

GSE: BANK  
Bloomberg: BANK.GG

## Post-Crisis Financial Markets in Georgia

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LIBERTY SECURITIES

VII CIS and Baltic Region Bond Congress  
September 2010

## A Turnaround in Progress

- ↳ A new experienced team running the bank since October 2009, comprising Lado Gurgenidze and 20 experienced professionals
- ↳ Risk controls & procedures have been established
- ↳ ALCO has been established
- ↳ Aggressive credit risk management efforts are underway
- ↳ Adequate provisioning of legacy exposures – provisions of GEL [5.6] mln and write-offs of GEL 8.5 mln made since the acquisition
- ↳ Corporate Banking and Private Banking have been enhanced and re-launched and integrated client coverage introduced
- ↳ RB product lineup redesign underway
- ↳ Branch footprint normalisation effort underway
- ↳ Consolidated Total Assets, Net Loans and Client Deposits grew 20.0%, 28.4% and 43.5% q-o-q, respectively, in Q2 2010
- ↳ Standalone Total Assets, Net Loans and Client Deposits grew 34.8%, 54.4% and 64.2% , respectively, YTD 2010 (June)

## Investment Highlights

- ↳ A 91.218% equity interest purchase in September 2009 for GEL 25 mln (US\$15 mln) by Liberty Capital, a wholly-owned subsidiary of Liberty Investments Holding B.V.
- ↳ Dinu Patriciu (one of the most accomplished entrepreneurs and investors in CEE) and Lado Gurgenidze (Georgia's most successful banker, who led the Bank of Georgia turnaround in 2004-2007) are the ultimate beneficial shareholders
- ↳ Regulatory waiver (applicable to CAR and other prudential ratios) of GEL 108 mln through September 2012
- ↳ Capital increase of GEL 18.7 mln effected in February 2010, of which GEL 17.2 (US\$10 mln) mln was invested by Liberty Capital
- ↳ Tax loss carryforward of GEL 49 mln
- ↳ Significant untapped lending potential, given the low loan book penetration rate among retail clients, Net Loans/Total Deposits ratio of 35.3% and Liquidity ratio of 36.0% as at 30 June 2010
- ↳ Net Loans/Assets Ratio of 30.0% as at 30 June 2010
- ↳ Profitable from Q1 2010, reporting GEL 1.8 million of Net Income in Q2 2010
- ↳ Growing much faster than the banking sector

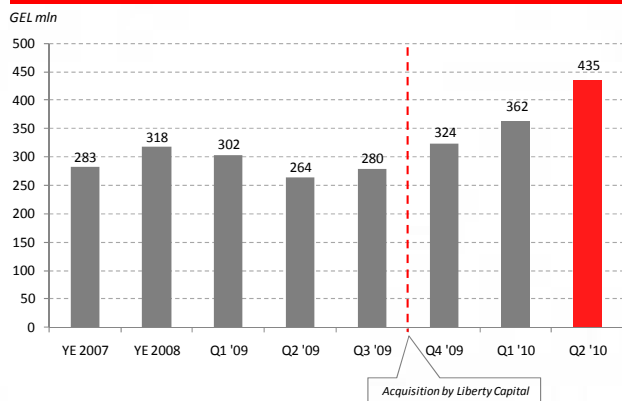
Total Assets Growth	June '10-September '09	Net Loan Book Growth	June '10-September '09	Client Deposits Growth	June '10-September '09
Liberty Bank (Standalone)	56.9%	Liberty Bank (Standalone)	66.6%	Liberty Bank (Standalone)	114.5%
The Georgian Banking Sector	17.0%	The Georgian Banking Sector	11.9%	The Georgian Banking Sector	26.6%

\*Not audited or reviewed (except for 2007 and 2008 figures), IFRS-based. Audited IFRS results may vary significantly from these preliminary figures

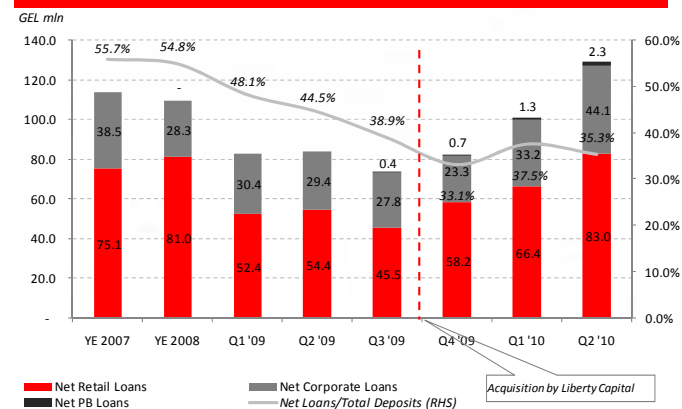
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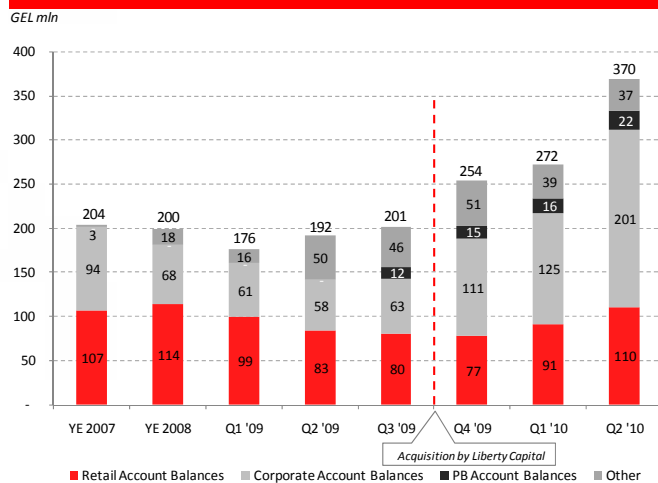
## Total Assets



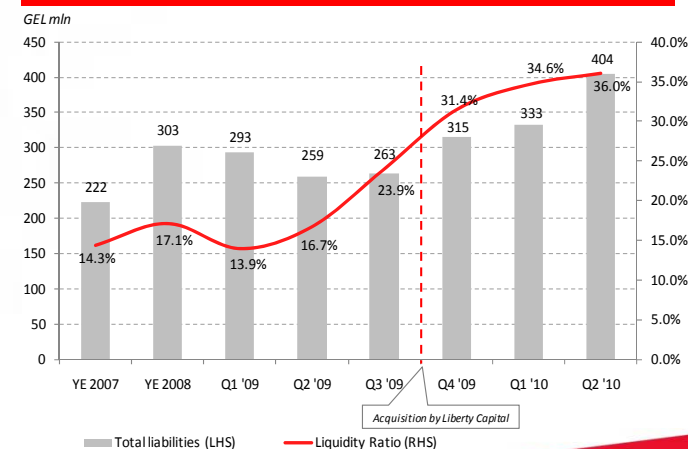
## Net Loans



## Account Balances



## Total Liabilities



Note: Not audited or reviewed (except for 2007, 2008 and 2009 figures). IFRS-based, consolidated. Audited IFRS results may vary significantly from these preliminary figures

September 2010

As of August 2010

Shares outstanding*	3,060,446,927
Shares owned by Liberty Capital	2,409,047,026
% owned by Liberty Capital	78.7%
Treasury shares	7.3%
ESOP	5.7%
Free Float*	8.0%
Exchange	GSE
Ticker Code	BANK
Share price	GEL 0.055
MCap**	GEL 155.8 mln

\*Including treasury shares

\*\*Net of treasury shares

GEL/US\$ Exchange Rate (e-o-p) of 1.8406 as at 8 August 2010

GSE+OTC Trading Volume	GEL	Shares
July '09	200	6,250
August '09	98,014	1,444,852
September '09	300,796	3,077,545
October '09	128,119	1,605,407
November '09	242,089	3,910,182
December '09	244,261	3,748,464
January '10	1,519,989	35,608,902
February '10	24,406,336	1,450,727,143
March '10	592,548	26,830,620
April '10	989,269	43,034,141
May '10	120,560	3,493,095
June '10	473,834	13,443,217
July '10	376,689	7,679,832
August '10	766,400	23,819,337
<b>Total</b>	<b>30,259,104</b>	<b>1,618,428,987</b>

Source: The Georgian Stock Exchange

## Leading Retail Footprint

- ↳ The leading bank by number of clients, serving approximately 1.2 million individuals and over 20,000 legal entities
- ↳ The largest retail network comprising 181 branches and sales outlets 1,355 mobile sales force
- ↳ Sixth largest bank by total assets, with a 4.8% market share\*
- ↳ Exclusive provider of state pension services
- ↳ Sole provider of welfare payment services
- ↳ Providing payroll services to approximately 100,000 individuals employed at over 2,900 organisations
- ↳ Robust in-house card processing platform, servicing 1.2 mln cards, with estimated capacity of over 5 mln cards

\*As of 30 June 2010

Source: the National Bank of Georgia

## Key Figures\*

GEL mln, unless otherwise noted *	Jun '10	Dec '09	Sep '09	YE 2008	YE 2007
<b>Consolidated</b>					
Total Assets	435	324	281	318	283
Net Loans, of which	131	84	78	109	114
Retail banking loans	83	58	46	81	75
Corporate & merchant banking loans	44	23	32	28	39
Private Banking loans	2	0.7	0.4	N/A	N/A
Total Liabilities	404	315	263	303	222
Account Balances, of which	370	254	202	199	204
Retail client account balances	110	77	80	114	107
Corporate client account balances	201	111	63	68	94
Private Banking client account balances	22	15	13	N/A	N/A
Shareholders' Equity	31	9	17	15	59

GEL mln, unless otherwise noted *	Q2 '10	Q1 '10	Q4 '09	Q3 '09	2008	2007
<b>Consolidated</b>						
Revenue	16	12	11	NMF	55	49
Net Income/(Loss)	2	0.1	(3)	NMF	(46)	3
GEL/US\$ Exchange Rate, e-o-p	1.84	1.75	1.69	1.68	1.67	1.59

	Jun '10	Mar '10	Dec '09	Sep '09	YE 2008	YE 2007
Number of debit cards outstanding	1,192,116	1,189,421	885,938	N/A	N/A	N/A
Number of ATMs	178	137	136	134	135	N/A
Number of employees of which	3,771	3,857	3,804	3,700	3,880	4,121
Full-time employees	1,864	1,946	1,890	1,790	1,907	2,162
Number of POS terminals	544	491	510	503	548	N/A

\*Not audited or reviewed (except for 2007 and 2008 figures), IFRS-based. Audited IFRS results may vary significantly from these preliminary figures

September 2010



## ***Georgian Economy & Banking Sector***

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Georgia is the only country moving from negative to stable outlook in the Fitch Ratings in 2009



Area:	69,700 sq km
Population (2009E):	4.4 mln
Life expectancy:	74 years
Official language:	Georgian
Literacy:	100%
Capital:	Tbilisi
Currency (code):	Lari (GEL)
GDP 2009:	US\$10.7 bln
GDP real growth rate 2009E:	-3.9%
GDP real growth rate 2010F	4.5%
GDP CAGR '03-'09	5.8%
GDP per capita 2009E (PPP):	US\$4,747
Inflation rate (e-o-p) 2009:	3.0%
External debt to GDP 2009E:	31.5%

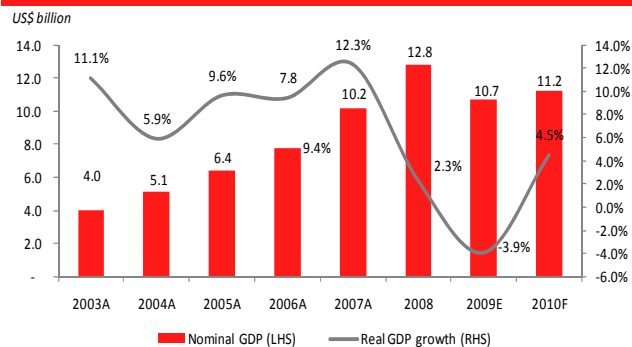
	2003	2009
Nominal GDP (GEL mln)	8,564	17,948
GDP per capita (GEL)	1,972	4,093
Total budget revenues (GEL mln)	1,368	5,265

Source: Government of Georgia



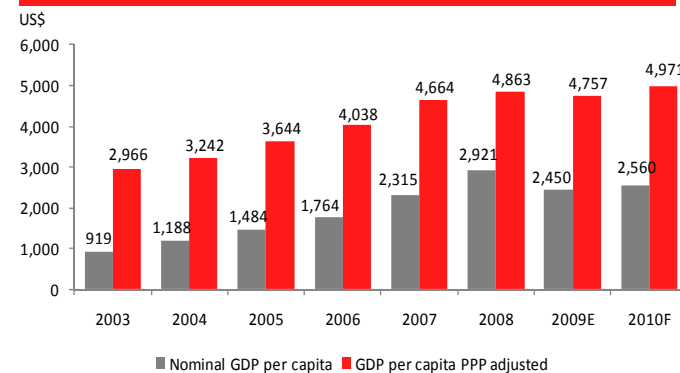
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## Gross Domestic Product (GDP)



