

London, 3 July 2017

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*This announcement contains inside information*

### **BGEO Group PLC - Proposed Demerger**

BGEO Group PLC (“BGEO Group”) announces today its intention to demerge BGEO Group into a London-listed banking business (Bank of Georgia Group PLC - “Bank of Georgia” or “Bank”) and a London-listed investment business (BGEO Investments PLC – “BGEO Investments”).

The Board of BGEO Group believes a demerger of the businesses will deliver additional long-term value to shareholders by creating two distinct entities, each of which will have enhanced growth opportunities in the strongly growing Georgian economy. Both businesses are already leaders in their respective fields, with separate strategic, capital, and economic characteristics and strong and knowledgeable management teams.

The Board believes the demerger will benefit the two businesses in the following areas:

- *Business flexibility*: Provide greater flexibility for each business to manage its own capital and human resources and pursue strategic options appropriate to its respective sector, whilst avoiding the potential for conflicts of interest between the respective businesses.
- *Growth opportunities*: Allow each business independently to actively pursue further consolidation opportunities and value-accretive partnerships and joint ventures in their respective markets.
- *Regulatory clarity and flexibility*: As a separate entity, BGEO Investments 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.
- *Efficient capital structure*: Enable each business to adopt a capital structure, balance sheet and financing strategy which will more efficiently meet its individual requirements.
- *Improved management focus*: Separate management teams with sharpened focus will help the two demerged businesses to maximize their performance and make full use of their available resources.
- *Alignment of incentives*: Align management and employee rewards more directly with business and stock market performance, helping to attract, retain and motivate the best people.
- *Investor clarity and understanding*: Create two separately listed more focused companies offering clear and distinct investment propositions, each with separate market valuations.
  - Bank of Georgia will continue to represent one of the largest, well managed and strongly capitalised banking businesses in Georgia with superior returns.

- BGEO Investments will continue to invest in Georgian businesses, largely raising funds through its own financing relationships and resources. BGEO Investments will be the only professionally managed publicly-listed investment company in Georgia, with a track record of over 10 years of successfully investing in and growing companies in the Georgian economy.
- The demerger of the businesses will allow investors to make their own decisions on capital allocations between the banking and investment businesses.

## **Bank of Georgia Group PLC**

Bank of Georgia will continue to be a fully-licensed and regulated, systemically important, universal banking business focused on Georgia with industry-leading characteristics.

Bank of Georgia will comprise the retail banking and payment services (Retail Banking), corporate and investment banking and leasing services (CIB) and wealth management operations of BGEO Group, as well as its banking operations in Belarus.

The property and casualty insurance operations of BGEO Group (“Aldagi”) are expected to be transferred to BGEO Investments, which will allow Bank of Georgia to focus more closely on its core banking business, and Aldagi to develop its business independently in the still very much underpenetrated Georgian insurance market.

## **Strategy**

Bank of Georgia’s strategy is expected to remain largely unchanged. The Bank will continue to strive to benefit from the underpenetrated banking sector in Georgia. In particular, the Bank will focus on:

- Growing the retail banking share in the Bank’s customer loan book
- Increasing the mass retail product to client ratio
- Continuing the strong growth in Solo (mass affluent) clients
- Digitalising the Bank to enhance its presence in online channels as well as its analytical capabilities to better serve its clients’ needs
- De-concentrating the risk profile of the Corporate loan book
- Increasing corporate lending growth, particularly with the removal of the potential conflicts of interest between the banking and investment businesses
- Developing a regional private banking franchise
- Improving cost efficiency

The existing targets and dividend policy of the banking business are also expected to remain unchanged, targeting:

- A Return on Average Equity of over 20%
- Growth of retail banking customer lending of over 20%
- Maintaining a strong capital base and liquidity position
- An unchanged dividend policy, targeting a dividend payout in the 25-40% of earnings range

## **Management**

The senior management team of Bank of Georgia will continue to be led by Kaha Kiknavelidze as CEO, and will be unchanged from its current structure. Neil Janin, currently the Non-Executive Chairman of BGEO Group, will become the Non-Executive Chairman of Bank of Georgia.

