

EXECUTIVE SUMMARY

- The total stock of outstanding Georgian bonds increased by 41% Y-o-Y (32% excluding FX effect) by the end of 3Q2019, mainly on the back of local corporate bonds and Eurobonds.
- Georgia is getting closer to an investment grade rating, which is reflected on the sovereign Eurobond performance as well as increased ownership of local treasuries from non-resident individuals and institutions.
- Bringing in new investment opportunities for those with USD appetite, four new Eurobonds from Georgian corporates increased the outstanding stock by 72% Y-o-Y in 3Q2019.
- The outstanding amount of IFI bonds issued in Georgia, represented by 16 bonds from five IFIs, saw a 24% Y-o-Y increase in 3Q2019.
- The value of newly issued local corporate bonds saw a 161% Y-o-Y increase in 3Q2019. Additionally, a USD 35mln bond by M2 Real Estate and a GEL 28mln bond by Nikora were issued in early October 2019.
- At end 3Q2019 in total 22 bonds with total nominal value of GEL 2,851mln were listed on the GSE.
- A new trend of dual-listing has emerged, with three new Eurobonds listed on the GSE at end 3Q2019.
- With the investment council as well as the chief risk officer in place and GEL 351mln at end 3Q2019, the Pension Agency is expected to start investing in plain vanilla financial instruments from the beginning of 2020.

TOTAL STOCK OF OUTSTANDING BONDS

Bonds offer higher yields than deposits. At end 3Q2019 all Georgian bonds except the IFI bonds issued in Georgia delivered higher yields than deposits in the corresponding currency. The high coupon rates have made bonds an attractive investment instrument and an alternative to deposits.

TABLE 1: YIELD RANGE OF GEORGIAN BONDS AND INTEREST RATE ON DEPOSITS AS OF OCT 2019

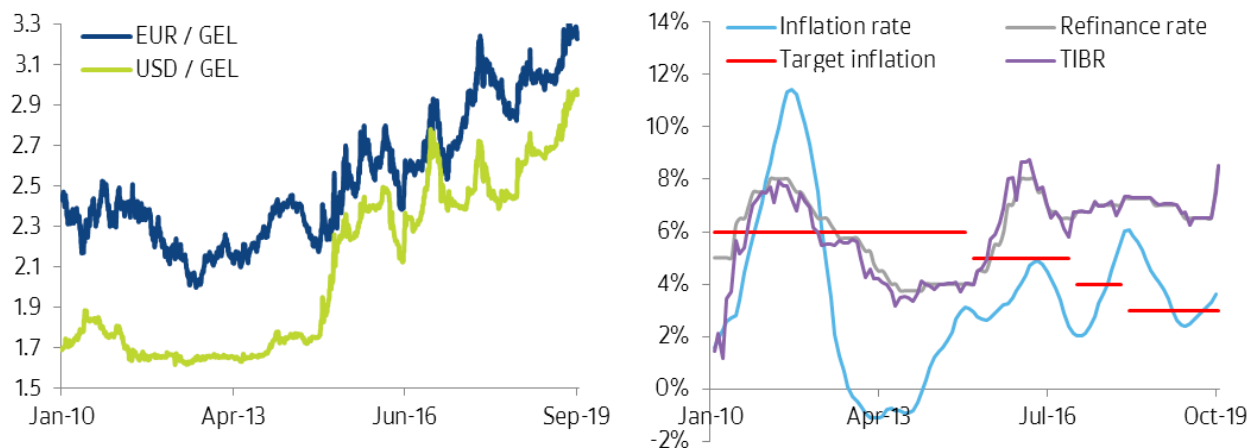
BOND TYPE	CURRENCY	YIELD RANGE*
Local corporate bonds	GEL	12.00-13.00
	USD	6.50-8.00
Eurobonds	USD	2.85-10.48
Local IFI bonds	GEL	7.60-9.60
DEPOSIT CURRENCY		INTEREST RATE ¹
GEL		7.8
USD		2.9

Source: NBG, Bloomberg

*Apart from Eurobonds we use coupon rates as proxy

Interest rates on GEL denominated bonds increased by 1.5% y-o-y. The GEL has depreciated 13% against the USD and 7% against the EUR in 3Q2019 Y-o-Y. With the high GEL exchange rate fluctuations and a recent hike in annual inflation to 6.4%, the NBG is using its tools to stabilize inflation within acceptable boundaries with the target inflation rate of 3% until 2021, largely by increasing the monetary policy rate twice, 50 basis points each time, in September 2019 to 7.50%². The increased monetary policy rate increases the attractiveness of GEL denominated floating-rate bonds.

