



TBC CAPITAL

FIXED INCOME SECURITIES IN GEORGIA

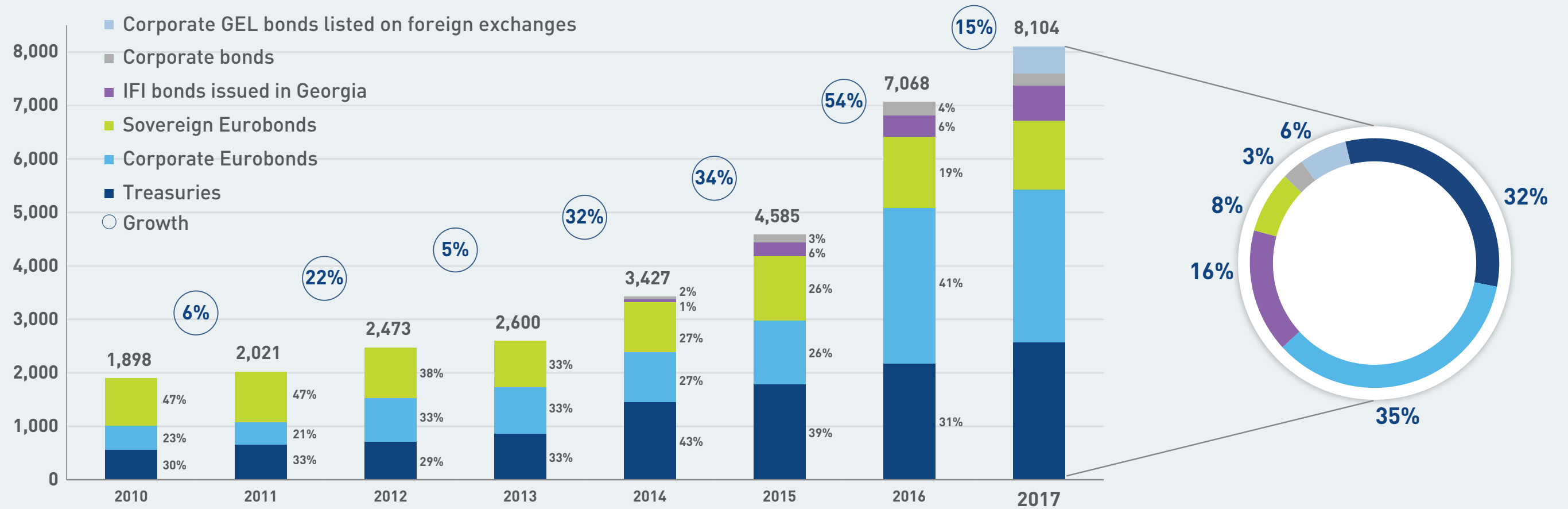
JUNE 15 2018



www.tbccapital.ge

TOTAL BOND MARKET HAS GROWN SIGNIFICANTLY SINCE 2010 WITH 2010-2017 CAGR OF 23%

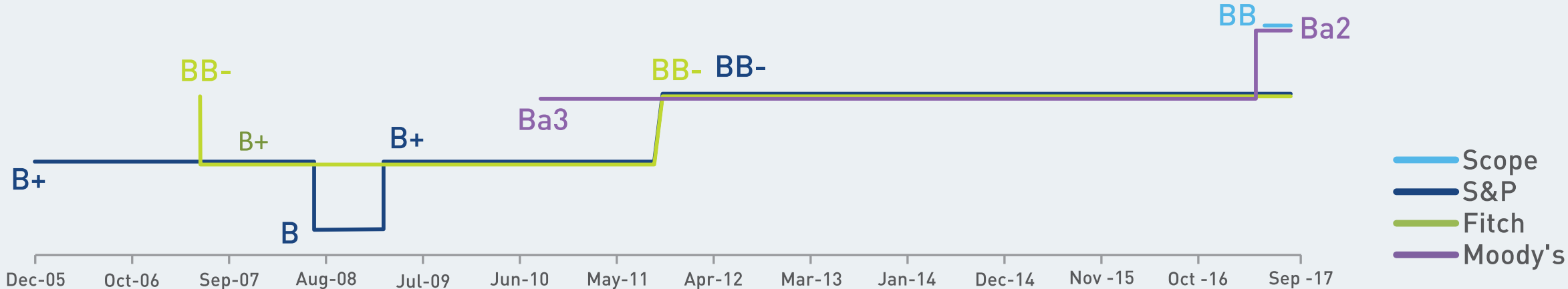
TOTAL BONDS OUTSTANDING BY TYPE (GEL m)



