeconomic update

Speaker: Archil Gachechiladze, Group CFO

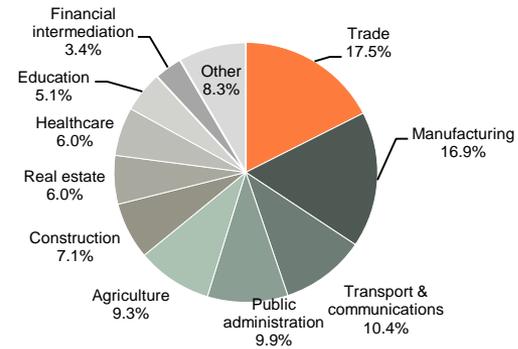
Georgian economy: reforms driven success

GDP: robust growth potential, strong rebound after 2009

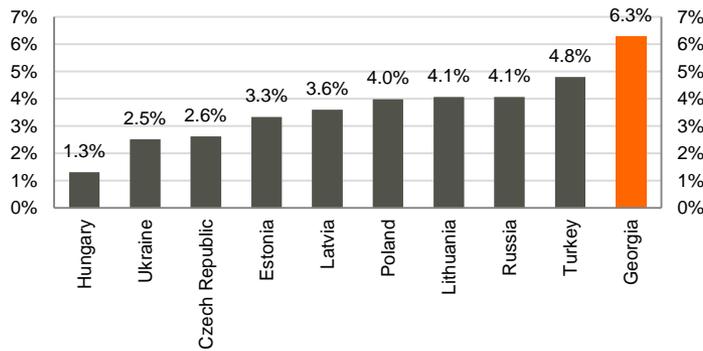


Source: GeoStat

Diversified nominal GDP structure, 2014

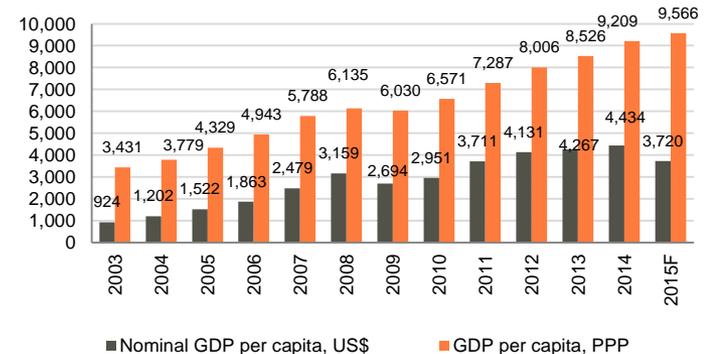


Average real GDP growth over 2003-14



Source: IMF, GeoStat

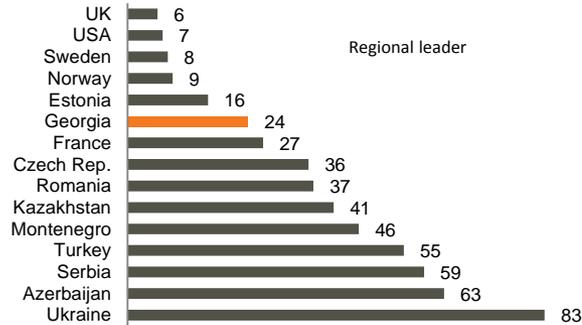
Rapidly growing per-capita GDP



Source: IMF

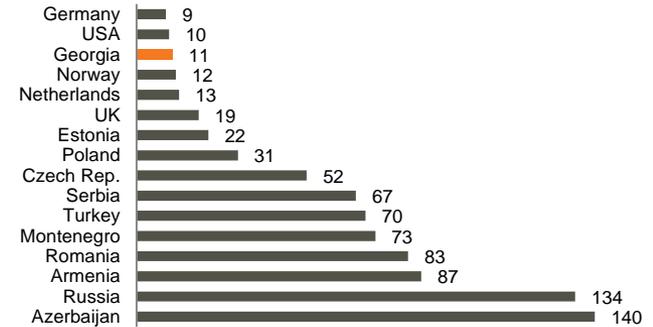
Georgia's international ranking - consistently outperforming peers