FIGURE 1: EXCHANGE RATE, AVERAGE ANNUAL INFLATION RATE, REFINANCE RATE, AND TIBR



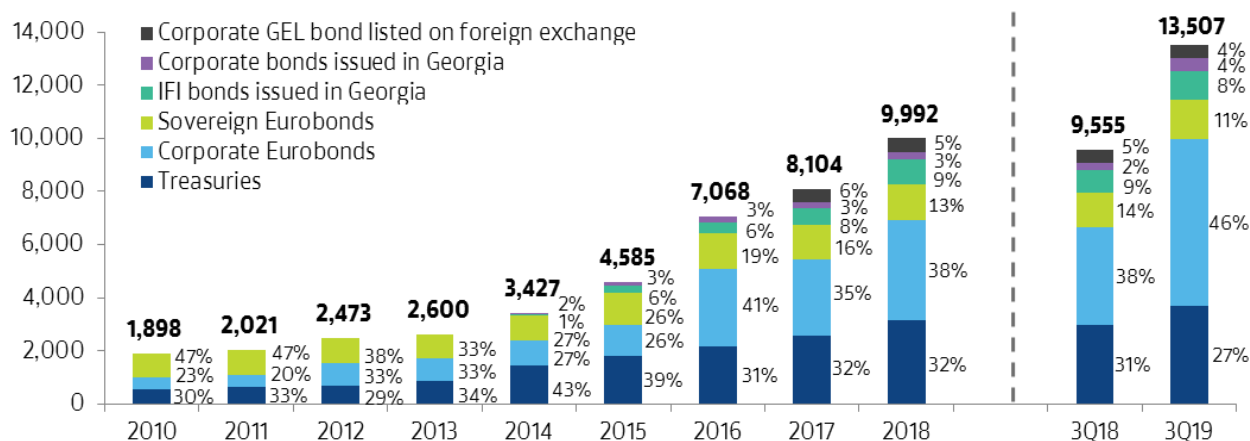
Source: NBG

¹ At the time of the publication the latest available data was for August 2019.

² The NBG increased the monetary policy rate by an additional 100 basis points in October 2019.

The total stock of Georgian outstanding bonds increased by 41% Y-o-Y (32% excluding FX effect) in 3Q2019. The stock, comprised of government securities, Eurobonds, and bonds issued by IFIs and Georgian corporates on the local market, amounted to GEL 13,507mln at end 3Q2019. Growth is observed in all segments of the Georgian capital market, except GEL corporate bonds listed on foreign exchanges, which is still comprised of a single GEL 500mln bond issued by the Bank of Georgia. The growth was mainly driven by a staggering 100% Y-o-Y growth (85% excluding FX effect) in local corporate bonds, followed by a 72% Y-o-Y growth (52% excluding FX effect) in corporate Eurobonds, a 24% Y-o-Y growth in IFI bonds issued in Georgia, and a 24% Y-o-Y growth in treasuries. The outstanding nominal value of the sovereign Eurobond also saw an increase of 13% Y-o-Y in 3Q2019 solely due to the change in the GEL/USD exchange rate.

FIGURE 2: TOTAL BONDS OUTSTANDING (GEL MLN) AS OF SEPTEMBER 30 2019



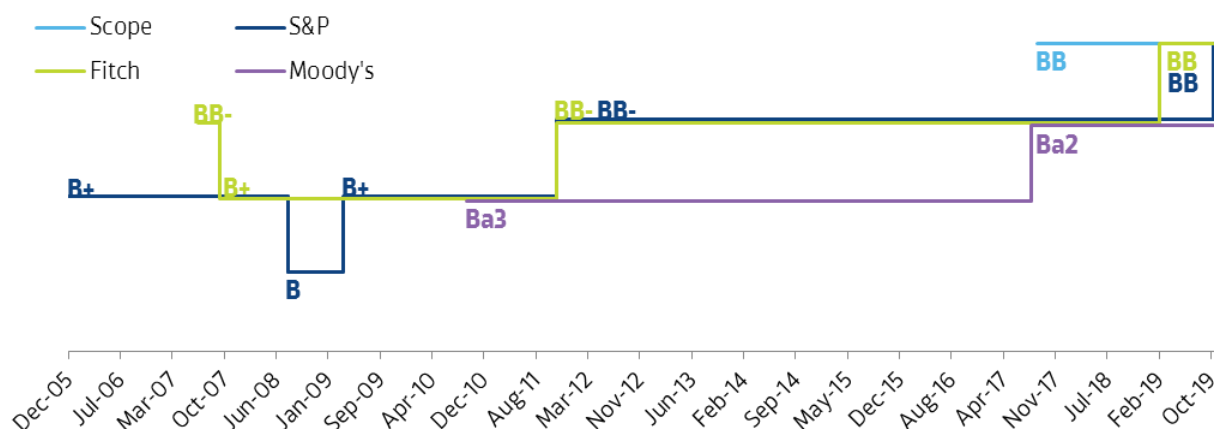
Source: GSE, NBG, Bloomberg

TREASURIES

Georgia gets closer to an investment grade rating. In March 2019, Moody’s affirmed Georgia’s Ba2/Stable rating. Fitch upgraded the rating from BB- to BB with a stable outlook in February 2019 and affirmed the rating as well as the outlook in August 2019. In April 2019, S&P affirmed its BB-rating for Georgia but updated the outlook from stable to positive³. Moody’s affirmed the Ba2 rating and maintained its stable outlook in September 2019.