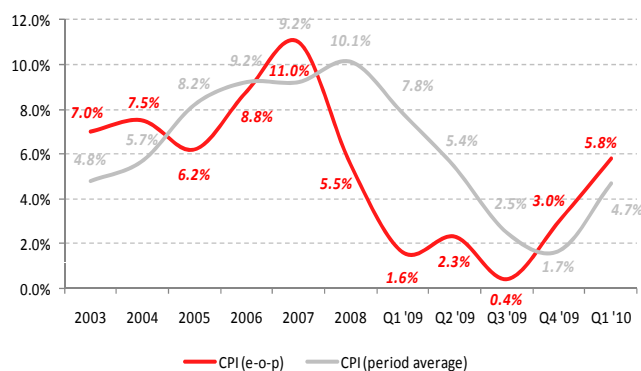
Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

## GDP Per Capita



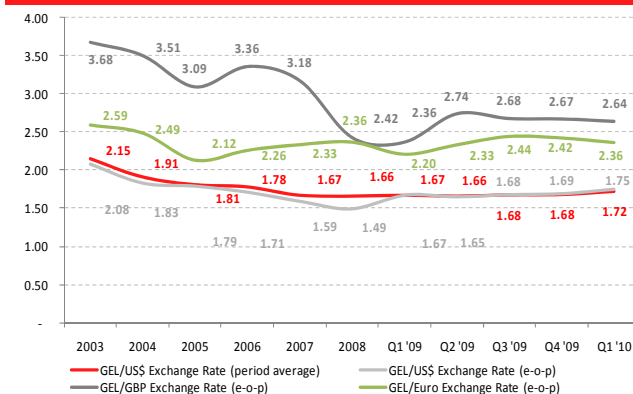
Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

## Consumer Price Index



Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

## Exchange Rate

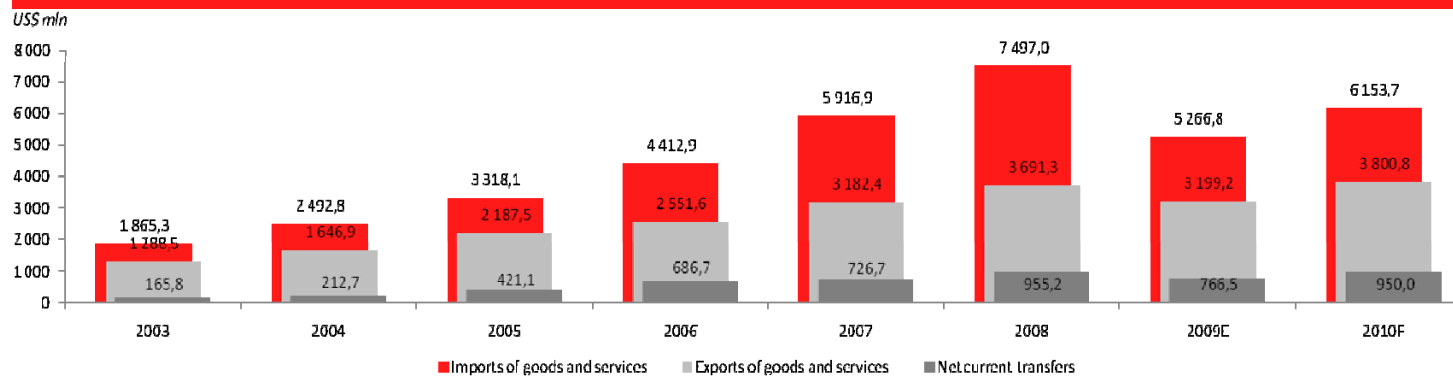


Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

September 2010

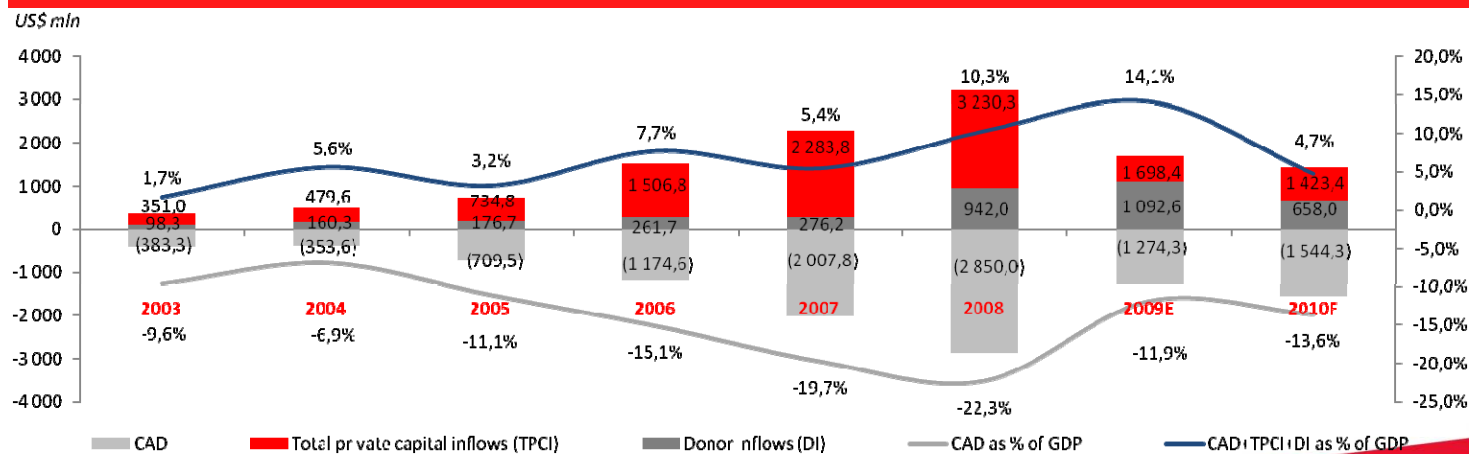
# Current Account Deficit

## Exports & Imports



Source: Georgian Economy Overview; www.georgia.gov.ge; September 2010

## Current Account Deficit



Source: Georgian Economy Overview; www.georgia.gov.ge; September 2010

September 2010

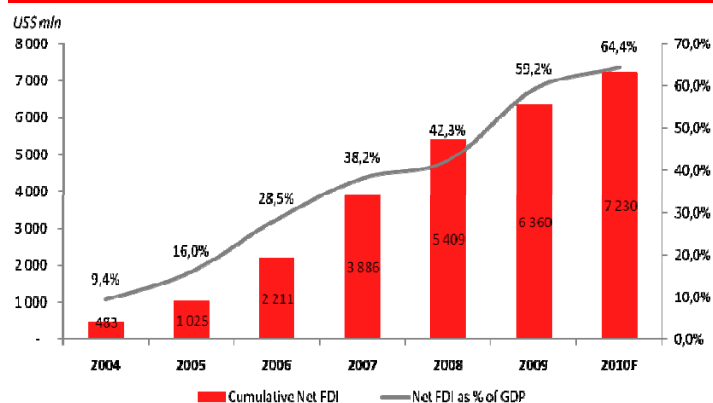


## Net Cumulative FDI Breakdown By Origin (2004-2009)

Country	US\$ mln	Share in Total
UAE	696	10.7%
UK	678	10.5%
Netherlands	597	9.2%
Turkey	581	9.0%
USA	445	6.9%
British Virgin Islands	414	6.4%
Kazakhstan	310	4.8%
Czech Republic	294	4.5%
Cyprus	259	4.0%
Bahamas	214	3.3%
Subtotal	4,488	69.3%
Other	1,990	30.7%
Total	6,477	100.0%

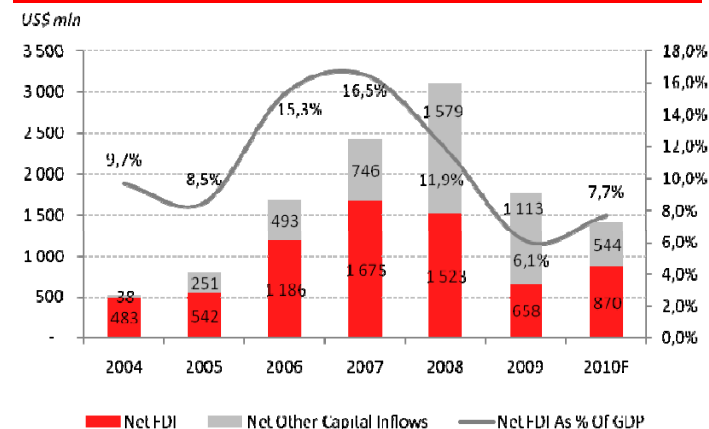
Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

## Cumulative Net FDI



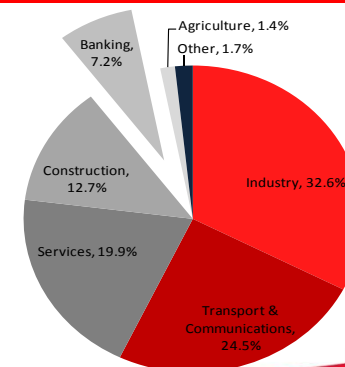
Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

## Net Inflows



Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

## Net FDI Breakdown By Sectors (2009)

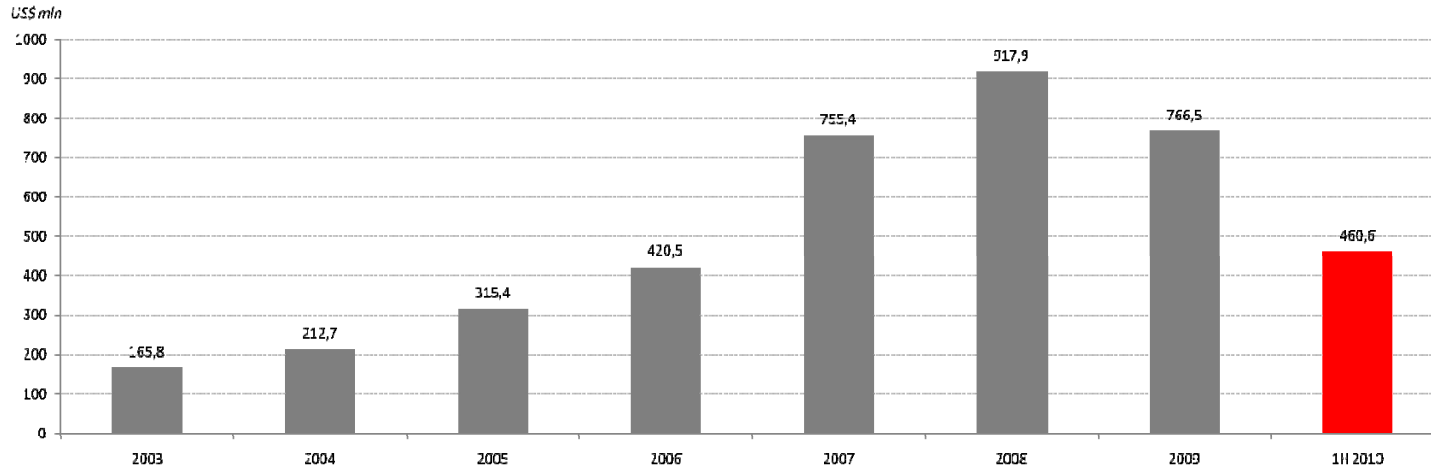


Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

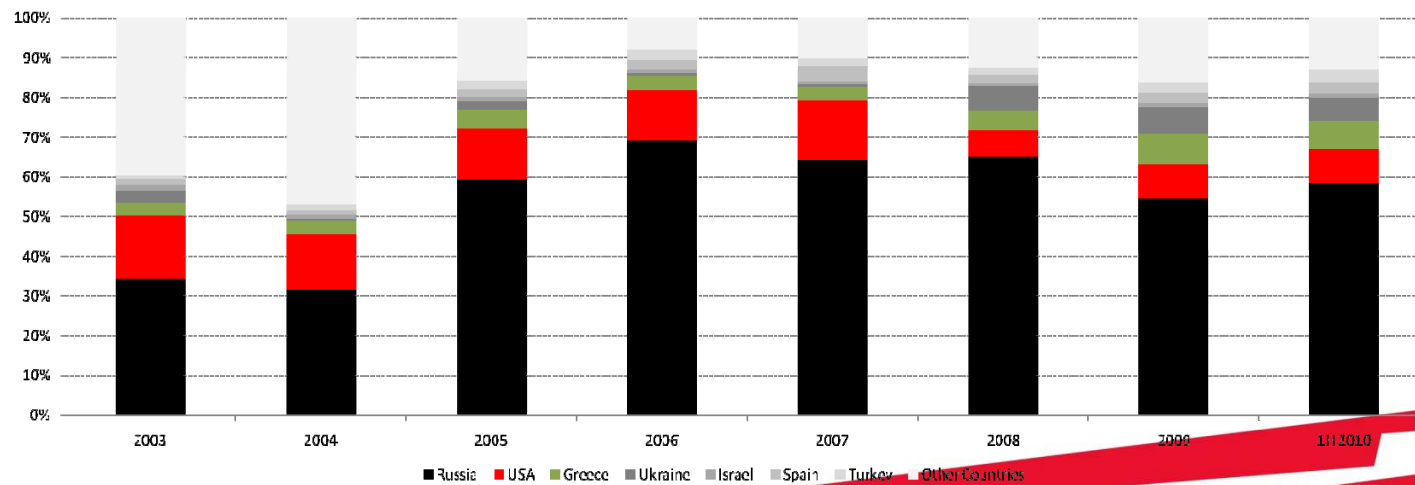
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# Net Remittances