Doing business, 2016



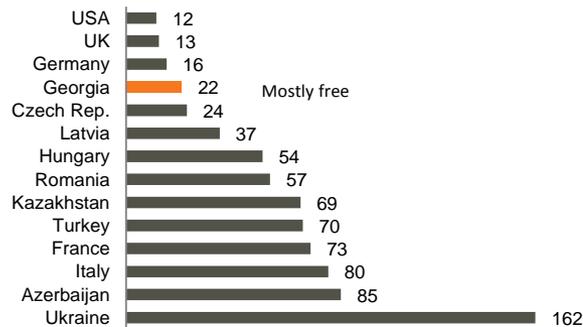
Source: WB

Business Bribery Risk, 2014



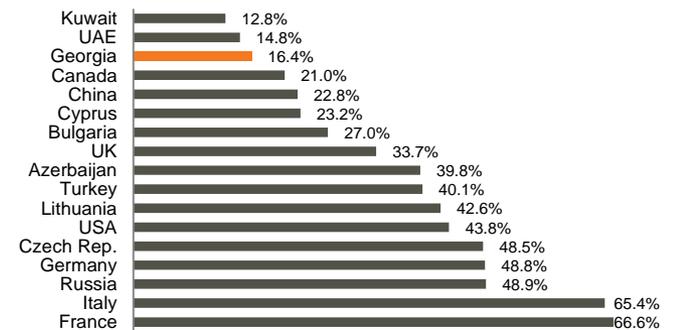
Source: Trace International

Economic Freedom Index, 2015



Source: Heritage Foundation

Total tax rate (% of profit), 2015

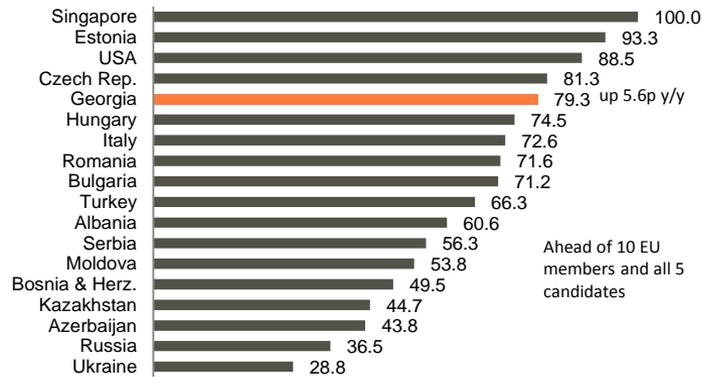


Source: PWC

Note: The total tax rate measures the amount of taxes and mandatory contributions payable by the business, expressed as a share of commercial profits

Georgia's international ranking – consistently outperforming peers

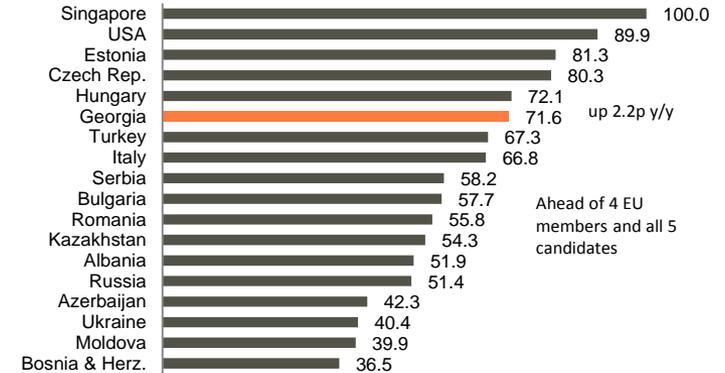
WGI, regulatory quality ranking, 2014



Source: WB

Note: Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

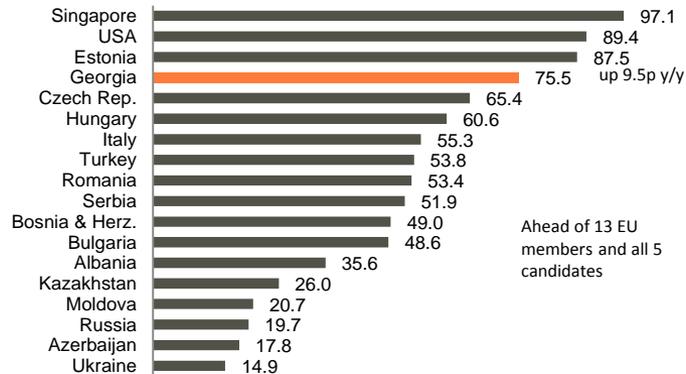
WGI, government effectiveness ranking, 2014



Source: WB

Note: Reflects perceptions of the quality of public services, of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

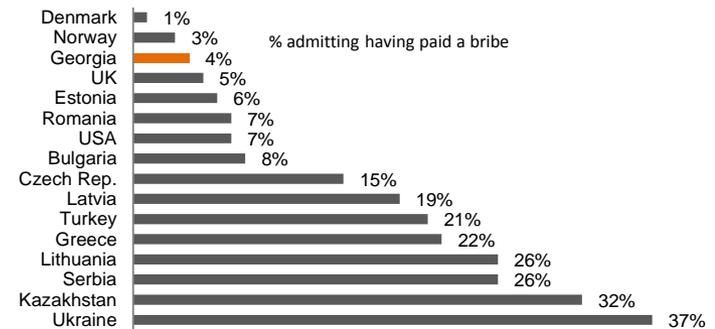
WGI, control of corruption ranking, 2014



Source: WB

Note: Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

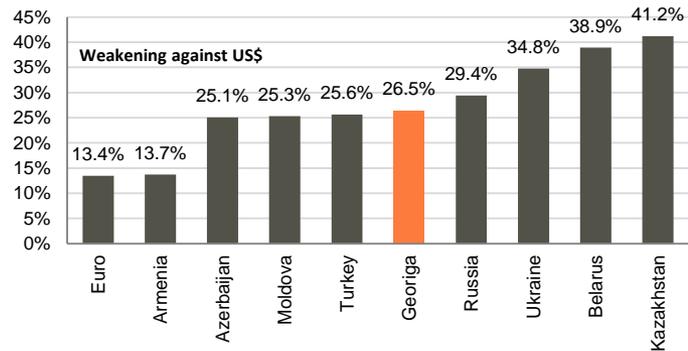
Global Corruption Barometer, 2013



Source: Transparency International

Georgia vs. regional economies - absorbing external shocks through flexible exchange rate regime

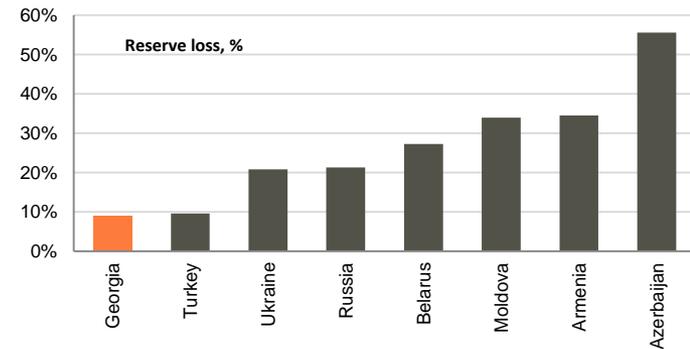
Currency devaluation vs. USD (last 1 year)