³ In October 2019 S&P upgraded the sovereign rating for Georgia to BB with a stable outlook.

FIGURE 3: SOVEREIGN RATINGS FOR GEORGIA



Source: S&P, Fitch, Moody's, Scope

Georgian sovereign Eurobond keeps improving its performance. The performance of the only Georgian sovereign Eurobond, a USD 500mln 10-year benchmark listed on the London Stock Exchange, has been record-breaking at end 3Q2019. Even though the Eurobond has always been trading with a premium to par, with yields below its coupon rate, at end 3Q2019 the Georgian sovereign Eurobond was trading at the lowest yield at 2.85% with Z-spread of 113.4 basis points.

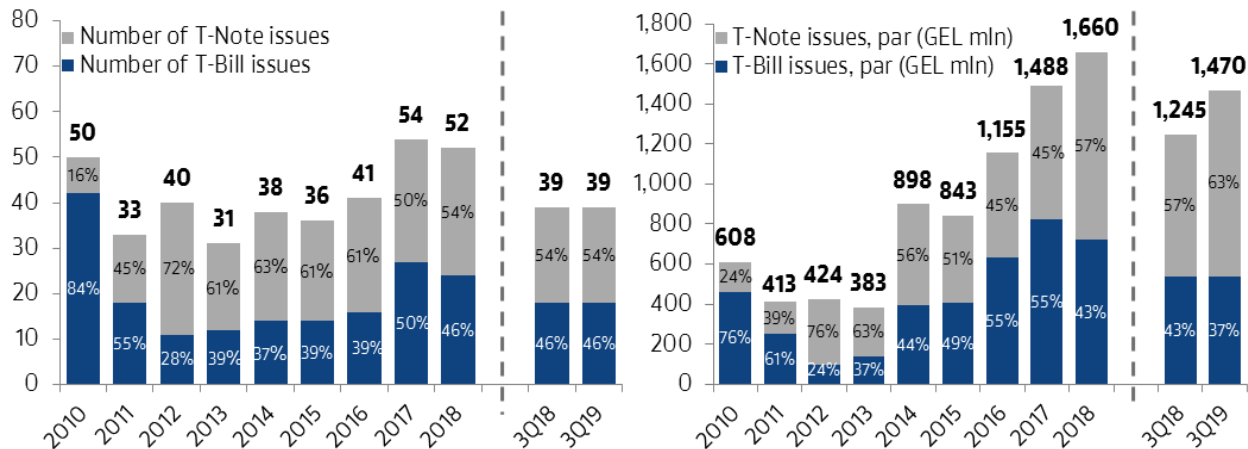
TABLE 2: OUTSTANDING SOVEREIGN EUROBOND

ISSUER	COUPON %	ISSUED PAR (MLN)	CURRENCY	ISSUE DATE	MATURITY DATE	ISSUER CREDIT RATING FITCH/S&P/MOODY'S/SCOPE
Government of Georgia	6.875	500	USD	Apr-11	Apr-21	BB/BB-/Ba2/BB

Source: Bloomberg

The volume of T-note issues keeps increasing. The government issues treasuries with mixed maturities, enabling a funding flexibility and at the same time offering investors a diversification opportunity. The number of T-Bills and T-Notes issued by the GoG in 3Q2019 was identical to the numbers issued in 3Q2018. The volume of the issued T-Bills has also remained unchanged. The 18% Y-o-Y increase in the volume of issued T-Bills and T-Notes was solely driven by the increased volumes of T-note issues, averaging GEL 44.3mln in 3Q2019, up by 32% Y-o-Y.