Source: GSE, NBG, Bloomberg

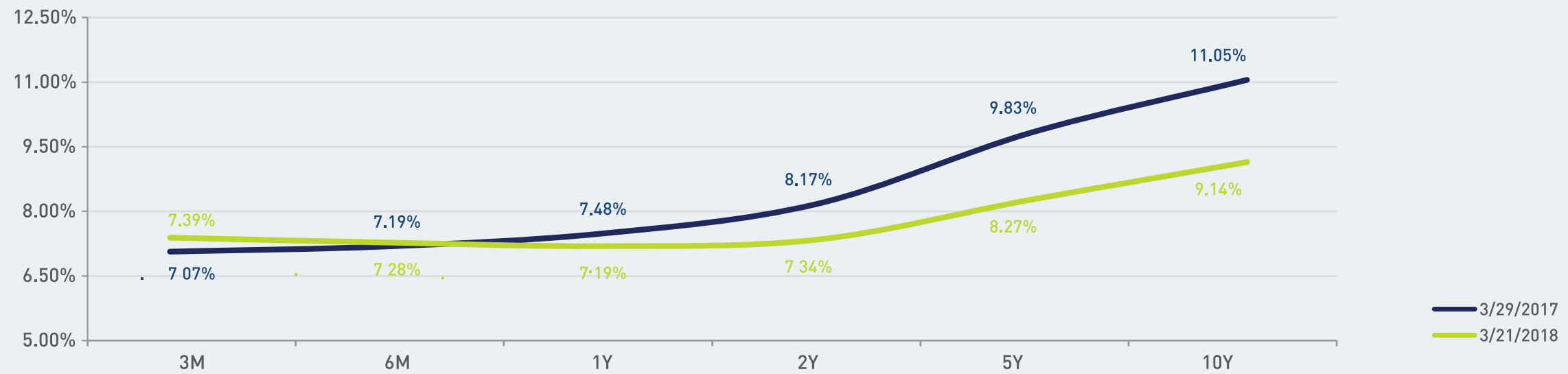
ESTABLISHED CORE FIXED INCOME MARKET ENVIRONMENT

SOVEREIGN RATINGS FOR GEORGIA



SOURCE: S&P, FITCH, MOODY'S, SCOPE

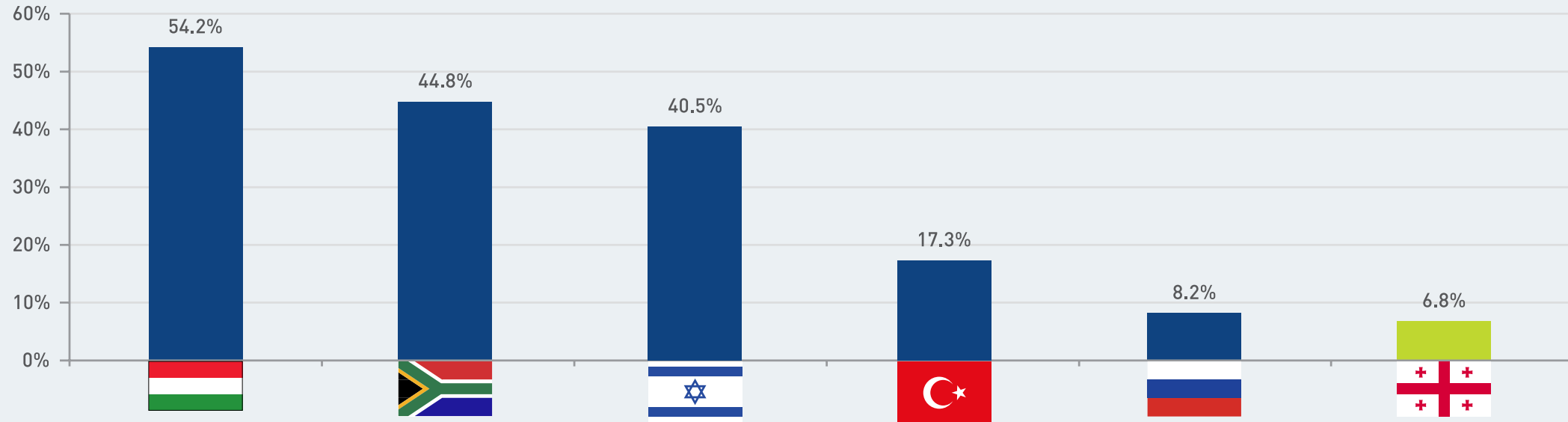
TREASURY YIELD CURVES



SOURCE: NBG, GSE

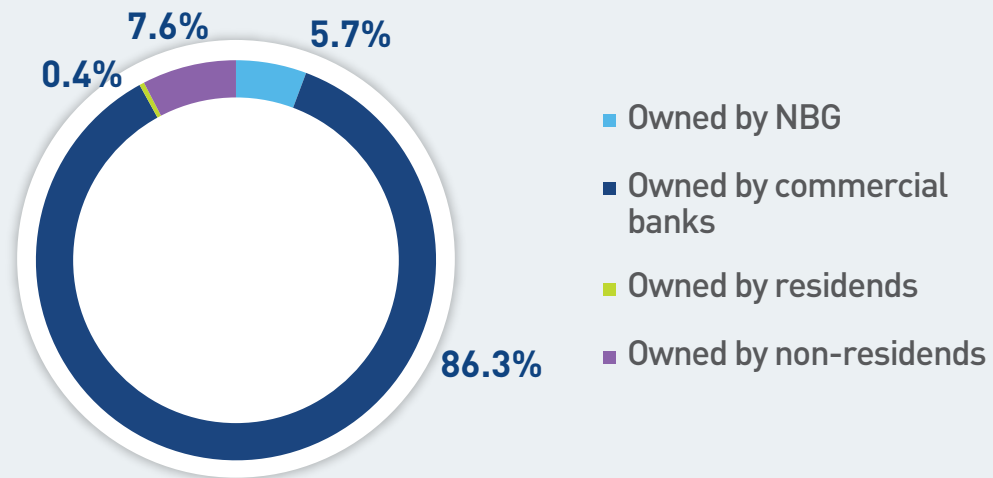
TREASURIES OUTSTANDING GREW TO GEL 2,577m IN 2017 FROM GEL 568m IN 2010