Source: Bloomberg

Note: US\$ per unit of national currency; 9 Nov 2014 - 9 Nov 2015

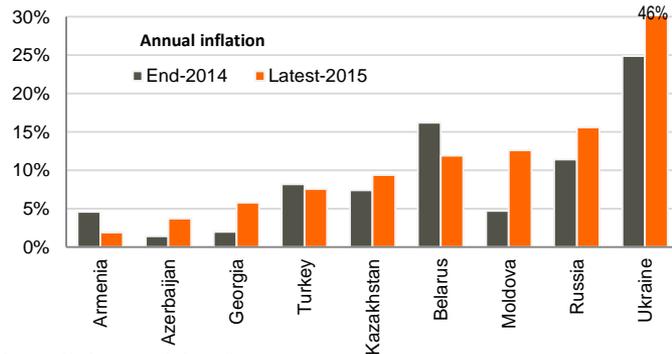
National bank reserves change over 1 year



Source: IMF

Note: From Sep-2014 to Sep-2015; Armenia's reserves exclude a US\$ 500mn Eurobond issued in March 2015

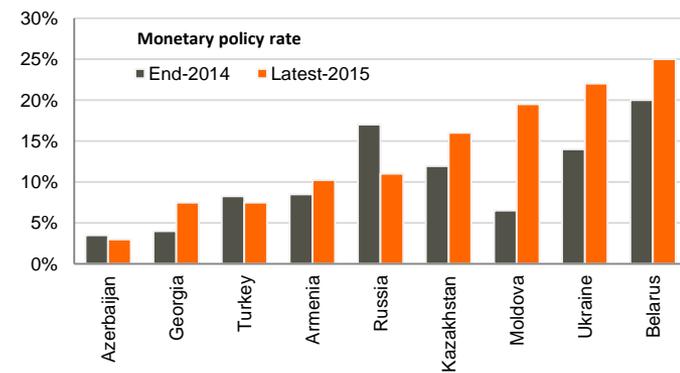
Inflation remained modest in Georgia



Source: National statistics offices

Note: Latest October 2015, as of September for Azerbaijan, Moldova, & Belarus

Policy rate lower in Georgia vs. peers

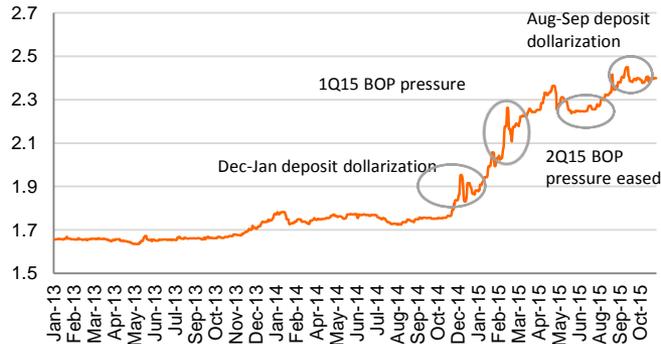


Source: Central banks

Note: Latest data as of 9 November 2015

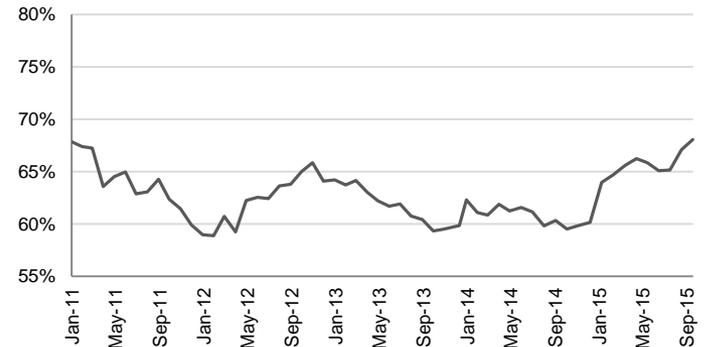
BOP pressure on lari eased since 2Q15 and GEL has stabilized

US\$/GEL exchange rate



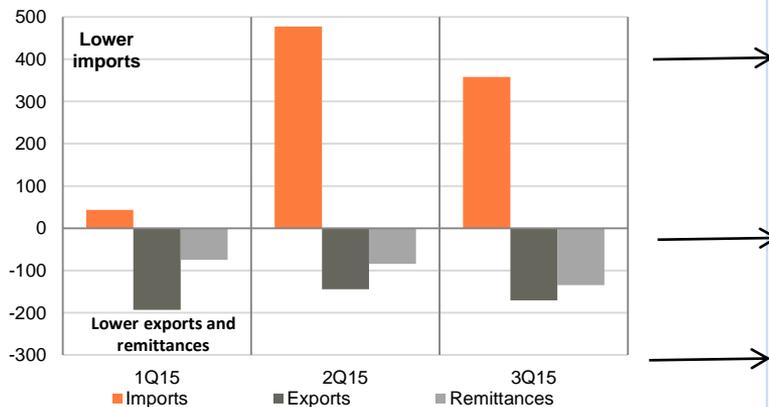
Source: NBG

Deposit dollarization at 68% in September (+7.7ppts y/y)