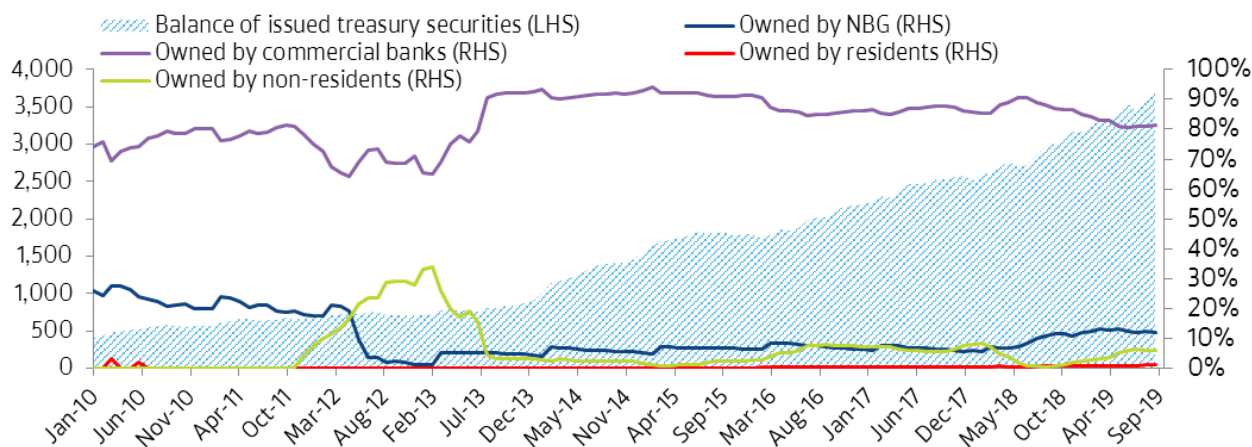
FIGURE 4: ISSUES OF T-BILLS AND T-NOTES



Source: NBG

The value of outstanding treasuries has reached an all-time maximum in 3Q2019, amounting to GEL 3.7bn. Several significant changes can be observed in the ownership of treasuries in this period. Historically, the local commercial banks have owned the highest share of outstanding treasuries. Even though this trend has not changed, the share of local commercial banks dropped by 6.7 percentage points Y-o-Y, from 88.3% in September 2018 to 81.6% in September 2019. On the other hand, the share of non-resident individuals and institutions other than commercial banks in total treasury holders have seen a 5.2 percentage point increase Y-o-Y, from 0.5% in September 2018 to 5.7% in September 2019, indicating an increasing appetite from international investors.

FIGURE 5: BALANCE OF TREASURY SECURITIES ISSUED (GEL MLN) AND OWNERSHIP TRENDS

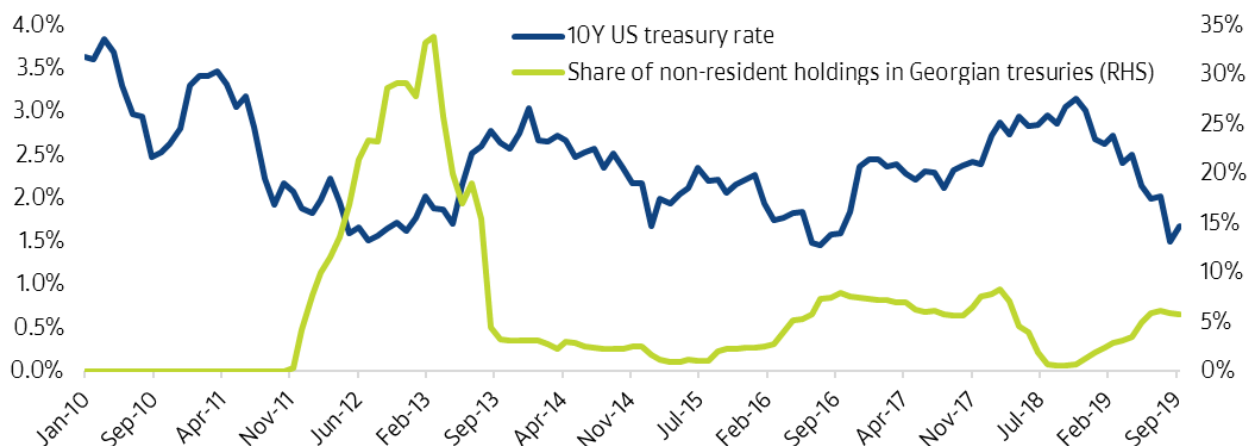


Source: NBG

Decreasing 10-year US treasury rates shifts the demand to seek alternative instruments. The increased share of non-resident individual and institutional holders of Georgian treasuries in total treasury holders is in inverse correlation with the 10-year US treasury rates. In 3Q2019 the 10-year

US treasury rates have been decreasing and in August 2019 reached its lowest point throughout the last 10 years at 1.5%.

FIGURE 6: 10-YEAR US TREASURY RATE AND NON-RESIDENTS' SHARE IN GEL TREASURY HOLDERS



Source: US Department of the Treasury, NBG

CORPORATE EUROBONDS

The Georgian Eurobond market becomes more diversified. At end 3Q2019 Georgia had nine Eurobonds outstanding with a total nominal value of over USD 2.6bn. So far 2019 has been an active year for the Georgian Eurobond market. Bank of Georgia and TBC Bank successfully issued perpetual subordinated callable additional tier 1 Eurobonds with nominal values of USD 100mln and USD 125mln respectively. TBC Bank issued an additional 5-year USD 300mln Eurobond. Most importantly, JSC Silknet is the first Georgian corporate from the non-financial sector⁴ who successfully issued and listed a USD 200mln Eurobond.