DOMESTIC GOVERNMENT SECURITIES OUTSTANDING TO GDP



Source: Bank for International Settlements, IMF, GeoStat

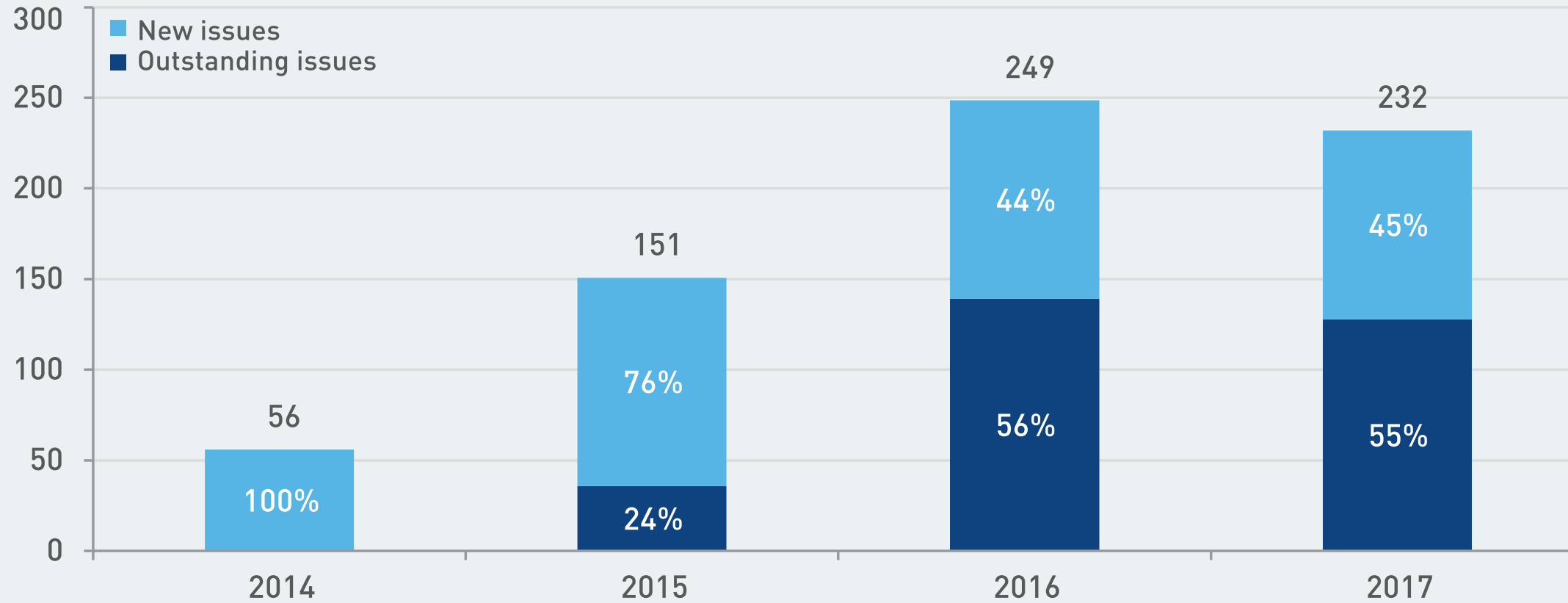
OWNERSHIP OF TREASURIES (2017)



- ▶ Over the last 8 years, supply exceeded demand for Treasuries in only 9 of 323 issues (2.8%)
- ▶ The government is targeting 10% ratio in the medium term

NBG PLAYED SIGNIFICANT ROLE IN CORPORATE BOND MARKET DEVELOPMENT SINCE 2014

OUTSTANDING CORPORATE BONDS IN GEORGIA (GEL m)



Source: NBG, GSE

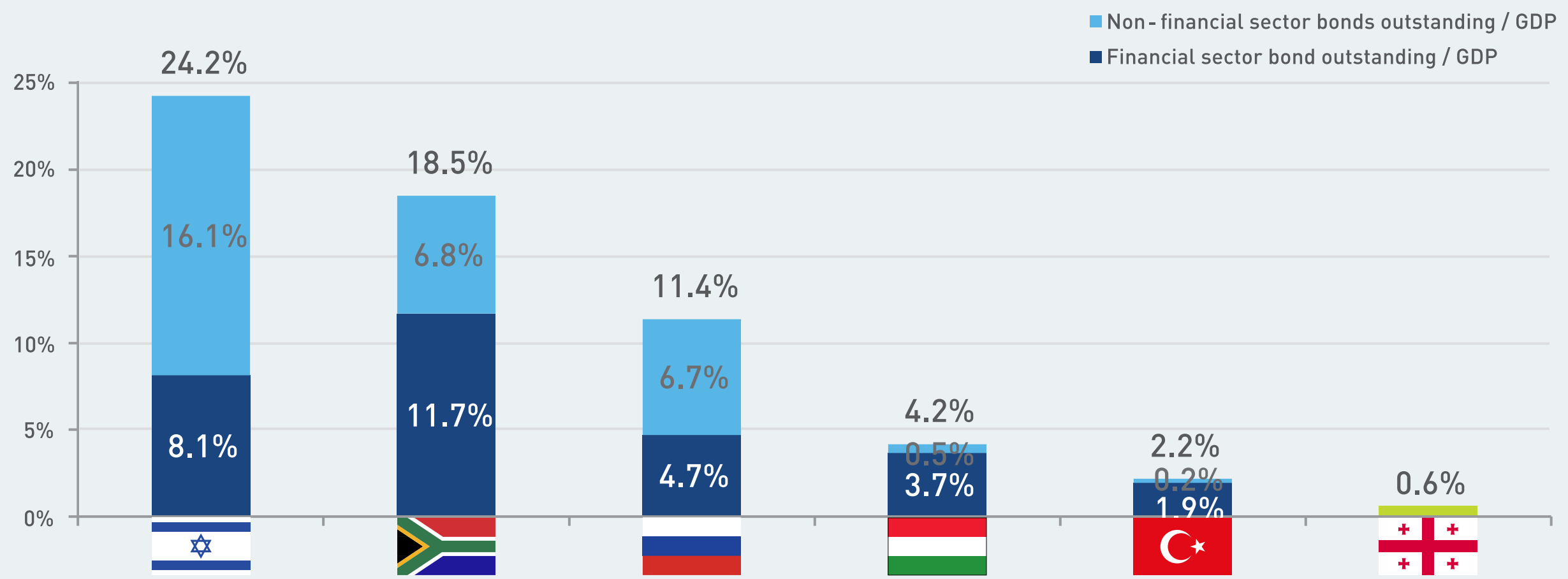
- ▶ Number of the total publicly issued corporate bonds outstanding at end-2017: 10
- ▶ 59% issued in USD and 41% in GEL