Source: NBG

External accounts, US\$ mn change y/y



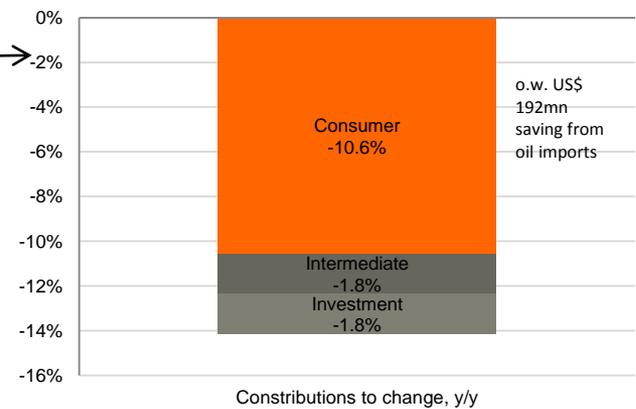
Source: GeoStat, NBG

Savings from lower imports
US\$ 879mn (-14% y/y)

Loss from lower exports and remittances
US\$ 801mn

Net positive effect US\$ 77mn

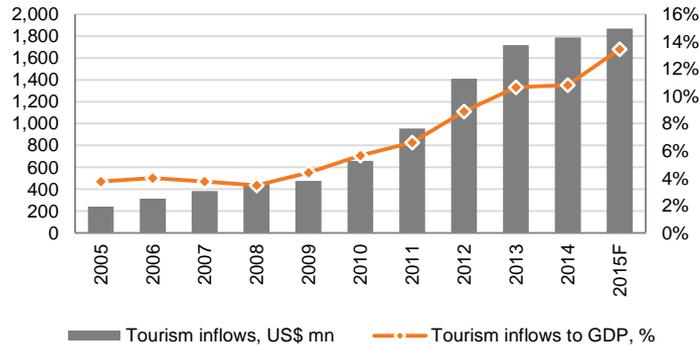
Contributions to imports decline in 9M15



Source: GeoStat, Galt & Taggart

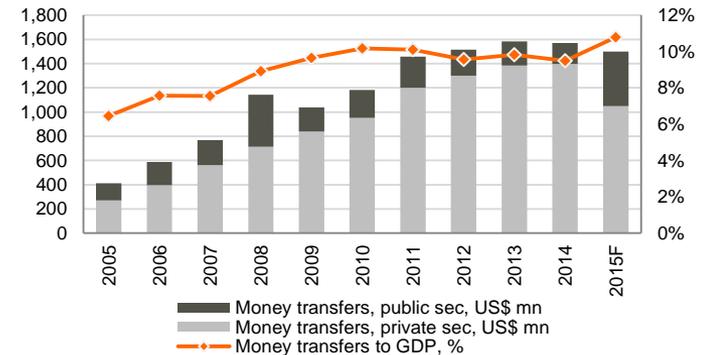
FDI drives current account deficit, mainly through capital goods imports

Tourism revenues, share to GDP c3x higher over 2005-15



Source: GeoStat; NBG

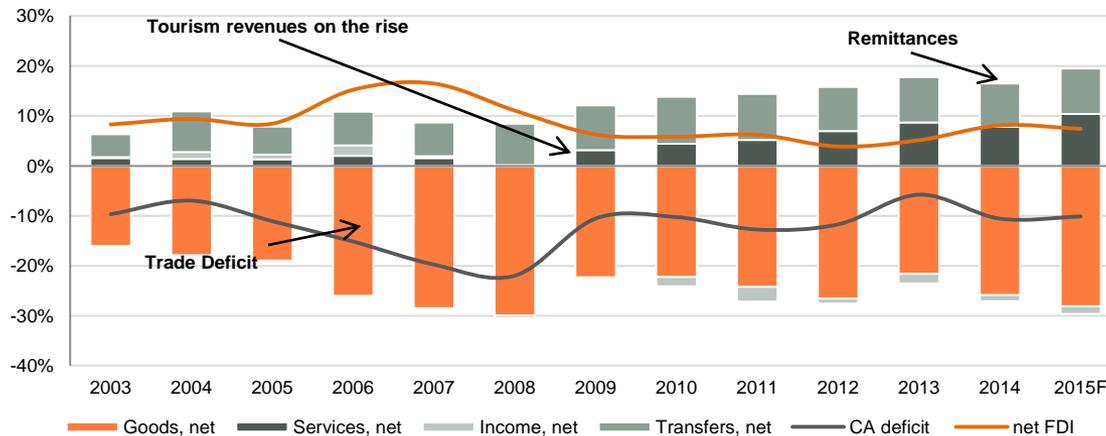
Money transfers, diversified by countries



Source: GeoStat; NBG

Note: pickup in transfers to the public sector in 2015 is attributed to c-hepatitis grant

Current account balance, % of GDP

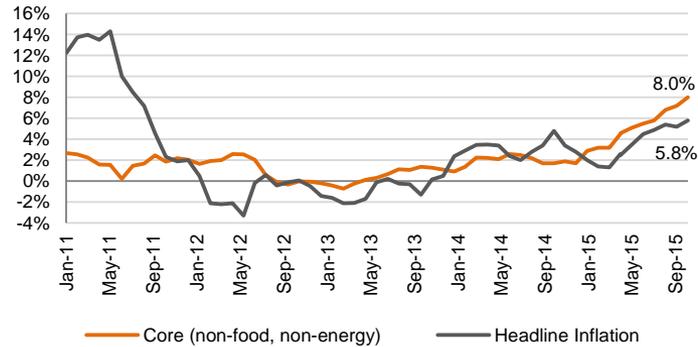


Key takeaways

- Trade Deficit mainly driven by FDI
- 70% of trade deficit is financed by services exports (mainly tourism, with strong growth potential) and remittances (diversified by countries)