⁴ Georgian Railway and Georgian Oil and Gas Corporation are quasi-sovereign since the GoG owns 100% of the shares of both companies.

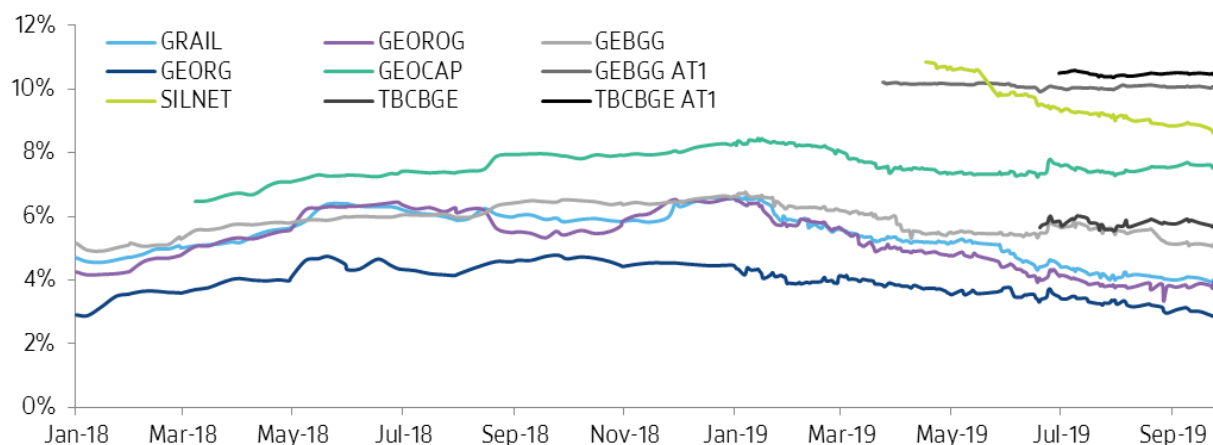
TABLE 3: GEORGIAN EUROBONDS AS OF SEPTEMBER 2019

ISSUER	COUPON %	YIELD %	ISSUED PAR (MLN)	CURRENCY	ISSUE DATE	MATURITY DATE	ISSUER CREDIT RATING FITCH/S&P/MOODY'S/SCOPE
Government of Georgia	6.875	2.847	500	USD	Apr-11	Apr-21	BB/BB-/Ba2/BB
Georgian Railway	7.750	3.987	500	USD	Jul-12	Jul-22	BB-/B+/-/-
Georgian Oil & Gas Corp	6.750	3.942	250	USD	Apr-16	Apr-21	BB/B+/-/-
Bank of Georgia	6.000	5.099	350	USD	Jul-16	Jul-23	BB-/-/Ba2/-
Georgia Capital	6.125	7.534	300	USD	Mar-18	Mar-24	-/B+/B2/
Bank of Georgia AT1	11.125	10.096	100	USD	Mar-19	Perpetual	BB-/-/Ba2/-
Silknet	11.000	8.640	200	USD	Apr-19	Apr-24	B+/-/B1/-
TBC Bank	5.750	5.501	300	USD	Jun-19	Jun-24	BB-/-/Ba2/-
TBC Bank AT1	10.775	10.480	125	USD	Jun-19	Perpetual	BB-/-/Ba2/-
TOTAL			2,625	USD			

Source: NBG, Bloomberg

Georgian Eurobonds offer an attractive return for international as well as local investors. The two AT1 instruments from Bank of Georgia and TBC Bank offer the highest yields, followed by the Eurobond from Silknet.