## Net Remittances, 2003-1H 2010



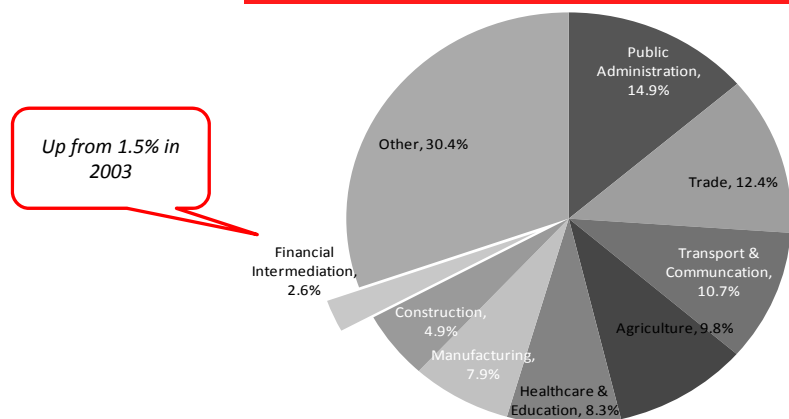
## Net Remittances By Countries, 2003-1H 2010



Source: National Bank of Georgia

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## Components of GDP, 2009



Source: Department of Statistics of Georgia

## Share of Financial Intermediation in GDP, 2004-2009



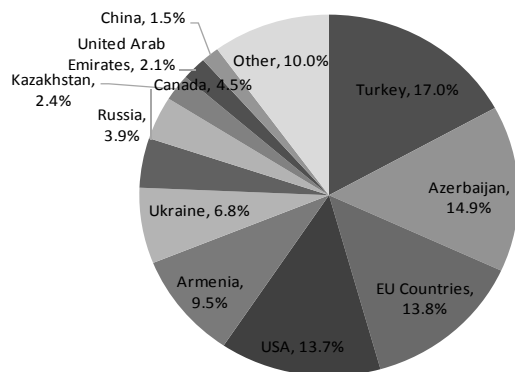
Source: Department of Statistics of Georgia

GEL millio, unless otherwise noed	2009	As % of GDP	2008	As % of GDP	Change, y-o-y
Public Administration	2,458	14%	2,850	15%	-14%
Trade	2,226	12%	2,681	14%	-17%
Transport & Communication	1,846	10%	1,813	10%	2%
Healthcare & Education	1,766	10%	1,506	8%	17%
Agriculture	1,488	8%	1,551	8%	-4%
Manufacturing	1,308	7%	1,509	8%	-13%
Construction	949	5%	1,058	6%	-10%
Financial Intermediation	453	3%	442	2%	2%
Other	5,455	30%	5,664	30%	-4%
<b>Total</b>	<b>17,949</b>	<b>100%</b>	<b>19,075</b>	<b>100%</b>	<b>-6%</b>

Source: Department of Statistics of Georgia

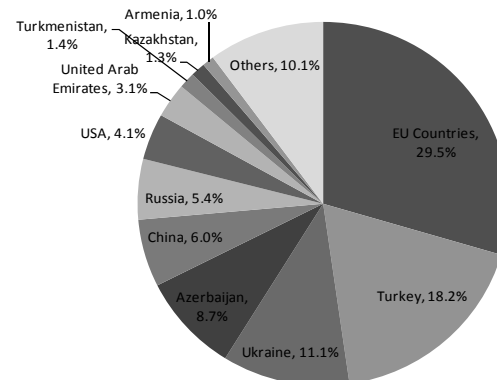
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## Export By Country, Q2 2010



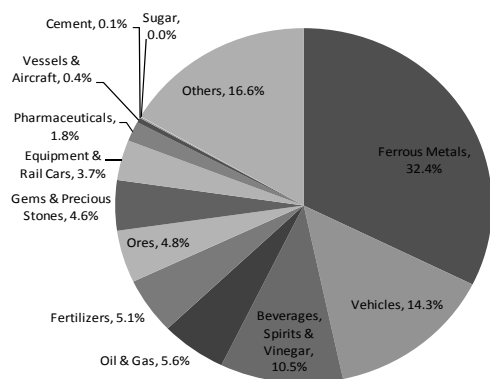
Source: Department of Statistics of Georgia

## Import By Country, Q2 2010



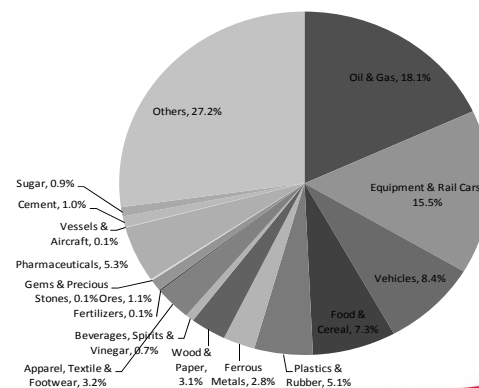
Source: Department of Statistics of Georgia

## Export By Product, Q2 2010



Source: Department of Statistics of Georgia

## Import By Product, Q2 2010

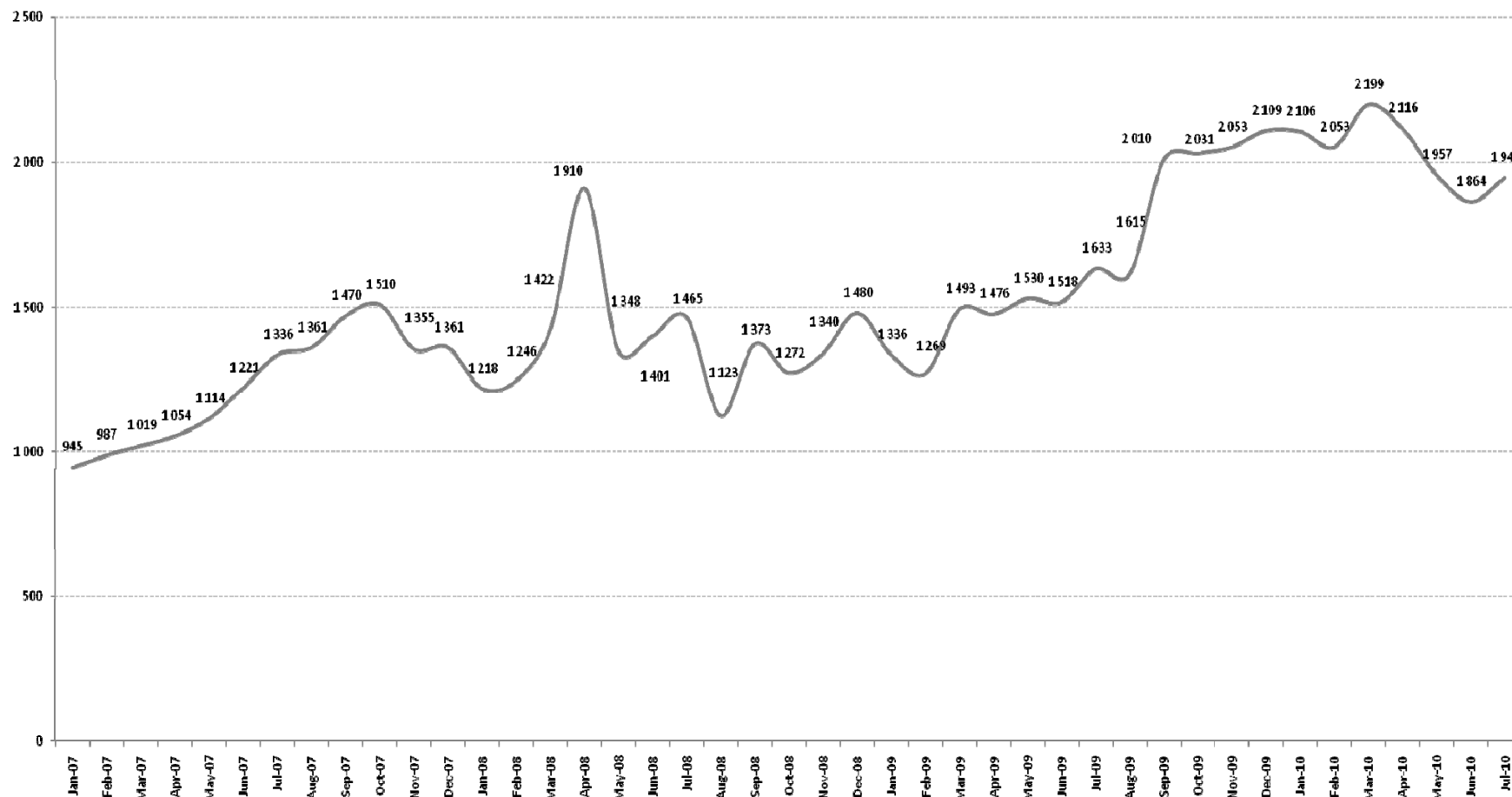


Source: Department of Statistics of Georgia

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# Central Bank Gross FX Reserves