Lower world commodity prices help manage inflationary pressures

Annual CPI Inflation

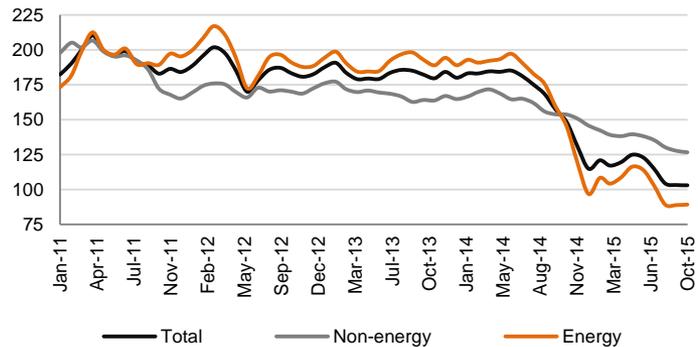


Source: NBG, GeoStat

Key takeaways

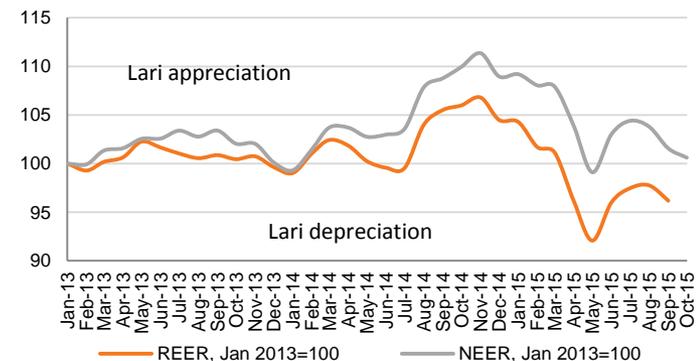
- Annual inflation picked up starting in 2H15 and was at 5.8% y/y in October
- Food, healthcare, alcoholic beverages, and tobacco prices and one-time increase in electricity tariff have been the main drivers of price growth, while fuel prices have decreased
- NBG gradually tightened monetary policy to keep the 5% inflation target in sight through 6-time increase in policy rate - currently at 7.5%
- Given current trend in prices, annual inflation expected at 6-6.5% at end-2015, moving towards 5% target in 2H16

Commodity price index, (2005=100)



Source: IMF

Lari NEER and REER



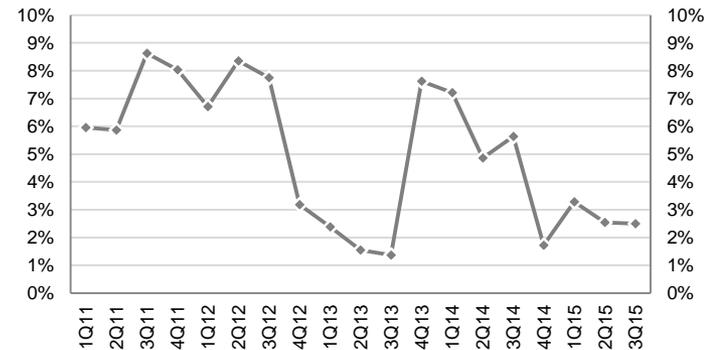
Source: GeoStat, NBG

Growth drivers in 2015

Key takeaways

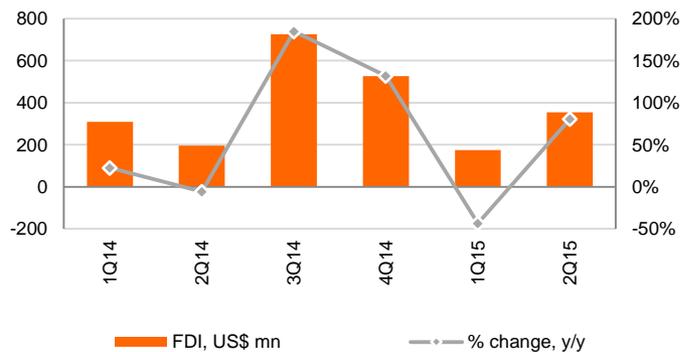
- Georgian economy grew 2.9% y/y in 1H15 against a backdrop of regional turbulence
- Growth base in 1H15 was diversified:
 - Construction +17.4% y/y
 - Financial intermediation +9.8% y/y
 - Hotels and restaurants +8.1% y/y
 - Transport +6.8% y/y
- Tourism has been resilient. Arrivals increased 6.8% y/y to 5.0mn persons in 10M15, and tourism revenues increased 8.0% y/y to US\$ 1.5bn in 9M15
- Georgia remains attractive place for doing business. FDI up 4.8% to US\$ 530.0mn in 1H15
- Number of employed persons increased 12.0% y/y (+60.8 thousand persons) in 2Q15

Real GDP growth, y/y



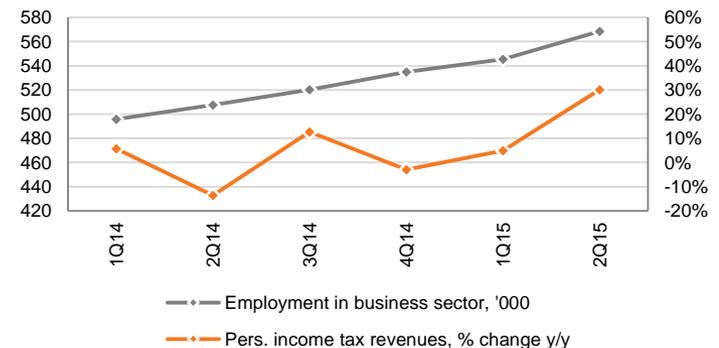
Source: GeoStat
Note: Rapid estimate for 3Q15