FIGURE 7: EUROBOND YIELDS

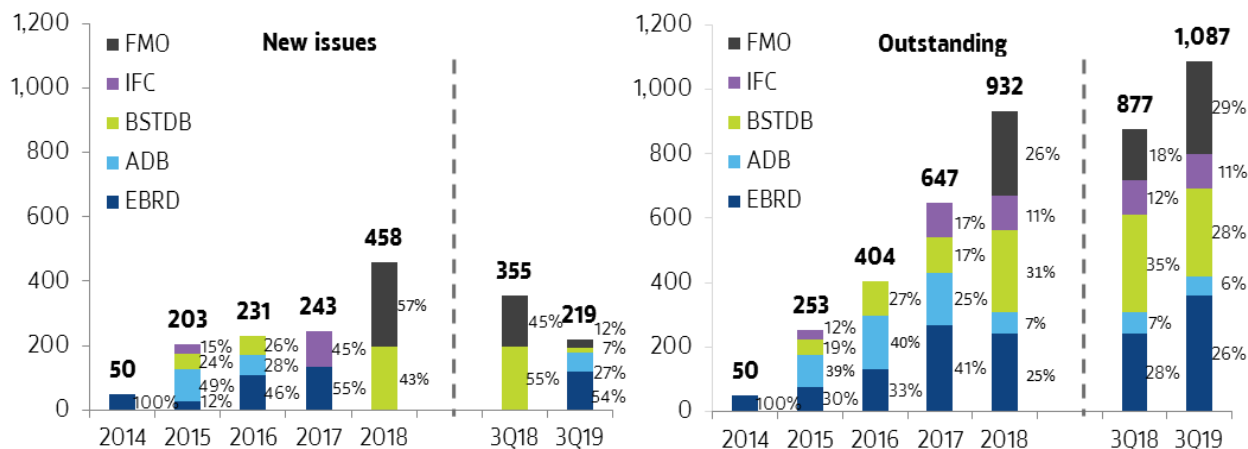


Source: Bloomberg

CORPORATE AND IFI BONDS ISSUED IN GEORGIA

Four IFIs issued seven new bonds in 3Q2019. Since then more IFIs have drawn to the Georgian bond market and at end 3Q2019 the outstanding bonds by IFIs amounted to GEL 1,087mln, a 24% Y-o-Y increase. Regardless the Y-o-Y increase in outstanding amount, so far, 2019 marks the first year when the nominal value of new issues have decreased.

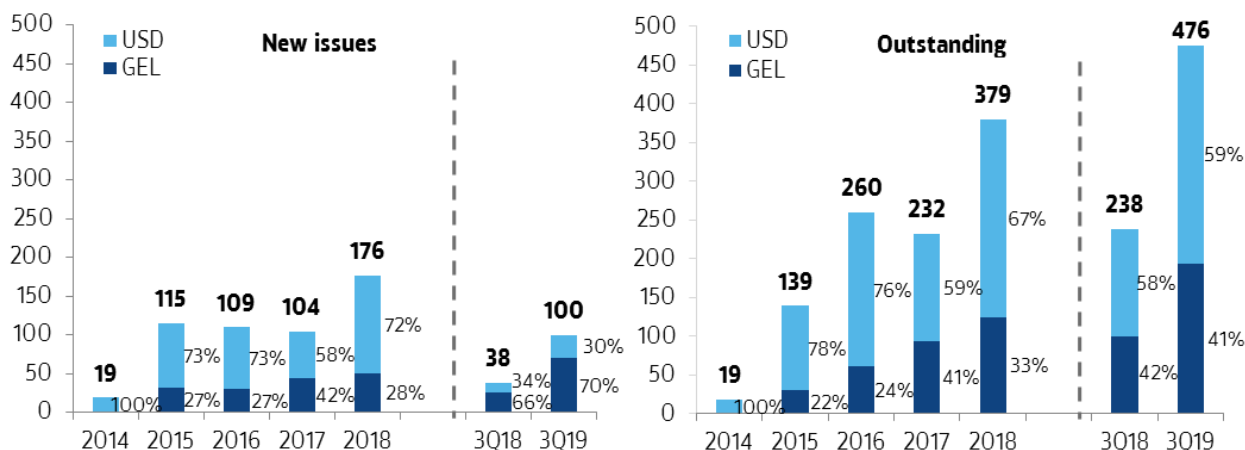
FIGURE 8: NEW AND OUTSTANDING BOND ISSUES BY IFIS (GEL MLN)



Source: NBG

Corporate bonds issued in Georgia doubled Y-o-Y in 3Q2019. Several factors influenced the 100% growth in corporate bonds: while the devaluation of GEL was responsible for 15% of growth in outstanding balance, new issues saw a 161% growth in 3Q2019 compared to the relevant period of 2018;. In total five new bonds were issued in 3Q2019 by Microfinance Crystal (GEL 15mln nominal value), Georgian Leasing Company (GEL 15mln nominal value), Microfinance Swiss Capital (GEL 10mln nominal value), Tegeta Motors (GEL 30mln nominal value), and Georgian Leasing Company (USD10mln nominal value) totaling at GEL 99.6mln⁵.

FIGURE 9: NEW AND OUTSTANDING CORPORATE BONDS ISSUED IN GEORGIA (GEL MLN)



Source: NBG

⁵ In October 2019 two additional bonds were issued by M2 Real Estate and Nikora. M2 Real Estate issued a USD 35mln 3-year bond; the majority of the proceeds was used to refinance the existing USD 25mln 3-year bond issued in October 2016. Nikora issued a GEL 28mln 5-year bond; the proceeds was used to refinance a USD 10mln loan. The floating-rate Nikora bond marks the first instance when the coupon rate is tied to the TIBR (Tbilisi Interbank Interest Rate).