PUBLICLY ISSUED CORPORATE BONDS OUTSTANDING (2017)

Issuer	Coupon (%)	Issued par (m)	Currency	Issue date	Maturity	Rating	Listed
 ბანკი საქართველო	NBG REF + 450 bps	10	GEL	Dec - 16	Dec - 21	Fitch: B	✓
 სილკნეტი	NBG REF + 350 bps	34	GEL	Sep - 17	Aug - 22	Fitch: B+	✓
 საქართველოს ლიზინგის კომპანია	7	10	USD	Sep - 17	Aug - 22	na	✓
 ბანკი საქართველო	11	5	USD	Dec - 16	Jul - 19	Scope B+	✓
 ბანკი საქართველო	9	10	USD	Jul - 17	Jun - 19	na	✓
 REAL ESTATE	7.5	25	USD	Dec - 16	Jul - 19	na	✓
 FINCA Bank	10.1	20	GEL	Jun - 15	Jun - 18	na	✗
 gwp	NBG REF + 350 bps	30	GEL	Dec - 16	Dec - 21	Fitch: BB	✗
 D	11	2	USD	Oct - 17	Oct - 19	na	✗
 BAKHVI Hydro Power	9.4	1	USD	Nov - 17	Nov - 27	na	✗

LOW CORPORATE BOND MARKET CAPITALIZATION RATE

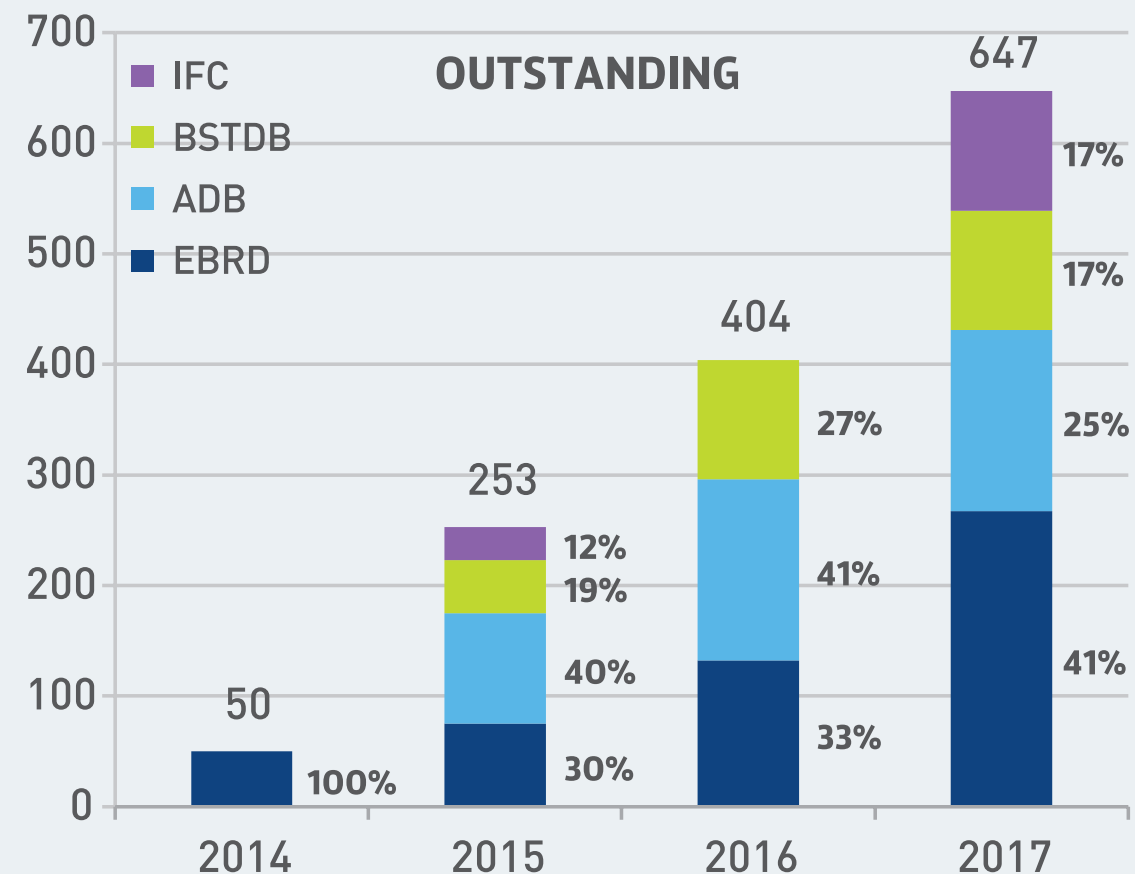
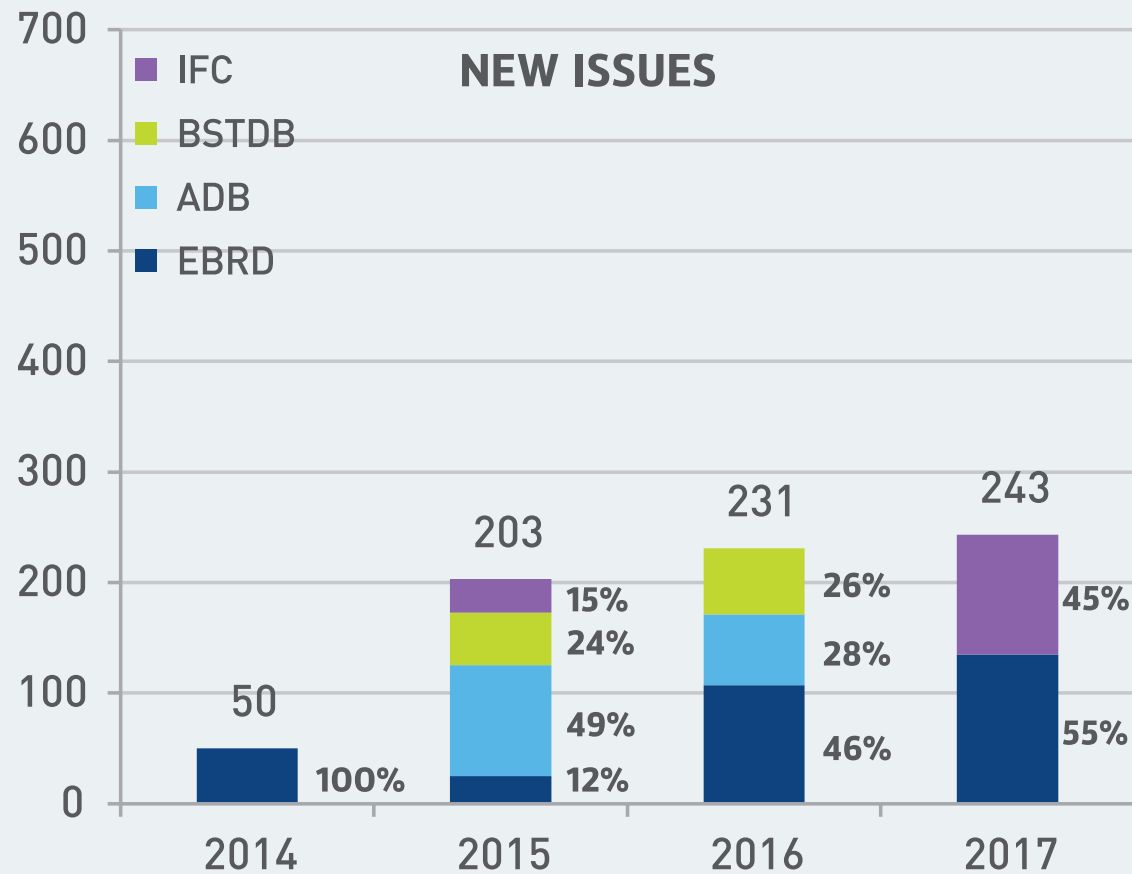
DOMESTIC CORPORATE BONDS OUTSTANDING TO GDP (2017) – SELECTED PEER COMPARISON



Source: Bank for International Settlements, IMF , GeoStat

AS PART OF DE-DOLLARIZATION STRATEGY, NBG PROMOTED ISSUANCE OF GEL-DENOMINATED BONDS BY IFIs

NEW AND OUTSTANDING BOND ISSUES FROM IFIs (GEL m)