FDI



Source: GeoStat

Employed persons in business sector, thousands



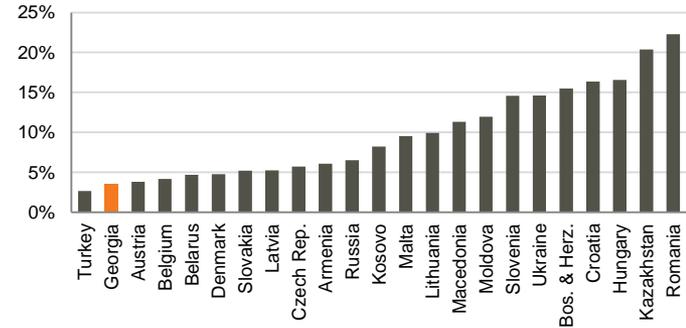
Source: GeoStat, MOF

Banking sector: resilient and conservatively managed

Key takeaways

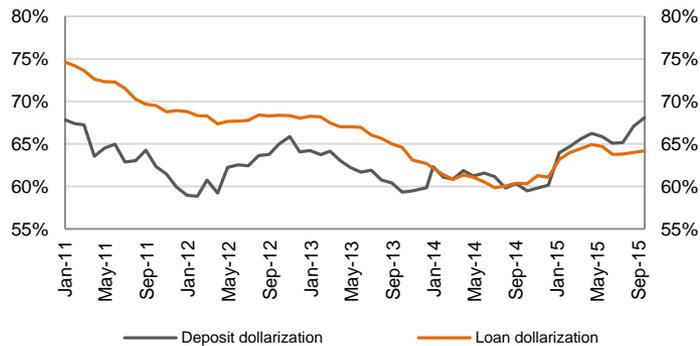
- Conservative capital requirements, prudent oversight of liquidity and funding risks, and low levels of leverage (loans to GDP ratio at 44.5% as of 2014) support stability of the financial sector
- NPLs remain under control at 2.9% in September 2015, down 0.3ppts y/y; Banking sector remains profitable - ROE reached 16.3% in 3Q15, up 0.9ppts y/y
- Deposit dollarization spiked 1.9ppts m/m to 67.1% in August and to 68.1% in September, mostly on the back of companies' FX holdings on current accounts

NPLs, country comparisons, 2014



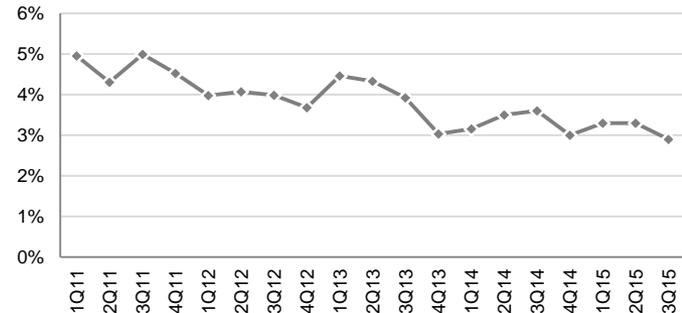
Source: IMF

Dollarization



Source: NBG

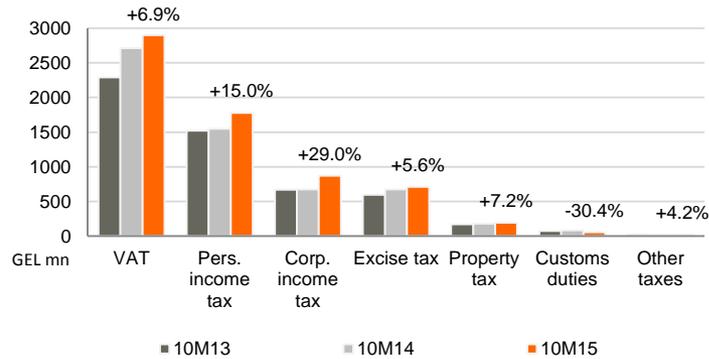
NPLs



Source: NBG

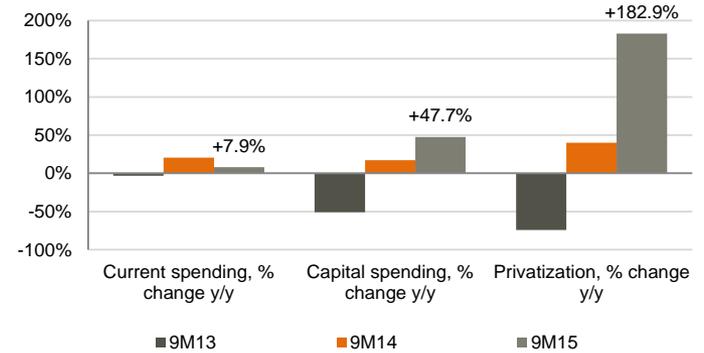
Prudent fiscal framework

Budget tax revenues posted a strong performance...