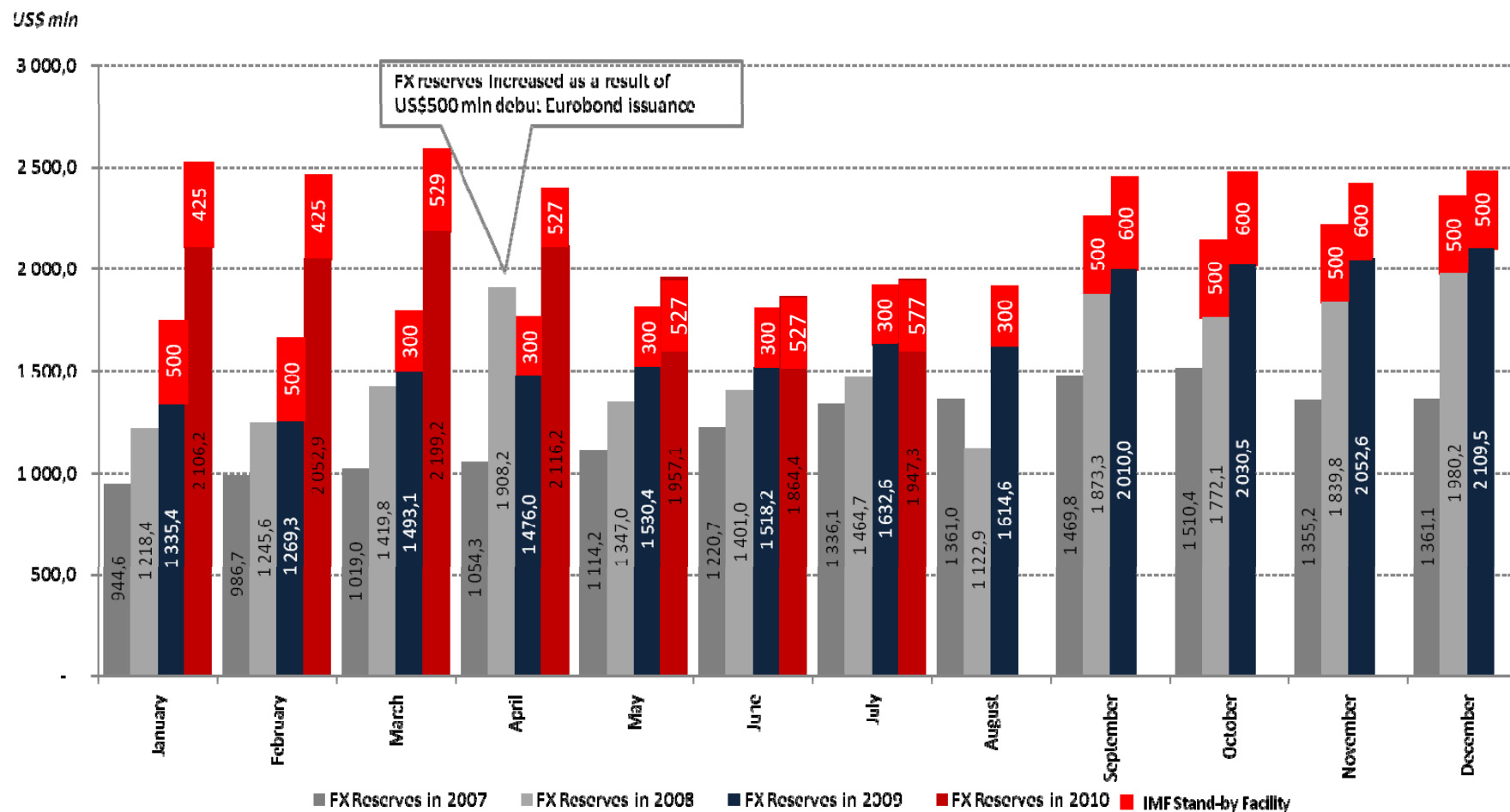
US\$ mln



Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

September 2010

# Central Bank Gross Reserves

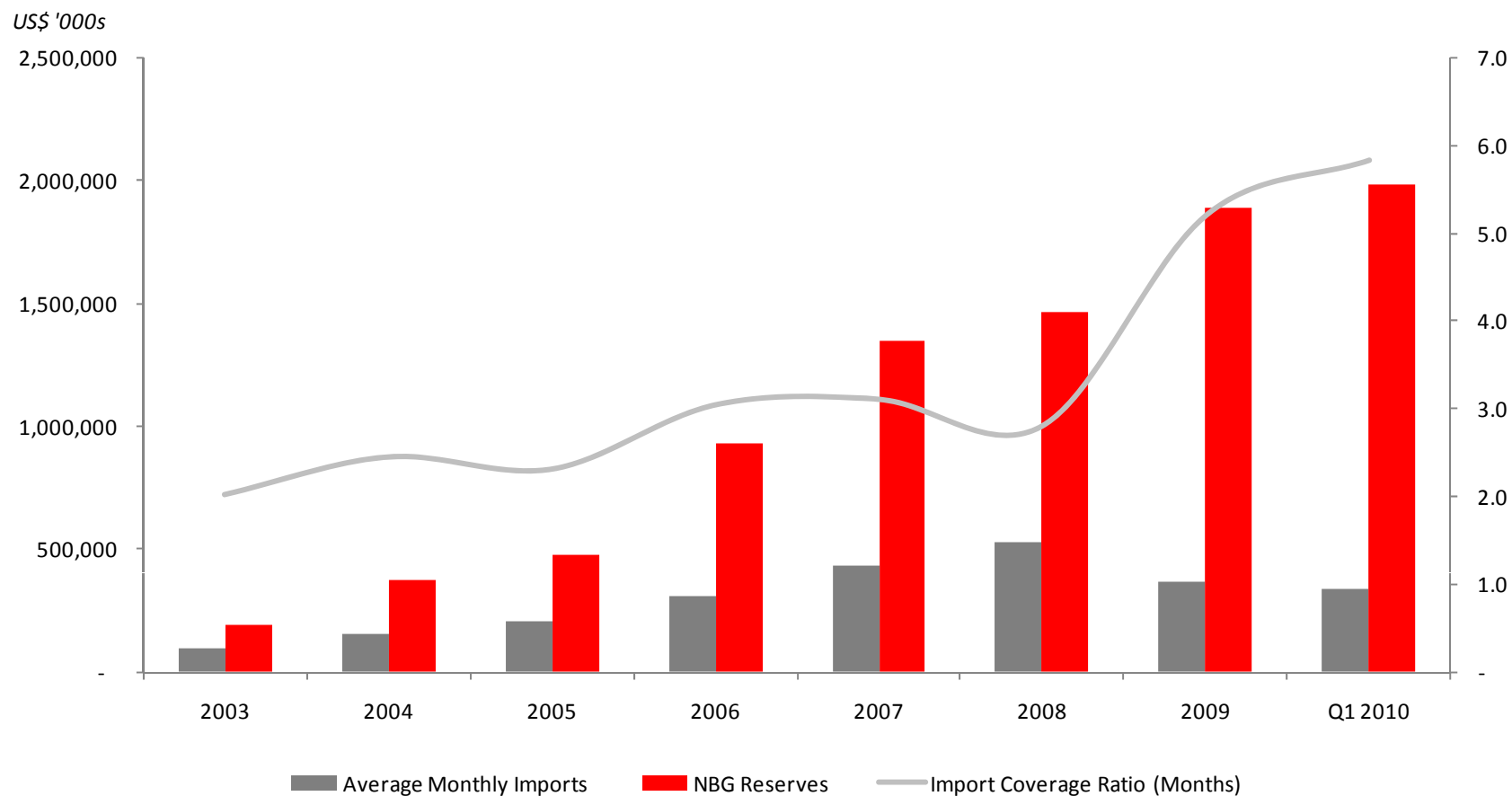


Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

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# Import Coverage Ratio

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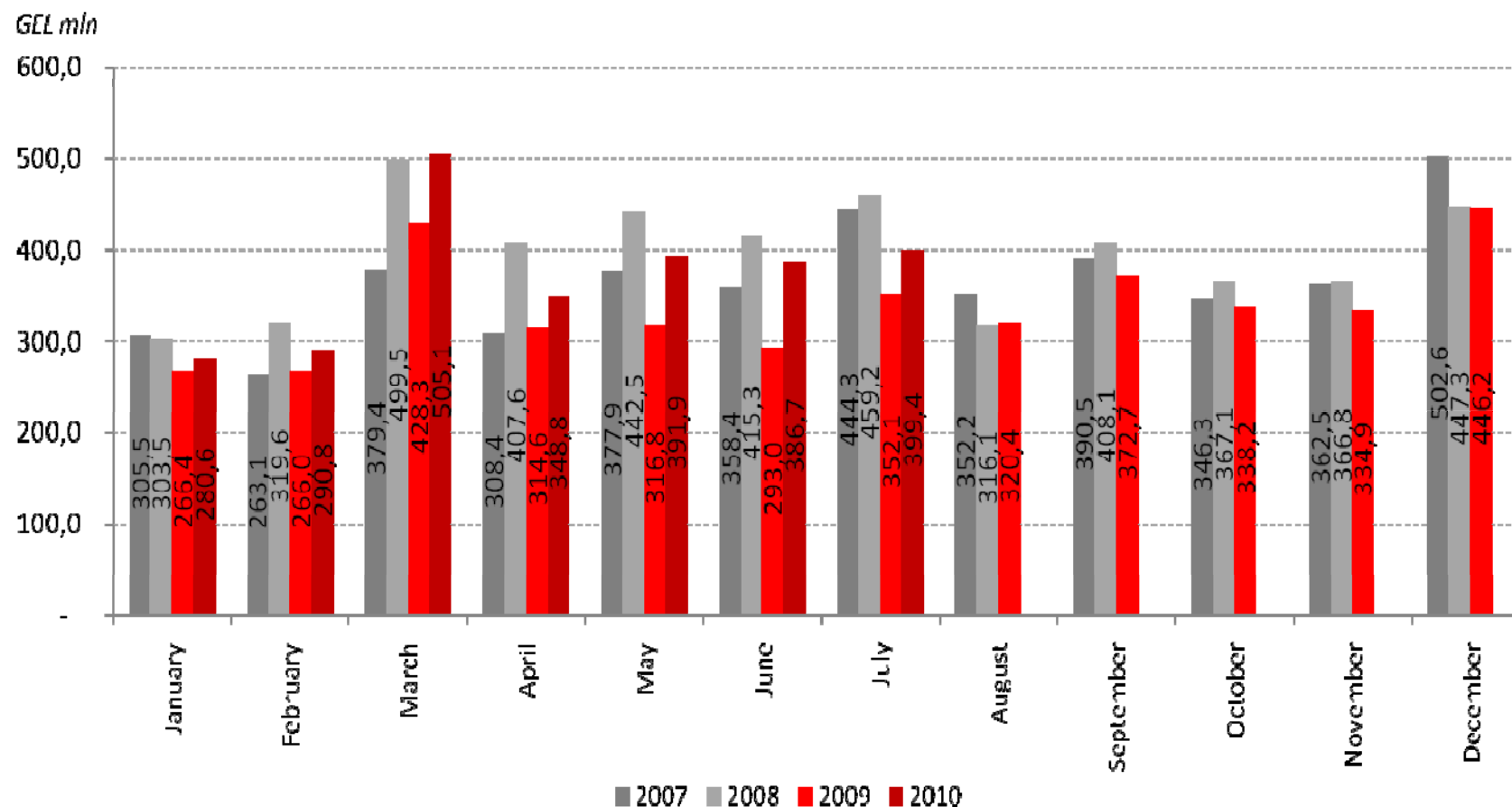
Source: National Bank of Georgia; Department of Statistics of Georgia

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VII CIS and Baltic Region Bond Conference

**LB** **ლიბერთი ბანკი**  
**LIBERTY BANK**





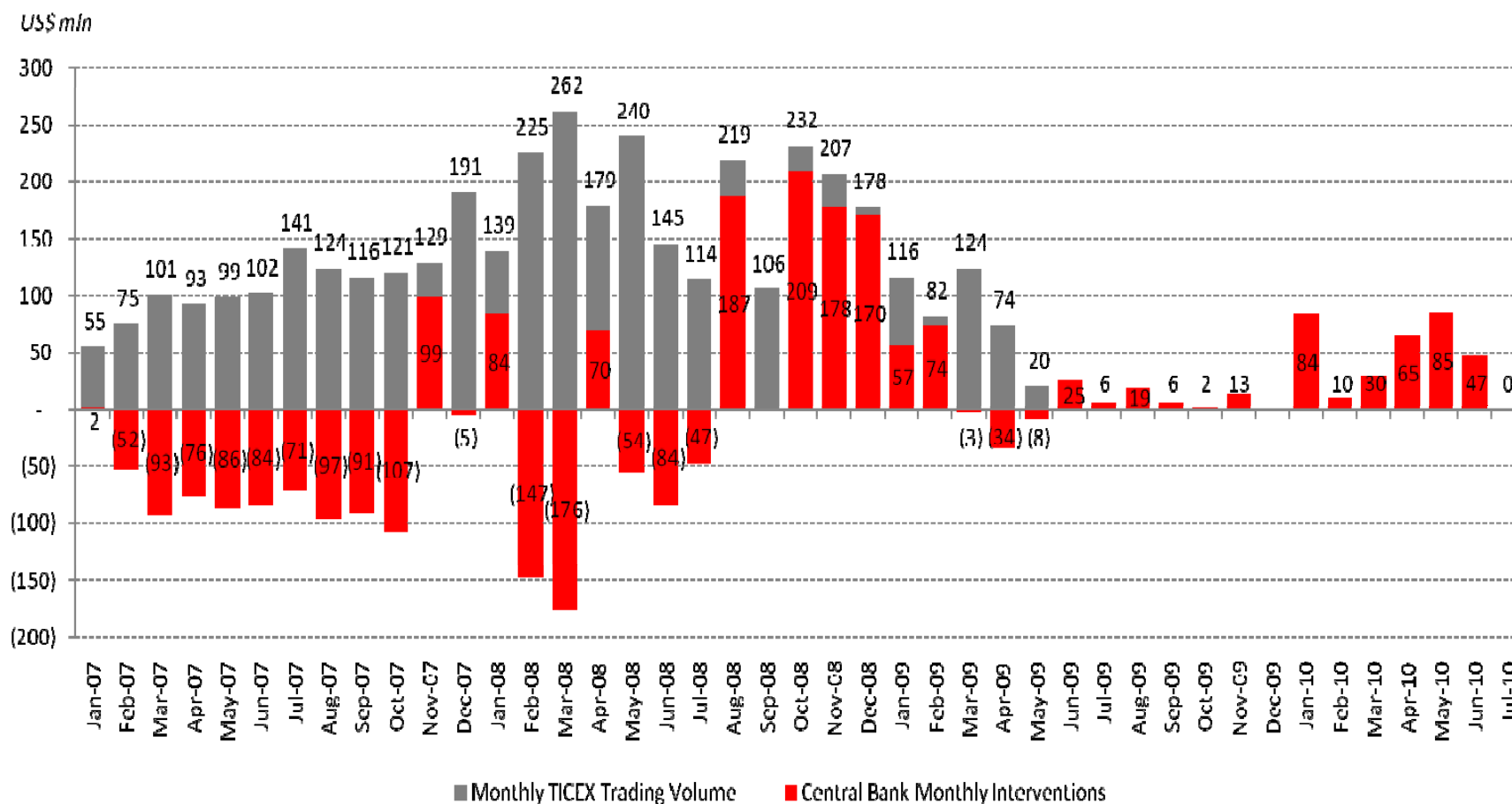
Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