## **BGEO Investments PLC**

Once demerged, BGEO Investments will be the only publicly listed Georgia-focused investment platform. It will comprise:

- BGEO Group's stake in Georgia Healthcare Group PLC ("GHG") - the largest integrated healthcare company, operating hospital and outpatient services, pharmacy retail chains and a medical insurance business in the fast-growing predominantly privately owned Georgia healthcare ecosystem. GHG is separately listed on the premium segment of the London Stock Exchange with a market capitalisation of £476 million as of 30 June 2017; and will continue to be led by Nikoloz Gamkrelidze as CEO.
- Georgia Global Utilities ("GGU") – the major utility and energy company in Georgia, with clear growth opportunities and room to improve efficiency. Archil Gachechiladze will continue to lead GGU as CEO.
- m<sup>2</sup> Real Estate – a fast-growing, leading real estate developer and asset manager in Georgia. Irakli Burdiladze will continue to lead m<sup>2</sup> Real Estate as CEO.
- BGEO Group's stake in Teliani Valley – a wine and beverage business. Shota Kobelia will continue to lead Teliani Valley as CEO.

In addition, it is expected that, following the demerger, BGEO Investments will hold:

- A 9.9% stake in Bank of Georgia.
- The largest property and casualty insurance company in Georgia – Aldagi. Giorgi Baratashvili will continue to lead Aldagi as CEO.

## **Strategy**

BGEO Investments will remain a Georgia focused investment platform positioned to use its superior access to capital and management to take advantage of the significant investment opportunities in the fast-developing Georgian corporate sector. By virtue of its ability to access capital, BGEO Investments will be uniquely positioned to seize these opportunities by deploying capital commitments that are small by international standards, but which give controlling stakes in companies and sectors that have the potential to deliver substantial returns. There are no plans to raise capital as part of this demerger process. BGEO Investments is also differentiated through its access to superior management and its proven tradition and track record of excellent shareholder returns.

BGEO Investments will seek to foster the development of independent businesses with world-class management teams, with a view to divestment over the longer-term, typically within 5 to 10 years. BGEO Investments does not have capital commitments and a primary mandate to deploy funds or divest in a specific time-frame. As such, it can be patient and focus exclusively on shareholder returns and on opportunities which meet the Group's investment return and growth criteria.

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

- strive to capitalise on Georgia's fast-growing economy, which provides opportunities in a number of underdeveloped sectors;
- target a minimum IRR of 25%;
- retain its current capital return policy, whereby BGEO Investments expects to buyback and cancel its shares and/or pay special dividends linked to exits from its investments; and
- consider potential exits, starting with its already announced plan to IPO GGU in 2-3 years' time.

## **Management**

The senior management team of BGEO Investments will be led by Irakli Gilauri as Chairman and CEO. The Board of BGEO Investments will maintain strong corporate governance standards and a talented team of high calibre independent directors.

**Commenting on the proposed demerger Irakli Gilauri, CEO of BGEO Group, said:**

“After making significant progress in each of our two main businesses in recent years, and following a recent strategic review, we are clear that a demerger is the right way to enable each of Bank of Georgia and BGEO Investments to make the best use of their respective opportunities in the rapidly developing Georgian economy. The demerger will allow them to develop independently, whilst also avoiding the potential for any cross-business conflicts of interest. As such the demerged businesses will be much better placed individually to maximise their long-term potential.”

**Kaha Kiknavelidze, CEO of Bank of Georgia, said:**

“The separation of the banking and investment businesses will not change our strategy to continue delivering a highly successful, growing Bank with a clear goal of achieving a return on equity in excess of 20%. The Bank has an extremely talented management team and employee base, strong retail and corporate customer relationships, and we expect the demerger to create a new set of opportunities with prospective corporate customers in all sectors of the economy, including those where BGEO Investments already has business interests, as well as BGEO Investments portfolio companies.”

**Neil Janin, Chairman of the Board of BGEO Group, said:**

“The Board of BGEO Group believes that the demerger is in the best long term interests of both our banking and investment businesses and therefore our shareholders. Bank of Georgia and BGEO Investments will both be significant standalone entities, financially robust and well-placed to execute on their respective strategies. Strong independent Boards and management teams are ready to take both Bank of Georgia and BGEO Investments forward, and to continue creating value for shareholders.”