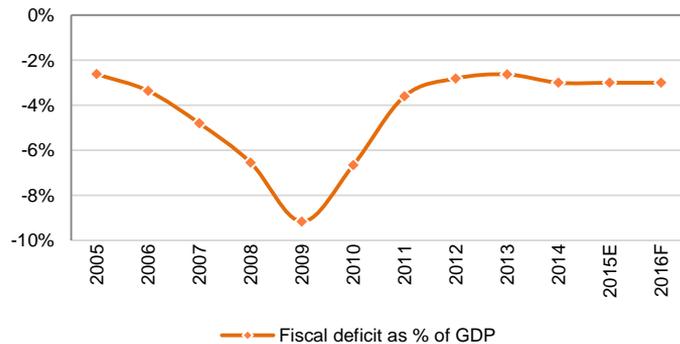
Source: MOF

... so did capex and privatization, while current expenditure growth was almost flat in real terms



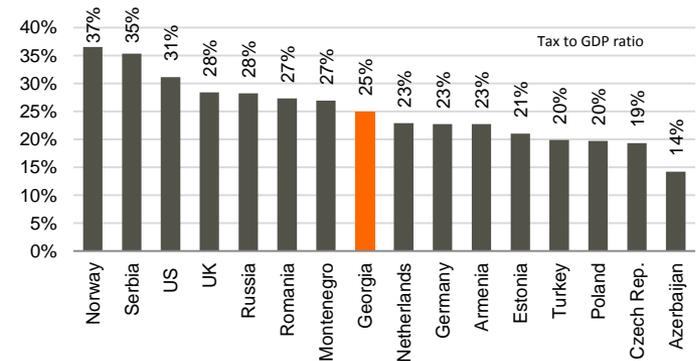
Source: MOF

Deficit at healthy 3.0% of GDP



Source: MOF, GeoStat

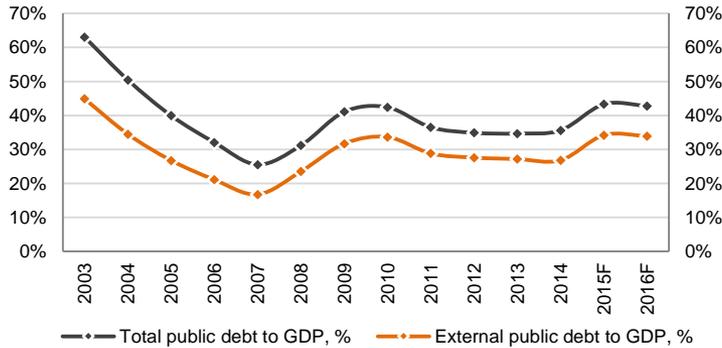
Although Georgia has one the lowest rates in the world, its tax to GDP is healthy due to low corruption



Source: IMF

Sustainable public debt ratios - manageable repayment profile

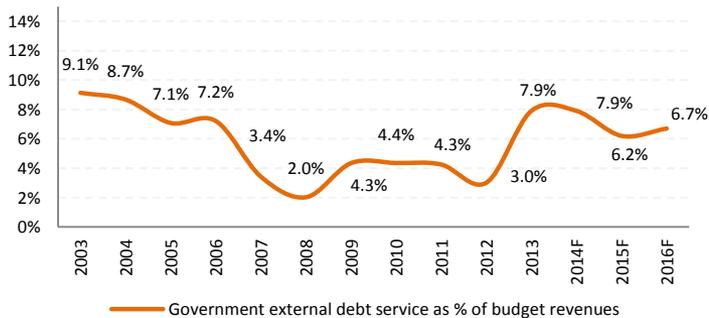
Public debt to GDP



Key takeaways

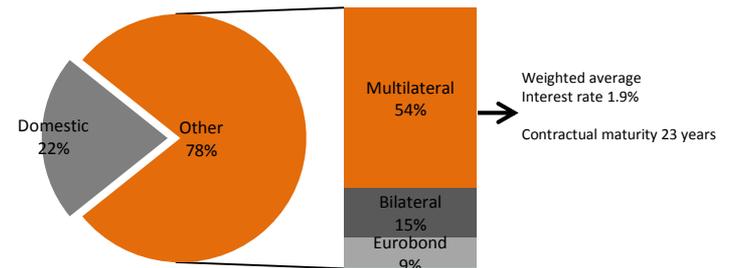
- Public debt to GDP ratio is capped at 60% by economic liberty act
- Public debt ratios have been on the declining path since 2003, and increased slightly in 2009-2010 as a consequence of global financial crisis
- Lari depreciation pushed debt to GDP ratio at 43% of GDP in 2015 on the back external public debt, however still well below the critical level
- Small portion of budget revenues are devoted to external debt service, making debt burden manageable

External debt service as % of budget revenues



Source: MOF

Public debt stock as of end-October 2015

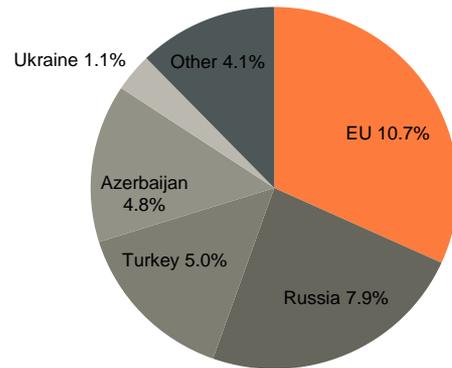


Source: MOF

Exposure to partner countries – well diversified

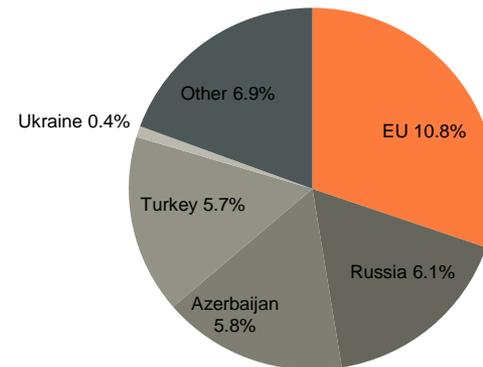
Exports, remittances, tourism and FDI inflows, 9M15 vs 9M14