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# Central Bank Involvement in FX Market

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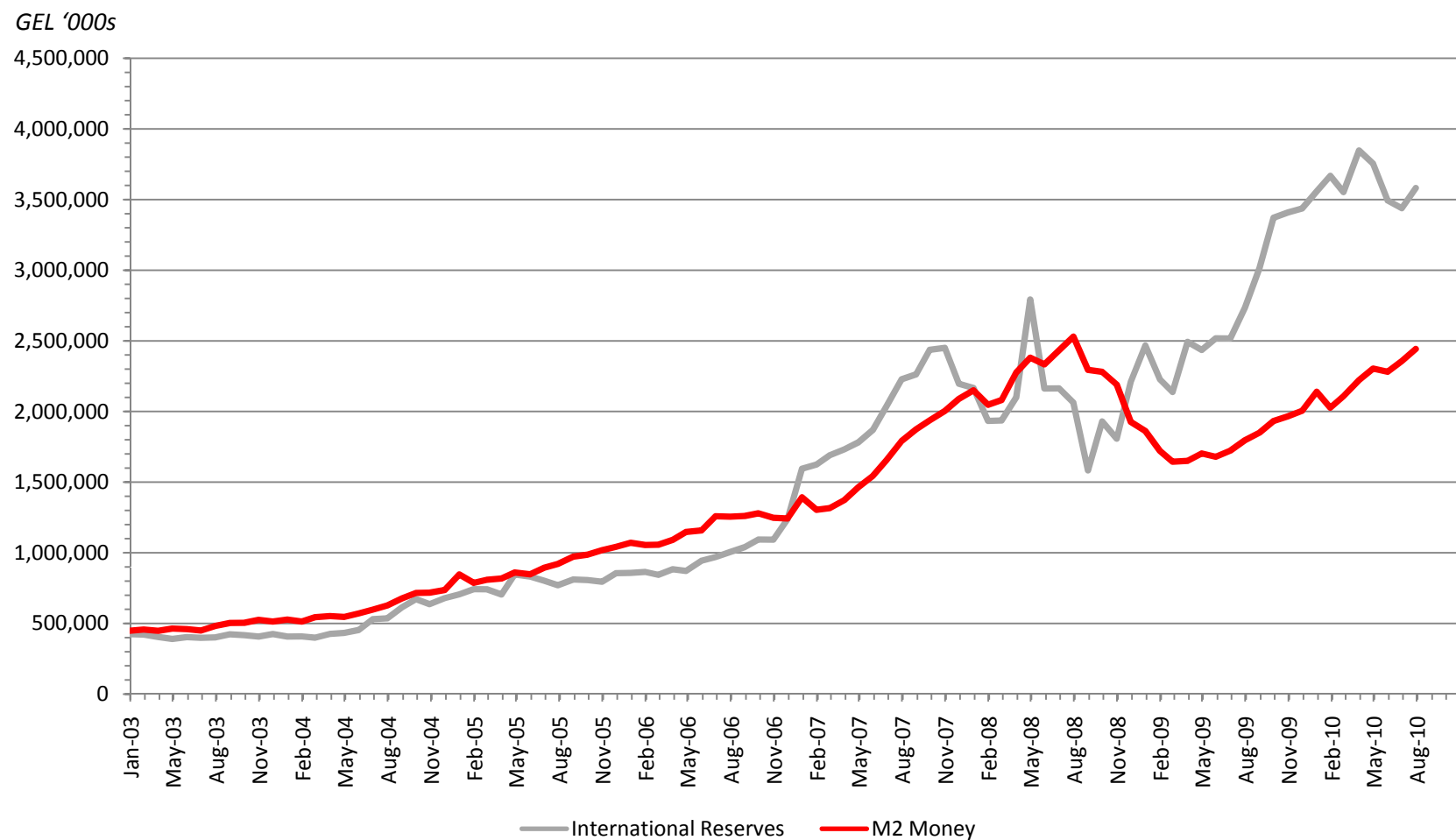


Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

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# M2 Money vs. International Reserves

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Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

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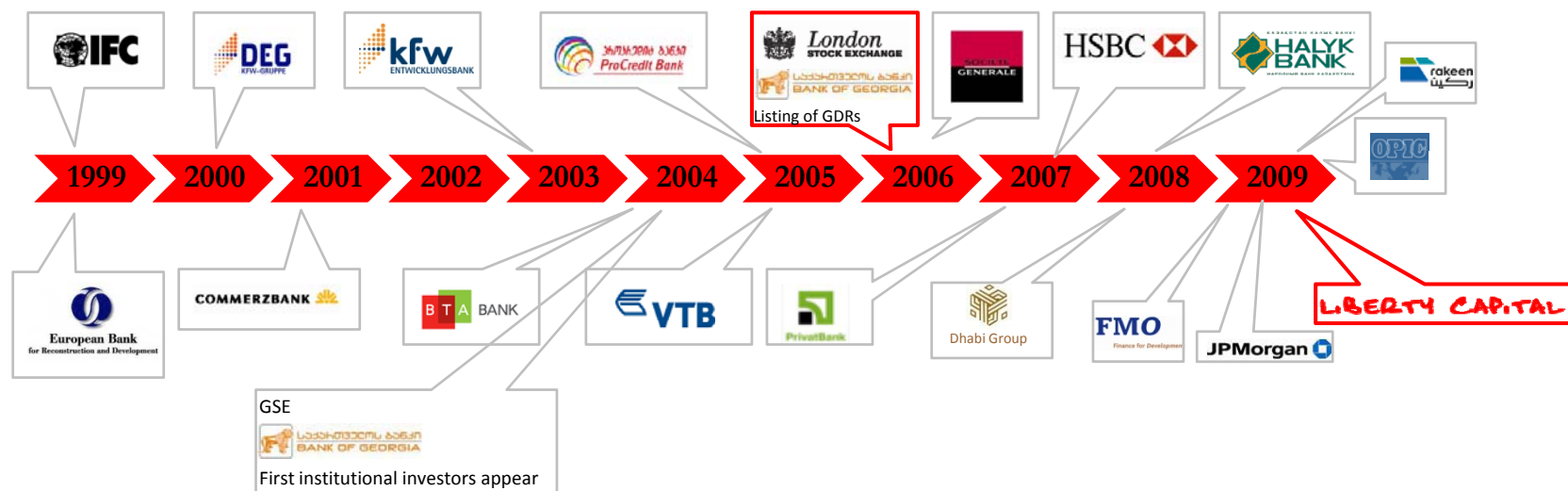
- ✦ The rule of law & property rights
- ✦ Minimal state fiscal footprint
  - ✦ Few, low and flat taxes
  - ✦ Minimal social security burden
- ✦ Sound money
  - ✦ Inflation targeting, single-digit inflation
  - ✦ No currency or capital controls
- ✦ Free trade, few and low customs tariffs and hardly any non-tariff barriers
- ✦ Flexible labour market, with minimal state interference in employer-employee relations
- ✦ Limited government
  - ✦ Deep de-regulation
  - ✦ Dramatically minimized and simplified licensing
  - ✦ Aggressive privatisation
- ✦ Means-tested, focused state assistance to the poor
- ✦ Lean and efficient civil service sector – providing value for taxpayers' money

<i>In GEL mln unless otherwise noted</i>	Apr-2010	YE 2009	YE 2008	YE 2007	YE 2006	YE 2005	YE 2004
Total Assets	8,717	8,293	8,866	7,208	4,228	2,548	1,699
Total Assets/GDP	n.a.	46%	47%	42%	31%	22%	17%
Gross Loans	5,498	5,185	5,993	4,589	2,681	1,730	965
Mortgage Loans Outstanding	2,874	2,784	2,540	1,994	961	n.a.	n.a.
Consumer Loans Outstanding	677	656	753	1,135	527	296	180
Net Loans	4,833	4,525	5,455	4,425	2,586	1,645	900
Total Deposits	4,426	4,174	3,845	3,511	2,328	1,538	983
Retail Deposits	2,274	2,104	1,859	1,549	1,109	718	493
Shareholders' Equity	1,554	1,517	1,517	1,471	898	479	373
Net Interest Income	164	544	572	390	245	161	113
Operating Profit	85	276	391	266	163	112	71
Net Income/(Loss)	24	-65	-216	109	93	62	27
ROA, %	0.86%	-0.80%	-2.60%	1.90%	2.80%	3.10%	2.40%
ROE, %	4.75%	-4.30%	-12.40%	9.60%	15.30%	14.90%	10.00%
Loans/Assets, %	63%	63%	66%	64%	63%	68%	57%
Loans/Deposits, %	124%	124%	155%	131%	115%	113%	98%
Deposits/Liabilities, %	62%	61%	52%	61%	70%	74%	74%
Number of Debit Cards Outstanding	3,435,926	3,488,835	3,006,749	1,885,119	1,138,384	n.a.	< 100,000
Number of Credit Cards Outstanding	499,178	470,484	549,328	161,352	7,632	0	0
Number of ATMs	1,378	1,339	1,344	864	n.a.	n.a.	< 150
Number of POS Terminals	7,741	7,494	7,623	5,255	n.a.	n.a.	< 750

*Note: Non-IFRS, based on the National Bank of Georgia standalone accounts  
Source: National Bank of Georgia, company estimates*

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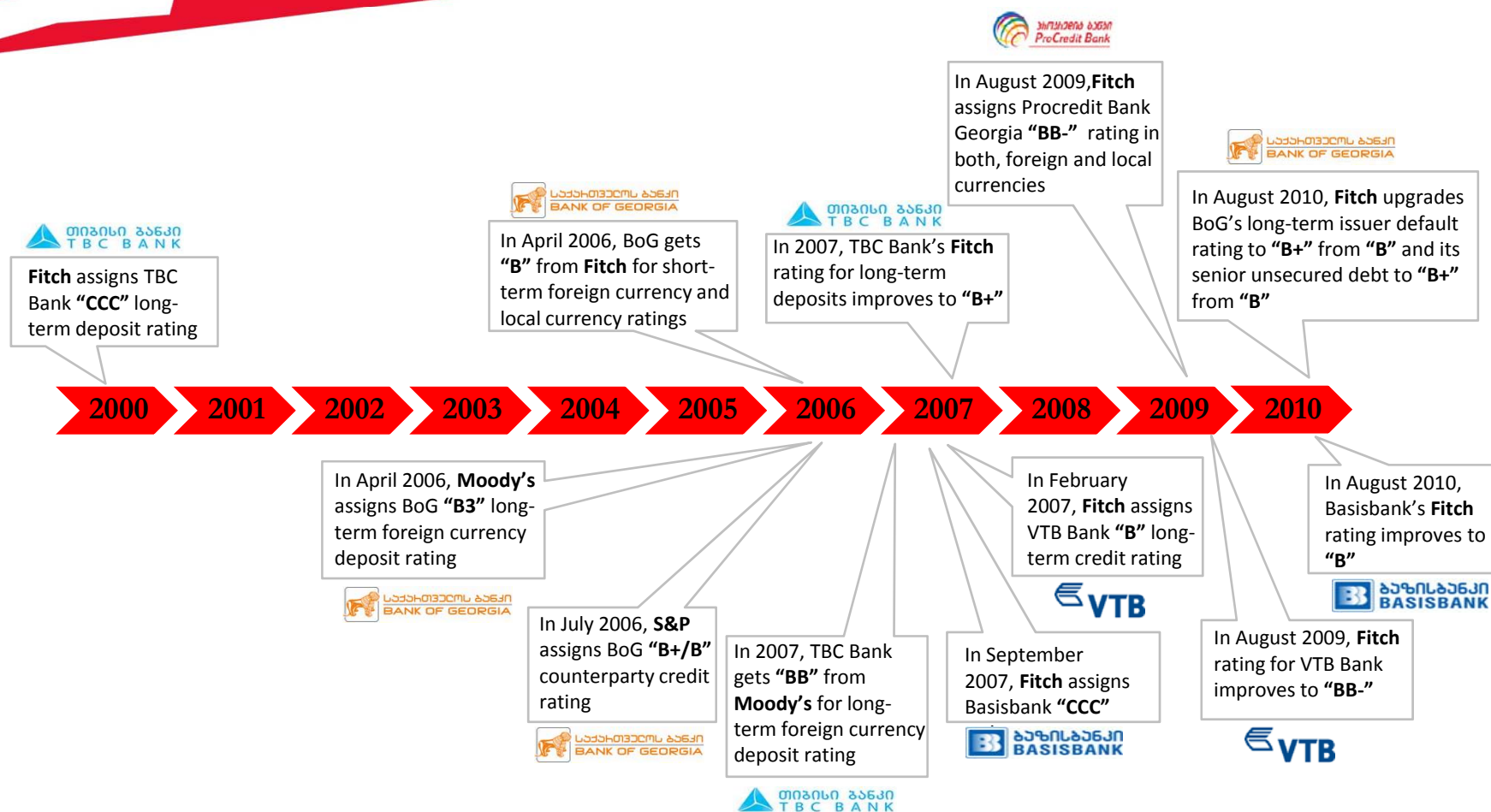
## Timeline Of Foreign Investments