PUBLICLY LISTED CORPORATE AND IFI BONDS AND THE GSE

The number of bonds listed at the GSE keeps increasing. At end 3Q2019, in total 22 bonds by IFIs and corporates were being traded at the GSE. The outstanding amount of the publicly listed bonds at the GSE amounted to GEL 2,851mln. Tax breaks on publicly listed securities incentivize corporates to publicly issue bonds, as well as increases the investor base. According to the Georgian tax law, resident and non-resident individuals that hold private listed securities are subject to a 5% tax rate on interest earned and 20% on capital gains. Securities listed on domestic or recognized foreign stock exchanges, including government debt securities and IFI and corporate bonds are tax exempt.

Three bonds have an increased investor base by dual-listing. In 3Q2019, two issuers successfully benefited from the local regulatory framework and in total three Eurobonds were listed on the GSE using dual-listing. TBC Bank dual-listed its regular 5-year USD 300mln as well as the perpetual USD 125mln AT1 bonds and Silknet listed its 5-year USD 200mln bond.

TABLE 4: PUBLICLY LISTED CORPORATE AND IFI BONDS AT END 3Q2019

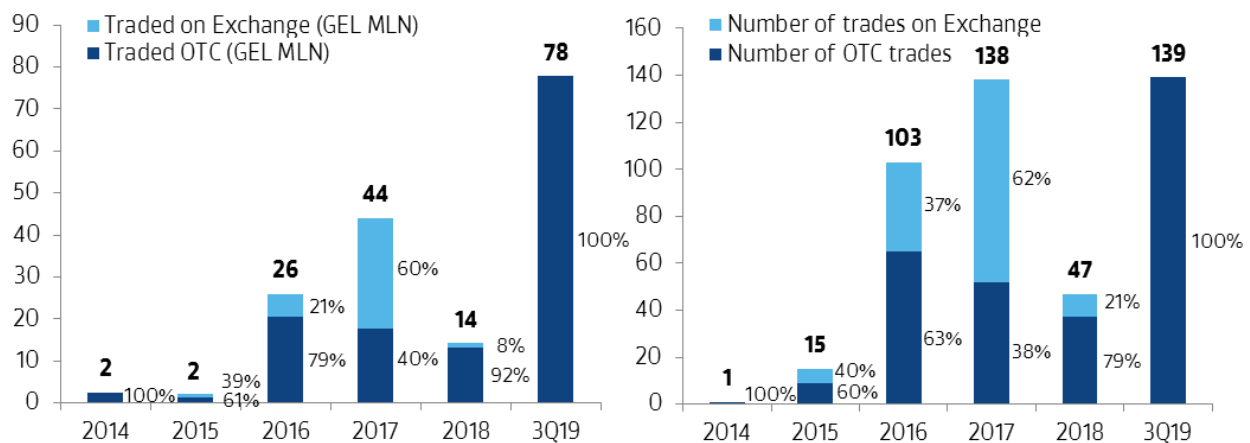
ISSUER	COUPON %	ISSUED PAR (MLN)	CURRENCY	ISSUE DATE	MATURITY DATE	ISSUER CREDIT RATING FITCH/S&P/MOODY'S/SCOPE
ADB	NBG 3M CD + 200	30	GEL	Jul-19	Jul-22	AAA/AAA/Aaa/-
ADB	NBG 3M CD + 200	30	GEL	Jul-19	Jul-24	AAA/AAA/Aaa/-
BSTDB	NBG 3M CD	25	GEL	Mar-19	Mar-21	-/A-/A2/-
BSTDB	NBG 3M CD	50	GEL	Jun-18	Jun-21	-/A-/A2/-
BSTDB	NBG 3M CD	120	GEL	Jun-18	Jun-23	-/A-/A2/-
EBRD	NBG 3M CD	107	GEL	Jun-16	Jun-21	AAA/AAA/Aaa/-
FMO	NBG 3M CD	160	GEL	Jul-18	Jul-23	AAA/AAA/-/-
FMO	NBG 3M CD	103	GEL	Nov-18	Nov-23	AAA/AAA/-/-
Georgian Beer Company	NBG REF + 400	25	GEL	Dec-18	Dec-23	-/-/-/BB-
Silknet	NBG REF + 350	34	GEL	Aug-17	Aug-22	B+/-/B1/-
Tegeta Motors	NBG REF + 425	30	GEL	Apr-19	Apr-22	B-/-/BB-
Silknet*	11.000	200	USD	Apr-19	Apr-24	B+/-/B1/-
TBC Bank*	5.750	300	USD	Jun-19	Jun-24	BB-/-/Ba2/-
TBC Bank AT1*	10.775	125	USD	Jul-19	N/A	BB-/-/Ba2/-
Crystal	NBG REF + 450	10	GEL	Dec-17	Dec-19	B-/-/B-
Crystal	NBG REF + 400	12.5	GEL	Jan-19	Jan-21	B-/-/B-
Nikora Trade	NBG REF + 400	25	GEL	Aug-18	Jun-21	-/-/-/B+
Georgian Leasing Company	7.000	10	USD	Sep-17	Aug-20	B+/-/-/B-
Georgian Leasing Company	6.500	5	USD	Jun-18	Jun-21	B+/-/-/B-