**Implementation**

The Board is seeking to implement a demerger that would be tax efficient for BGEO Group and its shareholders. It is currently reviewing tax and other implementation matters.

The Board expects the demerger, which will be subject to shareholder approval, to take a number of months to implement and the process is currently expected to complete in the first half of 2018. While there can be no assurance that the demerger will be completed, management’s preliminary review has not identified serious obstacles. We will update the market on progress in due course.

**Conference call details**

An investor/analyst conference call, organized by BGEO, will be held on, 3 July 2017, at 9:30 UK / 10:30 CET / 04:30 U.S. Eastern Time.

**Dial-in numbers:**

Pass code for replays/Conference ID: **49252810**

International Dial-in: +44 (0) 1452 555566

UK: 08444933800

US: 16315107498

Austria: 019286568

Belgium: 081700061

Czech Republic: 228880460

Denmark: 32727625

Finland: 0923195187

France: 0176742428

Germany: 06922224918

Hungary: 0618088303

Ireland: 014319648

Italy: 0236008146

Luxembourg: 20880695

Netherlands: 0207176886

Norway: 21563013

Spain: 914143669

Sweden: 0850336434

Switzerland: 0565800007

**30-Day replay:**

Pass code for replays / Conference ID: **49252810**

International Dial in: +44 (0)1452550000

UK National Dial In: 08717000145

UK Local Dial In: 08443386600

UK Free Call: 08009531533

USA Free Call Dial In: 1 (866) 247-4222

*This announcement was released by Giorgi Alpaidze, Head of Investor Relations, on behalf of BGEO Group PLC*

## **Forward-looking statements**

Certain statements in this announcement are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Readers should not place any undue reliance on forward-looking statements which speak only as of the date of this announcement. Statements contained in this announcement regarding past trends or events should not be taken as representation that such trends or events will continue in the future.

The statements contained herein are accurate as at the date of this announcement. Nothing contained in this announcement shall be deemed to be a forecast, projection or estimate of future performance. Except as required by the rules of the UK Listing Authority and the London Stock Exchange (and applicable law), BGEO Group PLC undertakes no obligation to update publicly or revise the content of this announcement, whether as a result of new information, future events or otherwise.

## **About BGEO Group PLC**

**The Group:** BGEO Group PLC (“BGEO” or the “Group” – LSE: BGEO LN) is a UK incorporated holding company of a Georgia-focused investment platform. BGEO invests in the banking and non-banking sectors in Georgia (BGEO and its subsidiaries, the “Group”). BGEO aims to deliver on a 4x20 strategy: at least 20% ROAE and at least 20% growth of retail loan book in Banking Business, and at least 20% IRR and up to 20% of the Group’s profit from Investment Business.

**Banking Business:** Our Banking Business comprises at least 80% of the Group’s profit and consists of Retail Banking, Corporate Banking and Investment Management businesses at its core and other banking businesses such as P&C Insurance, Leasing, Payment Services and Banking operations in Belarus (“BNB”). The Group strives to benefit from the underpenetrated banking sector in Georgia especially through its Retail Banking services. JSC Bank of Georgia (“BOG” or the “Bank”) is the main entity in the Group’s Banking Business.

**Investment Business:** Our Investment Business comprises up to 20% of the Group’s profit and consists of Georgia Healthcare Group (Healthcare Business) – an LSE (London Stock Exchange PLC) premium listed company, m<sup>2</sup> Real Estate (Real Estate Business), Georgia Global Utilities (Utility & Energy Business or GGU) and Teliani Valley (Beverage Business). Georgia’s fast-growing economy provides opportunities in a number of underdeveloped markets and the Group is well positioned to capture growth opportunities in the Georgian corporate sector.

**JSC BGEO Group has, as of the date hereof, the following credit ratings:**

Fitch Ratings	‘BB-/B’
Moody’s	B1/NP (FC) & B1/NP (LC)

**Bank of Georgia has, as of the date hereof, the following credit ratings:**

Fitch Ratings	‘BB-/B’
Moody’s	‘B1/NP’ (FC) & ‘Ba3/NP’ (LC)

**For further information, please visit [www.bgeo.com](http://www.bgeo.com) or contact:**

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