- LB Entirely privately owned since 1995
- LB No restrictions on foreign ownership of banks
- LB Well capitalised with average BIS capital adequacy ratio of 19% as of November 2009

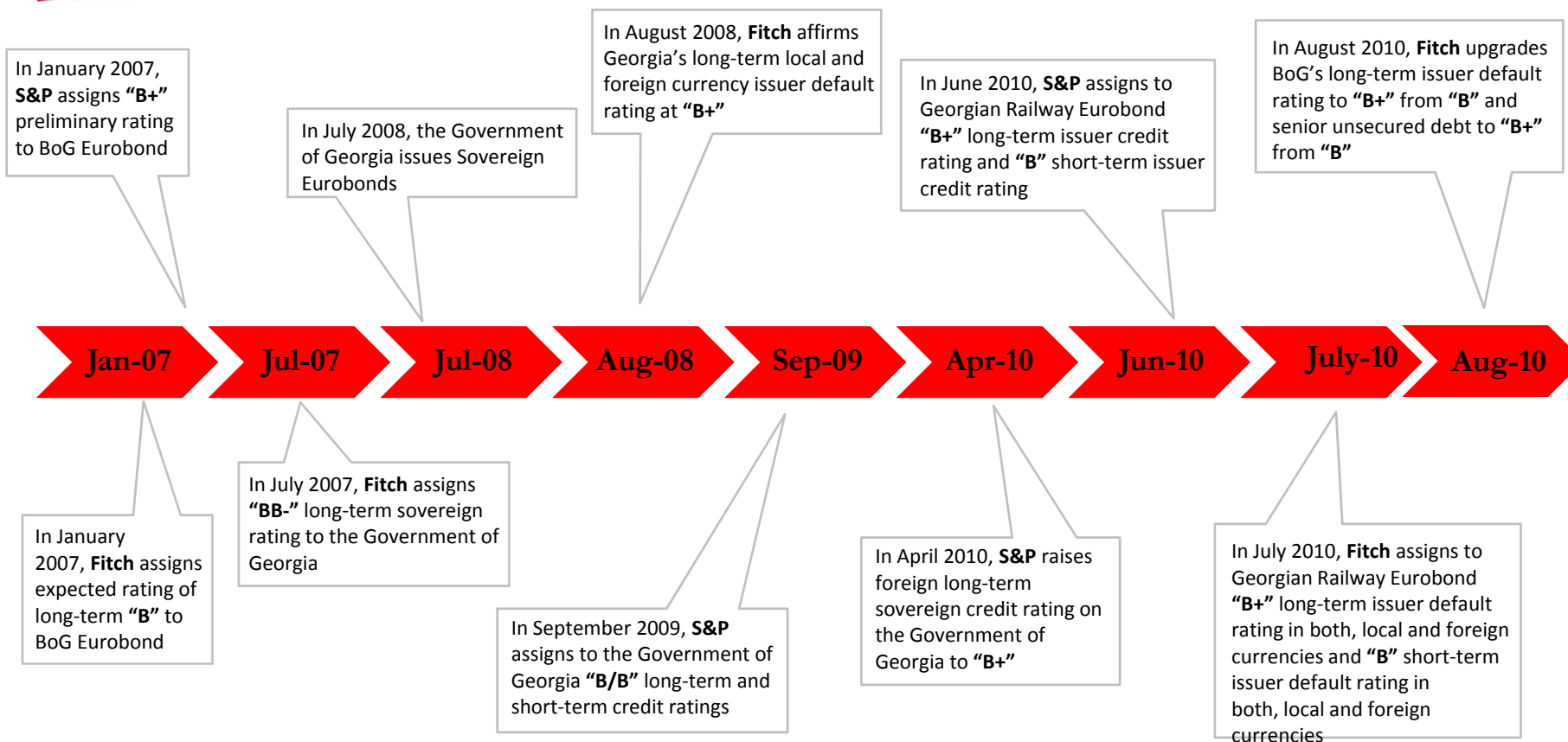
Source: Georgian Economy Overview; [www.georgia.gov.ge](http://www.georgia.gov.ge); September 2010

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Source: [www.fitchratings.com](http://www.fitchratings.com); [www.moodys.com](http://www.moodys.com); [www.standardandpoors.com](http://www.standardandpoors.com); September 2010

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Source: [www.fitchratings.com](http://www.fitchratings.com); [www.standardandpoors.com](http://www.standardandpoors.com); September 2010

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## ***Georgian Financial Market At A Glance***

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## Bank of Georgia Eurobond

 BBG: BKGE0

 Issue Date – Feb-07

 Maturity Date – Feb-12

 Coupon Rate – 9.00%

 1<sup>st</sup> Coupon Date – Aug-07

## Sovereign Eurobond

 BBG: GEORG

 Issue Date – Jul-08

 Maturity Date – Jul-13

 Coupon Rate – 7.50%

 1<sup>st</sup> Coupon Date – Oct-08


## Georgian Railway Eurobond

 BBG: GRAIL

 Issue Date – Jul-10

 Maturity Date – Jul-15

 Coupon Rate – 9.875%

 1<sup>st</sup> Coupon Date – Jan-11

## 3 Month Certificates of Deposits Issued by National Bank of Georgia

## T-Bills

## 2 Year Treasury Notes

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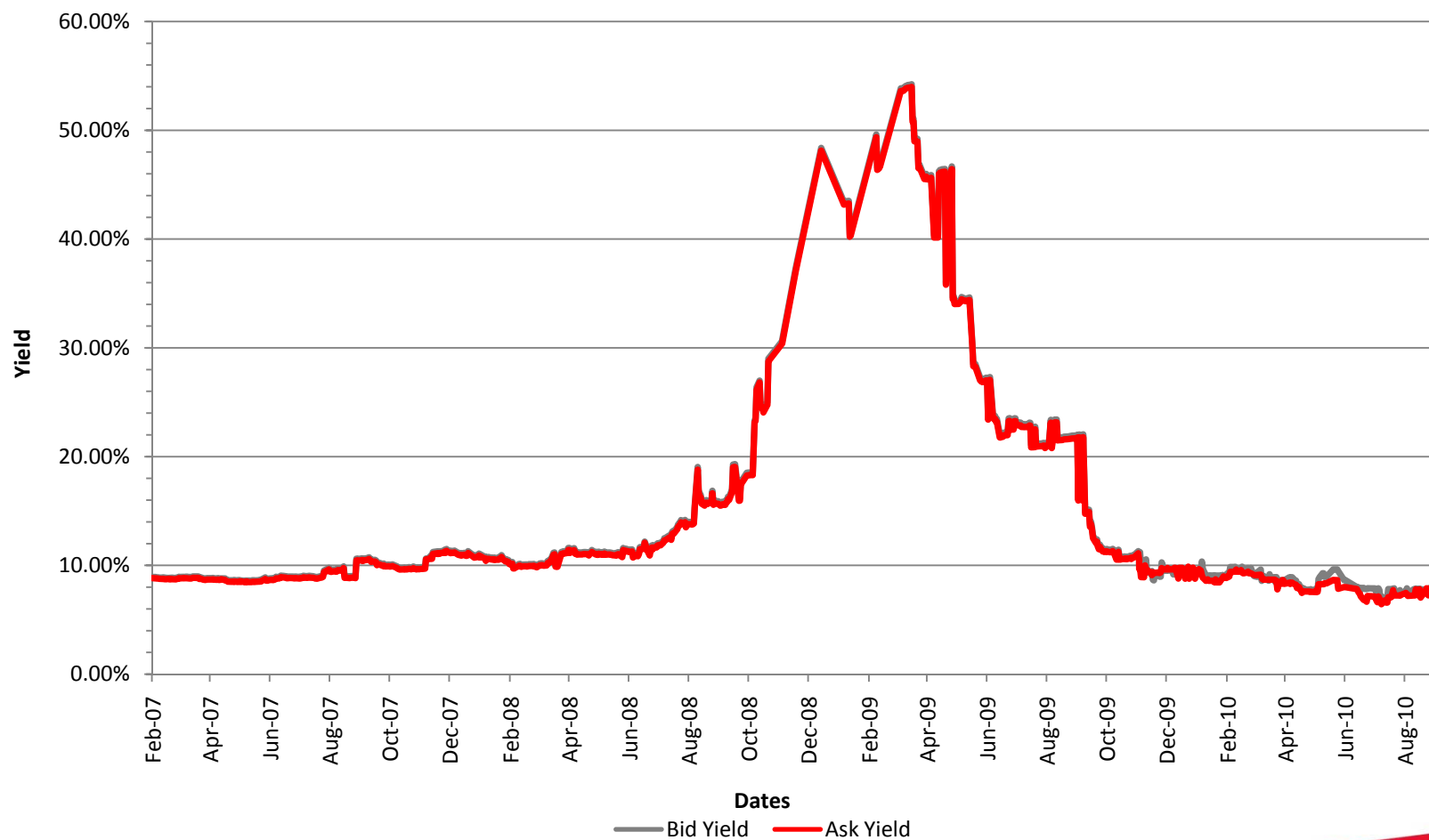
# Outstanding Bonds – Main Characteristics

							Ratings		
Name	Duration	Maturity Date	Currency	Coupon Rate	Coupon Payments	YTM	S&P	Fitch	Composite
JSC Bank of Georgia	5 years	2-Aug-12	USD	9,00%	6 months	8,99%	B	B+	B+
Sovereign	5 years	15-Apr-2013	USD	7,50%	6 months	7,13%	B+	B+	B+
Georgian Railway	5 years	22-Jul-2015	USD	9,88%	6 months	9,13%	B+	B+	B+

Source: [www.fitchratings.com](http://www.fitchratings.com); [www.standardandpoors.com](http://www.standardandpoors.com); September 2010