33.6% of GDP in 9M14



Source: GeoStat, NBG, Galt & Taggart
Note: excluding re-exports, FDI as of 1H

35.8% of GDP in 9M15

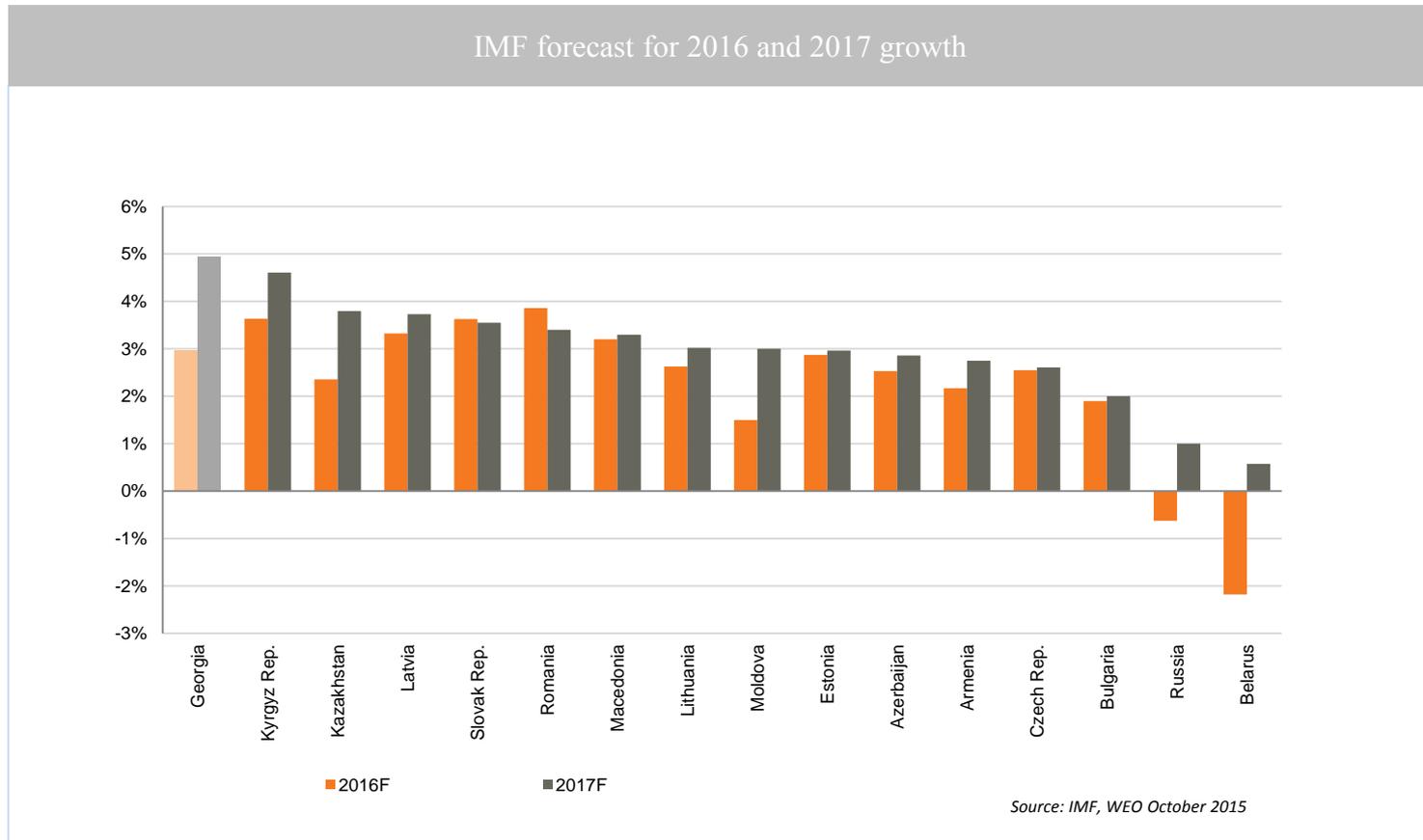


Georgian economy: robust growth potential

Key takeaways

- Factors shaping growth outlook of the regional economies in 2016:
 - Lower oil and other commodity prices
 - Tightening of credit conditions in emerging markets
 - Spillovers from Russia's recession
 - Slowdown in China
 - Geopolitical tensions (Russia-Ukraine)
- 2016 growth expected at 3.5-4% reflecting a gradual improvement in Georgian trading partners economies, low fuel prices, tourism growth prospects and softening of GEL depreciation related uncertainties
- Drivers of growth in 2016 and beyond:
 - Diversified economy
 - Business friendly environment
 - Strong institutions
 - Attractive and cheap tourist destination
 - Savings from significantly lower oil import bill (about US\$ 300-400mn)
 - Prudent fiscal limits imposed by Economic Liberty Act
 - Potential to establish itself into a regional service hub
 - EU DCFTA and expected surge in FDI; Key investments projects underway:
 - BP's gas pipeline expansion (US\$ 2bn investment over the next 4 years)
 - Nenskra HPP construction by Korean company, K-water (US\$ 1bn)
 - Anaklia deep sea port (up to US\$ 1 bn)
 - Adhesive building materials factory construction by Henkel's (Germany)
 - Israel's ELBIT Cyclone high-tech plant for Boeing and Airbus components (US\$ 85mn)

Georgian economy: rapid return to normal growth





BGEO Investor Day

23 November, 2015
London

Questions?

Disclaimer

Forward Looking Statements

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.