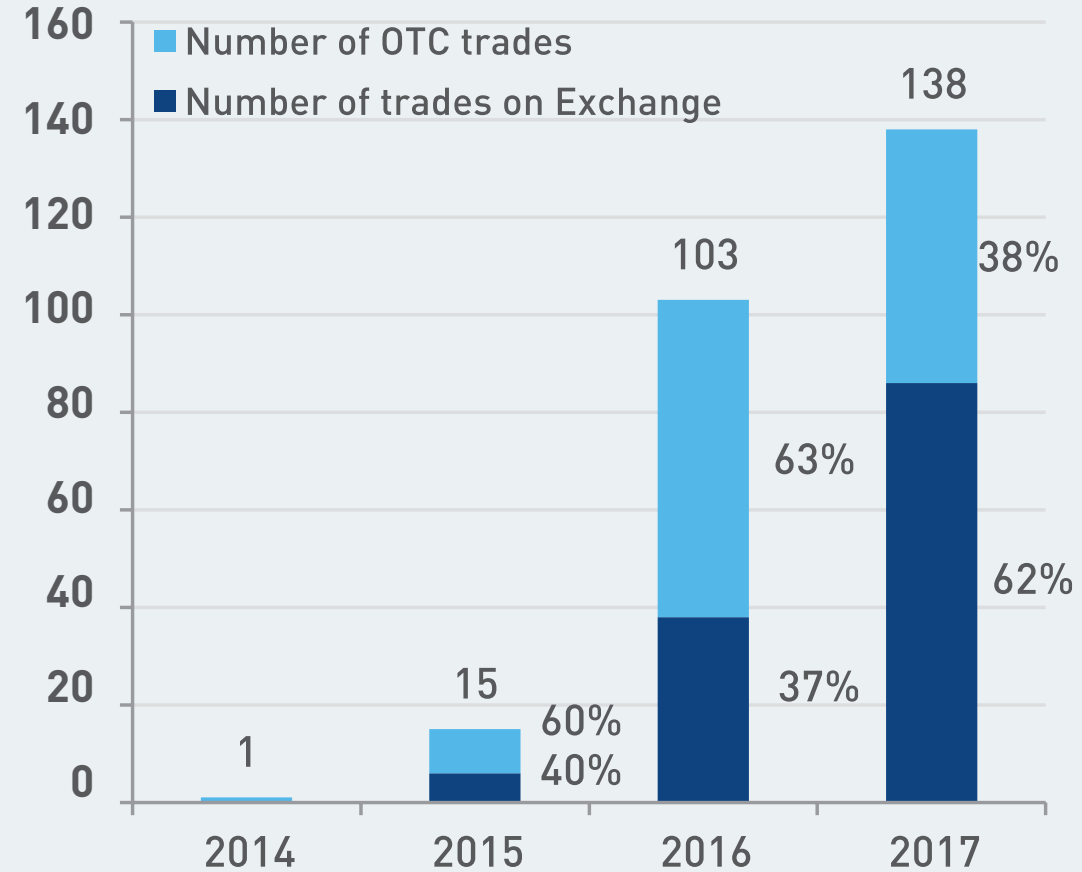
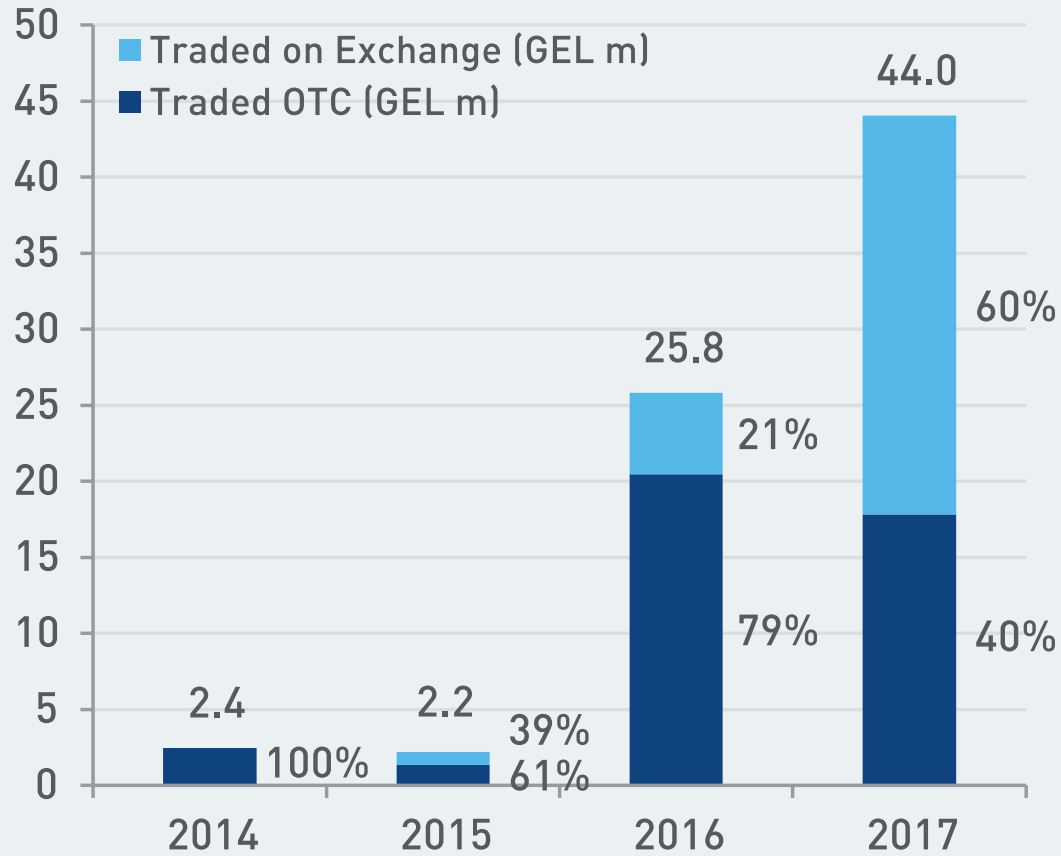


Source: NBG

- ▶ 2014-2017 CAGR for outstanding IFI bonds: 135%
- ▶ Commercial banks are the largest buyers of IFI bonds