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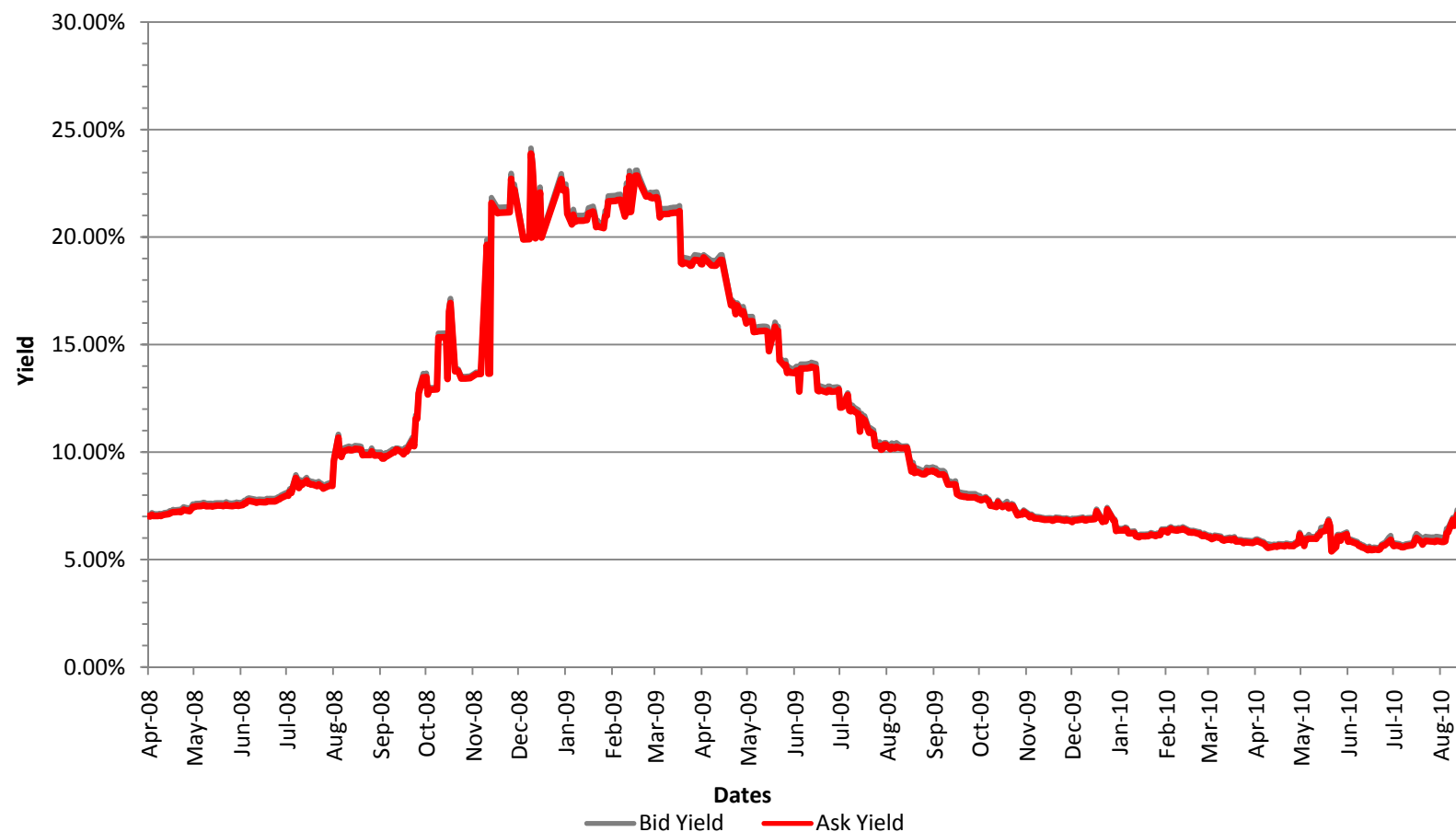
## Yield Evolution



Source: [www.bloomberg.com](http://www.bloomberg.com)

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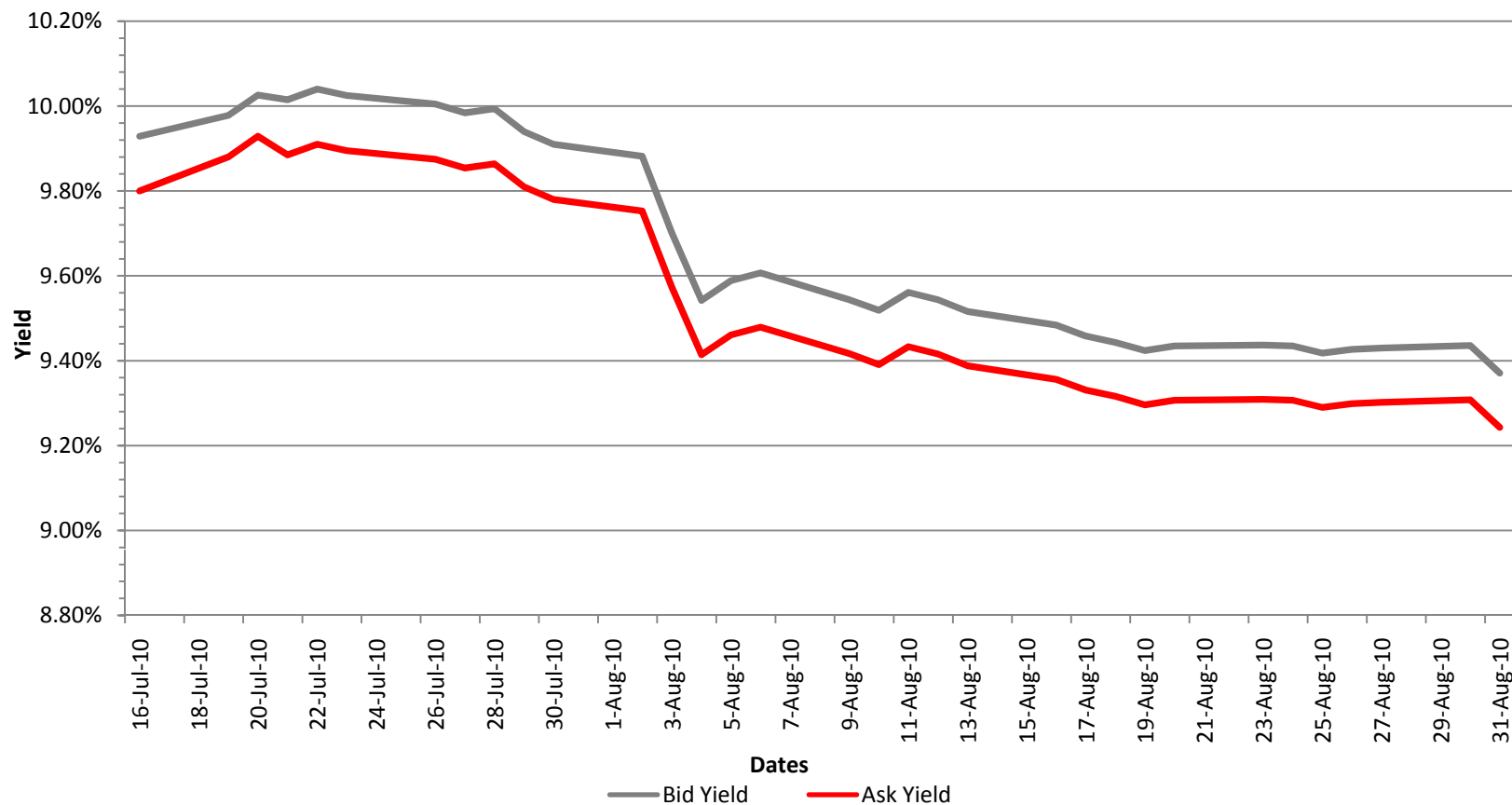
## Yield Evolution



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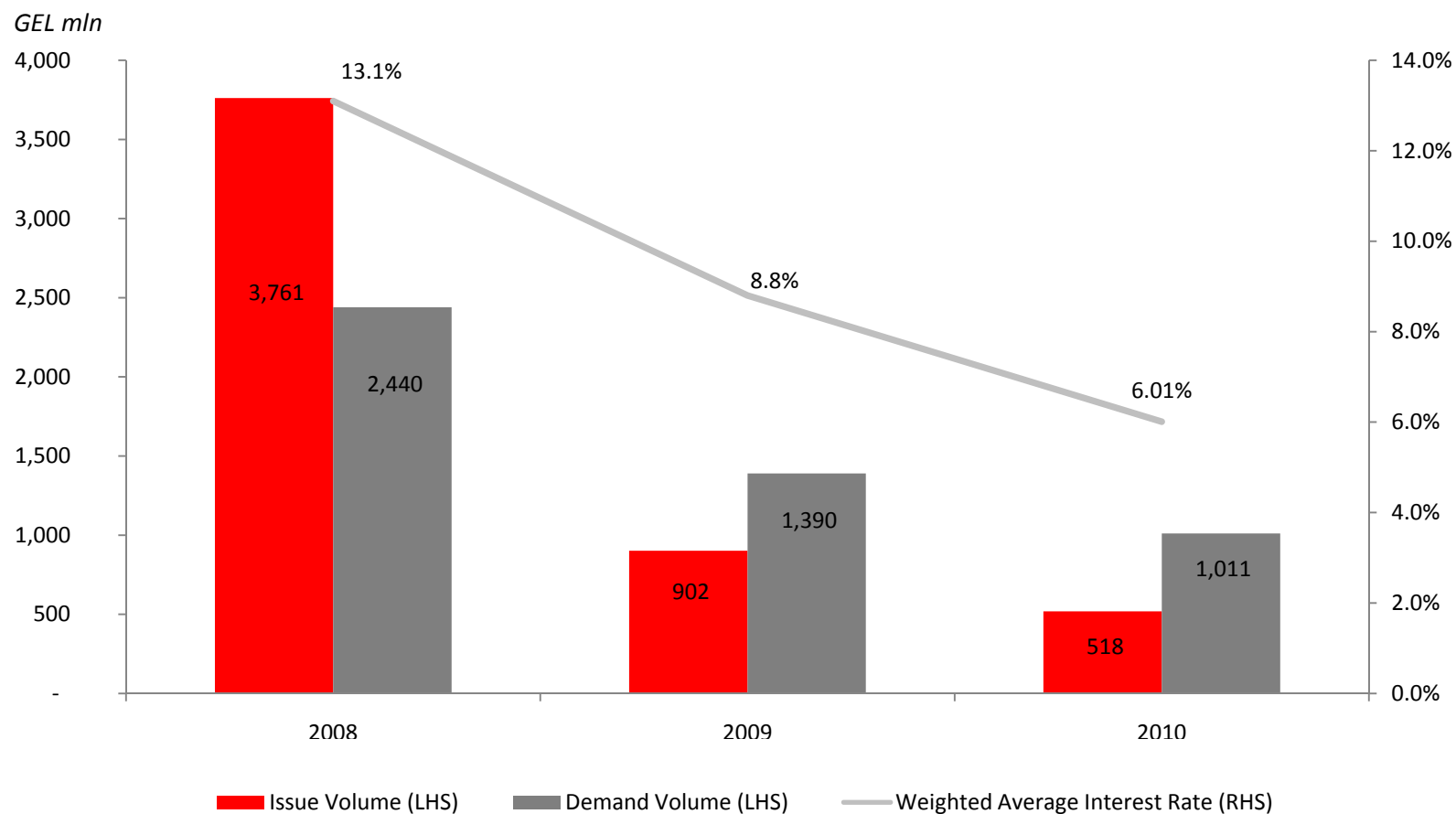


Source: [www.bloomberg.com](http://www.bloomberg.com)

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# Certificate Of Deposits By The National Bank Of Georgia

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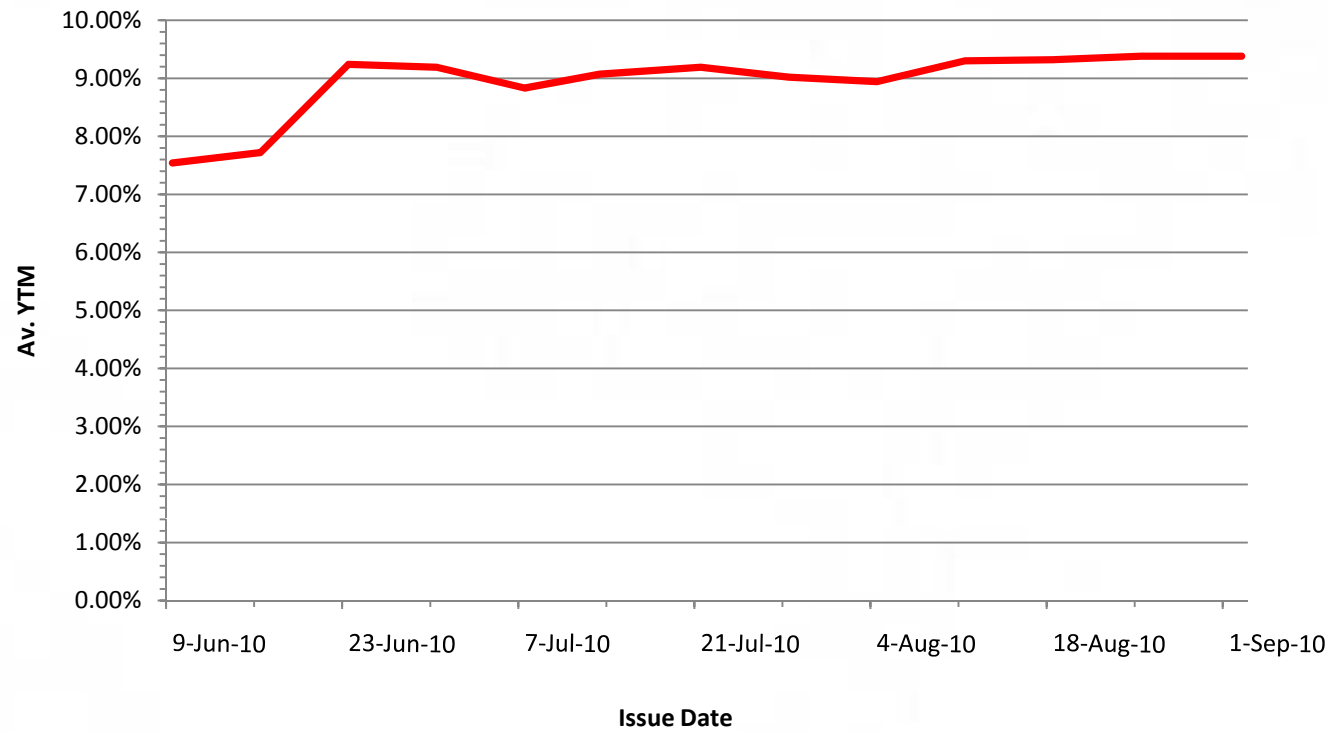