ISSUER	COUPON %	ISSUED PAR (MLN)	CURRENCY	ISSUE DATE	MATURITY DATE	ISSUER CREDIT RATING FITCH/S&P/MOODY'S/SCOPE
Lisi Lake Development	8.000	12	USD	Dec-18	Dec-21	-/-/-/B+
M2 Real Estate	7.500	25	USD	Oct-16	Oct-19	-/-/-/-
M2 Commercial Assets	7.500	30	USD	Dec-18	Dec-21	-/-/-/-

Source: GSE, NBG
*Dual-listed Eurobonds

No trades were made on exchange in 9M2019. So far in 2019, no trades were conducted on the GSE. The relatively increased activity on the secondary market could be partially explained by the increased number and value of issued and publicly listed bonds on the GSE. In 3Q2019 139 OTC trades were registered at the GSE, compared to just 47 trades in an entire year during 2018. The change is also visible in terms of the value of the OTC trades: GEL 77.8mln in 3Q2019, compared to GEL 14.2mln in 2018. It must be noted that the secondary trading lacks diversification since the 139 trades were registered for eight bonds only with 119 concentrated on three bonds issued by M2 Commercial Assets, Georgian Leasing Company, and M2 Real Estate.

FIGURE 10: VALUE AND NUMBER OF TRADES IN LISTED CORPORATE BONDS IN GEORGIA



Source: GSE

FUTURE DEVELOPMENT PROSPECTS – THE PENSION FUND

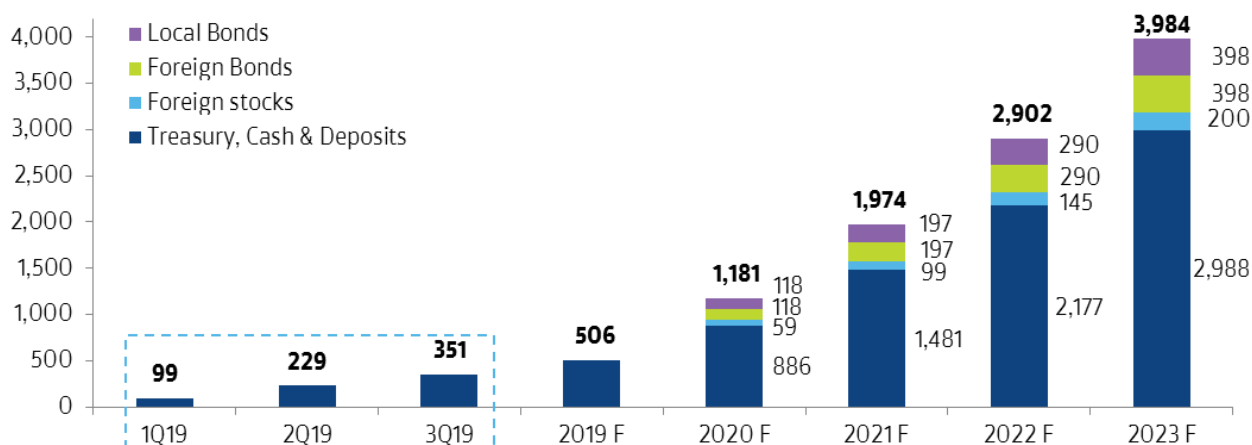
The Pension Agency will soon become a major player on the Georgian capital market. The pension fund, introduced by the GoG through the Law of Georgia on Funded Pensions, is growing expectedly and at end 3Q2019 amounted to GEL 351mln. After 15% of initial participants left the pension scheme, at end of September 2019 the GEL 351mln was distributed among around 900,000 participants⁶. Currently, 100% of the fund is allocated to deposits in commercial banks

⁶ TBC Capital Research

as well as the National Bank of Georgia with an average 7%⁷ annual return. However, with the investment council as well as the chief risk officer already in place, it is expected that the fund will soon elaborate an investment policy and start investing the assets into plain vanilla financial instruments from the beginning of 2020.

We reiterate our forecasts for the pension fund growth and asset allocation. Based on our calculations, we see the pension fund’s assets growing from GEL 506mln in 2019 to GEL 4bn in 2023. We assume the pension plan’s assets will be allocated as follows: 5% in foreign stocks, 10% in foreign bonds, 75% in treasuries, cash and deposits, and 10% in local bonds.

FIGURE 11: PROJECTED COMPOSITION AND GROWTH OF THE PENSION FUND (GEL MLN)



Source: TBC Capital, GeoStat, the Pension Agency

⁷ TBC Capital Research

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