LOW LIQUIDITY ON THE SECONDARY MARKET AS INVESTORS PREFER TO BUY-AND-HOLD

VALUE AND NUMBER OF TRADES FOR LISTED CORPORATE BONDS

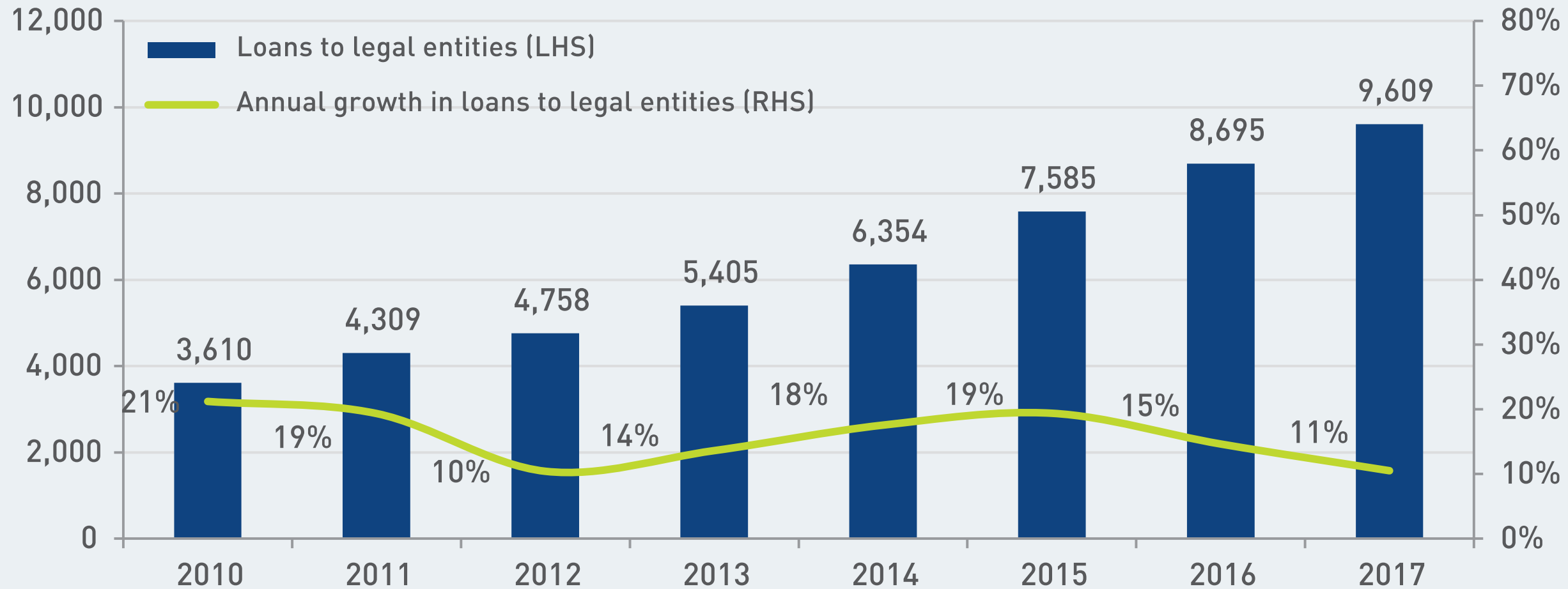


Source: GSE

- ▶ Number of publicly listed (YE 2017): 5
- ▶ Share of outstanding publicly listed: 71%

LOCAL COMPANIES STILL DEPEND ON COMMERCIAL LOANS TO FINANCE BUSINESS ACTIVITIES

COMMERCIAL LOANS TO LEGAL ENTITIES (GEL m)



Source: NBG

▶ Corporate bonds to loans to legal entities ratio in 2017: 2.4%

CHALLENGES

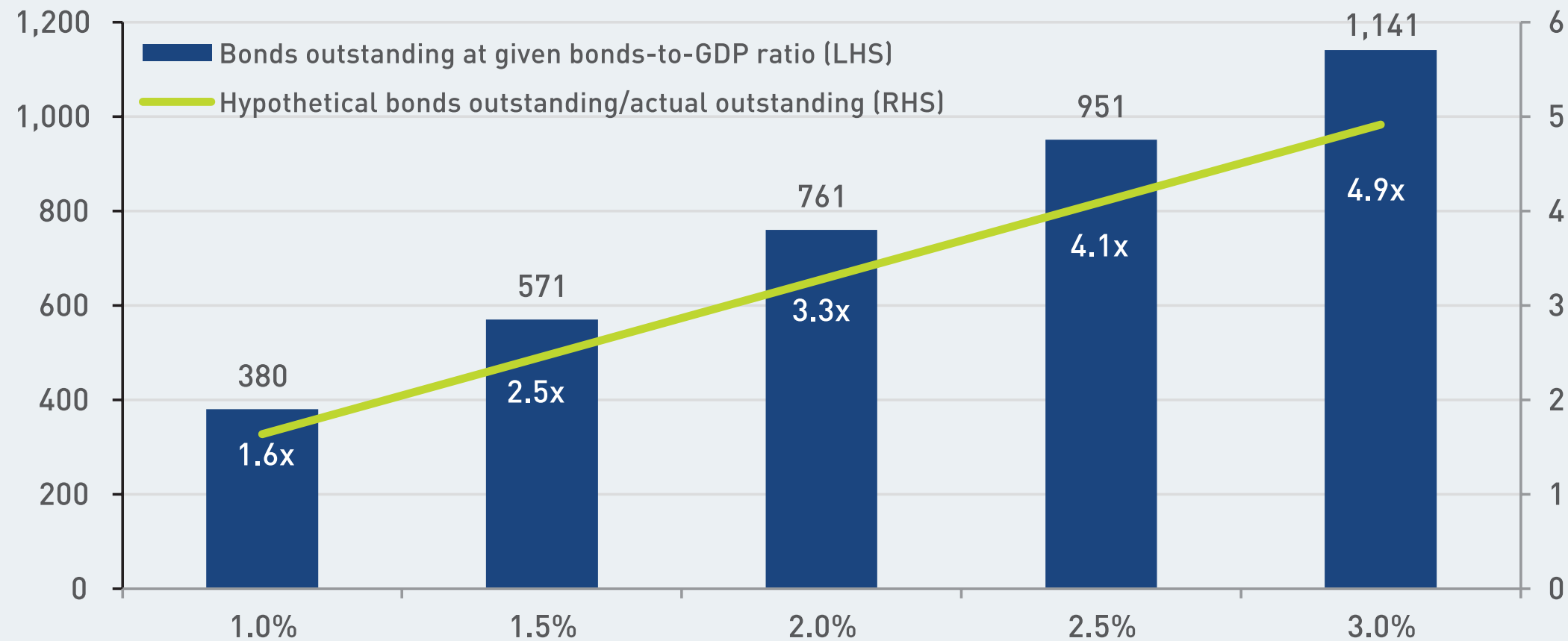
- ▶ Many potential issuers do not fully understand the benefits of bonds over loans from commercial banks
- ▶ Local solvency law does not sufficiently protect the corporate bond holders
- ▶ Limited appetite from individual investors to invest in GEL-denominated corporate bonds
- ▶ Limited direct access of international investors to local bonds
- ▶ Corporates' are generally hesitant to share the company information publicly
- ▶ Secondary trading is low on the domestic bond market
- ▶ Issuing large size bonds could be a challenge on domestic bond market at this stage
- ▶ Absence of broad range of institutional investors (e.g. mutual funds, open ended funds)
- ▶ Underdeveloped derivatives market limits the hedging possibilities for idiosyncratic and systematic risks