Source: National Bank of Georgia

September 2010

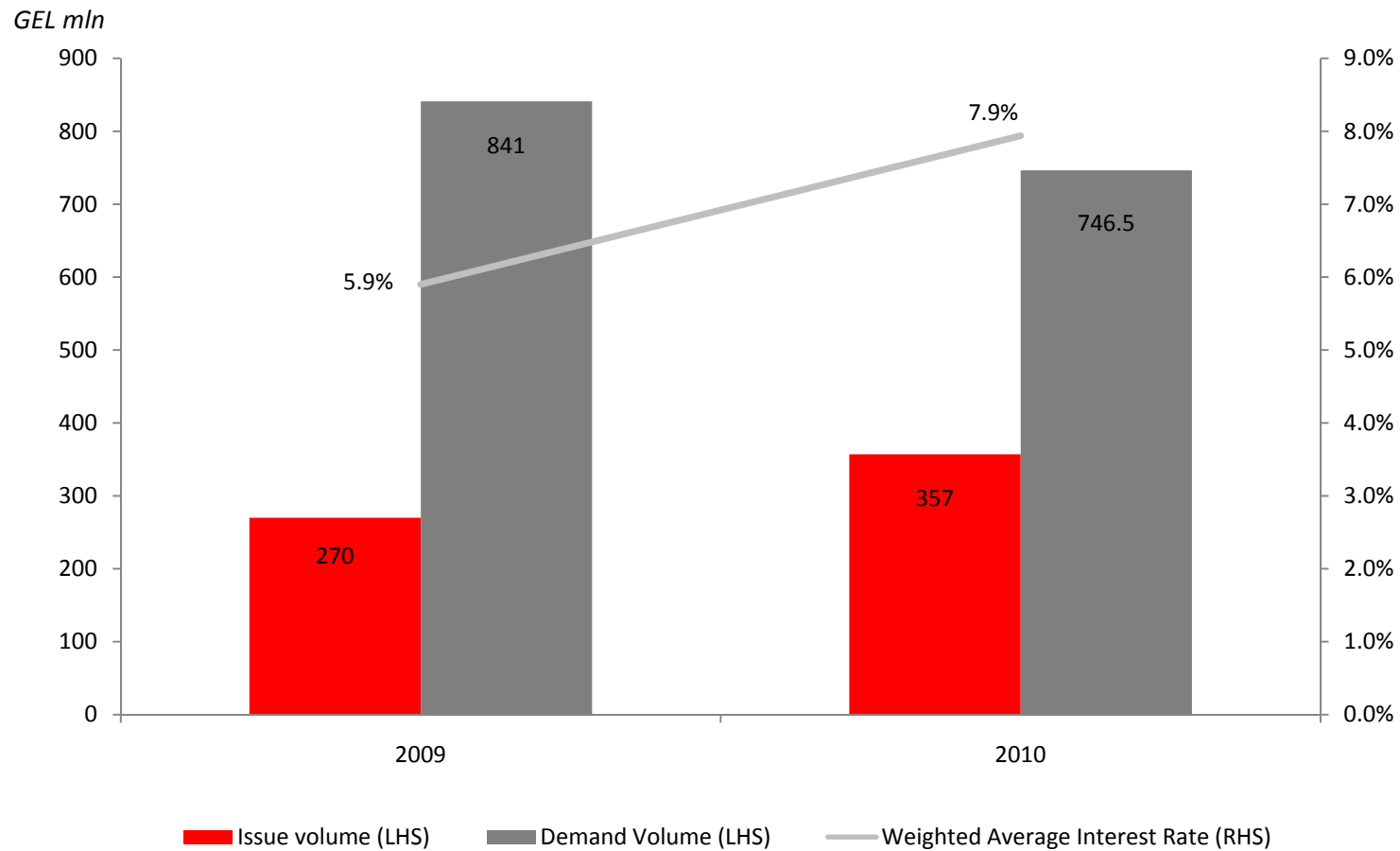
# CD Yield Evolution

## 3 Month CD Yield Evolution



Source: National Bank of Georgia

September 2010

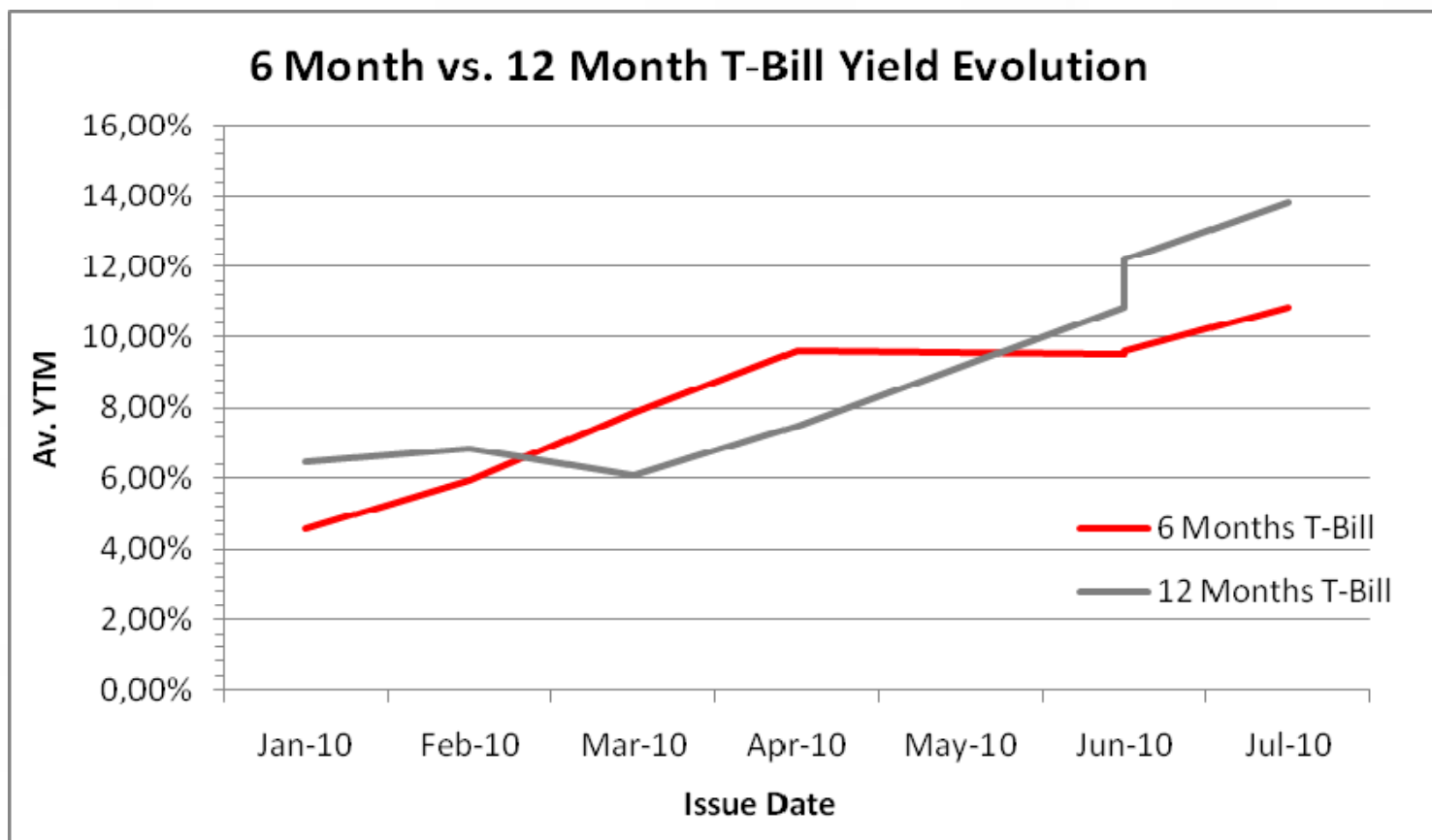


Source: Ministry of Finance of Georgia

September 2010



## 6 Month vs. 12 Month T-Bill Yield Evolution

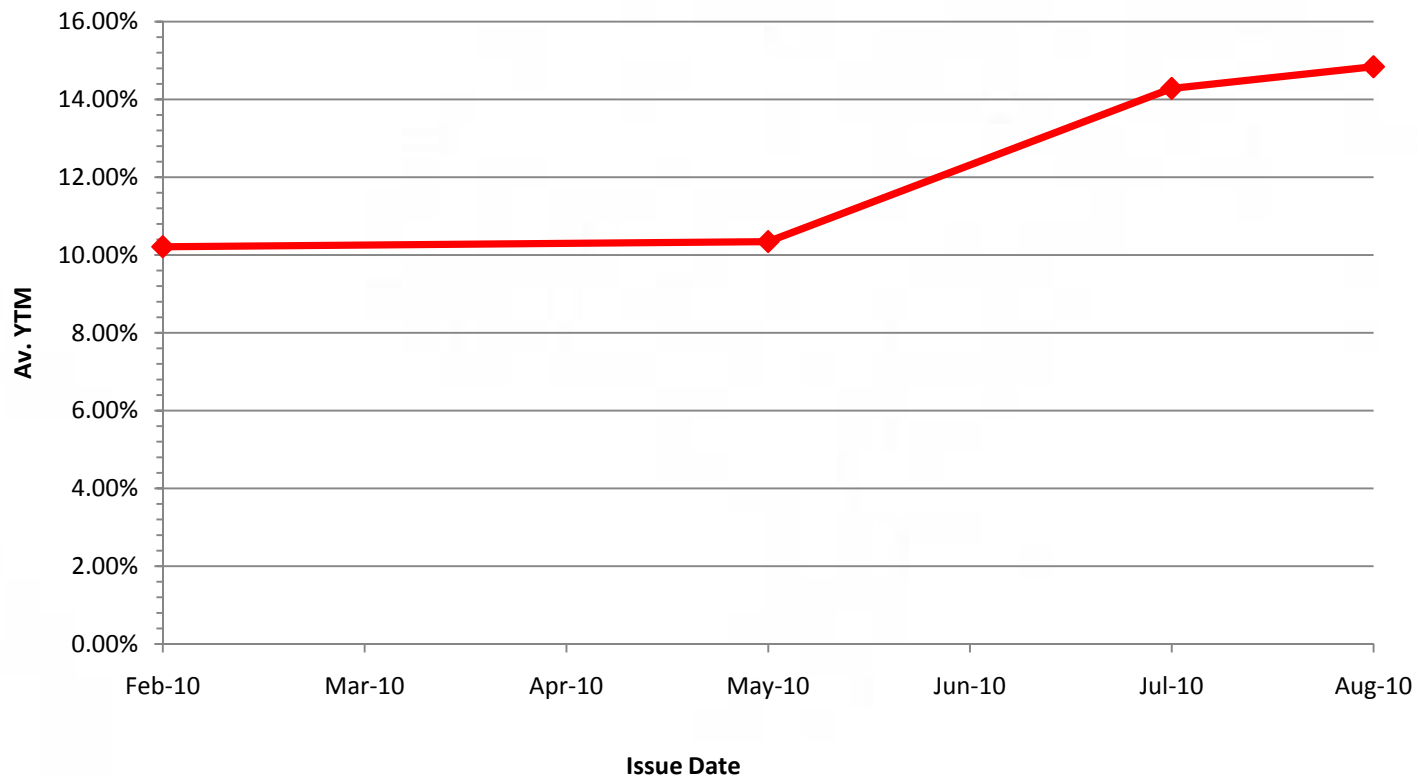


Source: Ministry of Finance of Georgia

September 2010

## 2 Year T-Note Yield Evolution

### 2 Year T-Note Yield Evolution



Source: Ministry of Finance of Georgia

September 2010

## LB The Sovereign

LB Tap issue?

LB Soukuk?

## LB Quasi-Sovereign

LB Tbilisi?

LB Batumi?

LB GOGC?

## LB Banks?

LB BoG, TBC, others?

LB **Conditional capital?**

LB Tier II?

## LB GEL Exposure

LB FX swaps?

LB **Non-deliverable forwards?**

## Contact Information

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