OPPORTUNITIES

- ▶ Interest rates on deposits are decreasing making investors to seek for alternative investment products to enhance yield
- ▶ Increase of the disposable income enables individuals to create further demand for investment products such as bonds
- ▶ Ministry of Justice prepares final details on amendments on solvency law – the new law is expected to significantly strengthen the protection of unsecured creditors
- ▶ Investor-friendly amendments to the tax system that exempts investors from capital gains and withholding taxes are expected to boost investor interest in local listed bonds
- ▶ According to new regulation “large” companies are required to regularly publicly disclose IFRS audited financials
- ▶ The regulator plans to make corporate bonds listed on the local stock exchange available to international investors via Clearstream
- ▶ Pension system is expected to create the long-term GEL supply part of which will support the local corporate bond market

ACHIEVING 3% CORPORATE BONDS TO GDP IS AN AMBITIOUS BUT ACHIEVABLE OVER MEDIUM-TERM

SCENARIO ANALYSIS OF THE POTENTIAL CORPORATE BOND MARKET IN 2017

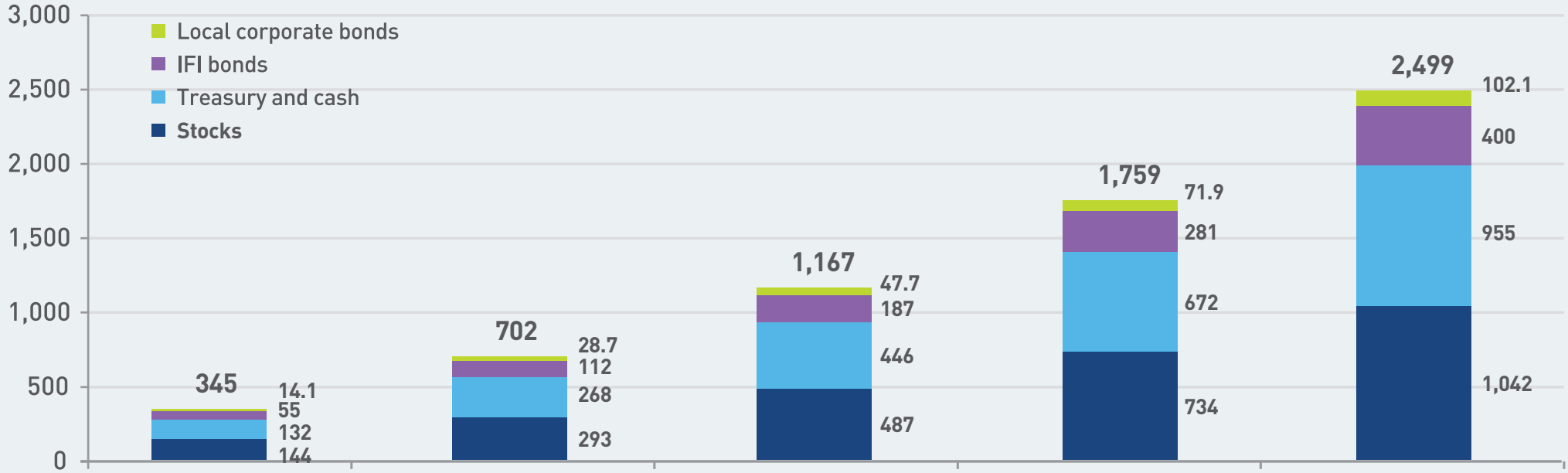


Source: TBC Capital assumptions

- ▶ At a 3% of GDP market capitalization – hypothetical outstanding 4.9x more than actual
- ▶ The ratio of bonds outstanding to loans to legal entities in 2017 would have been approximately 12%

ANALYSIS OF PENSION FUND'S ASSET ALLOCATION

COMPOSITION AND GROWTH OF THE PENSION FUND PORTFOLIO (GEL m)



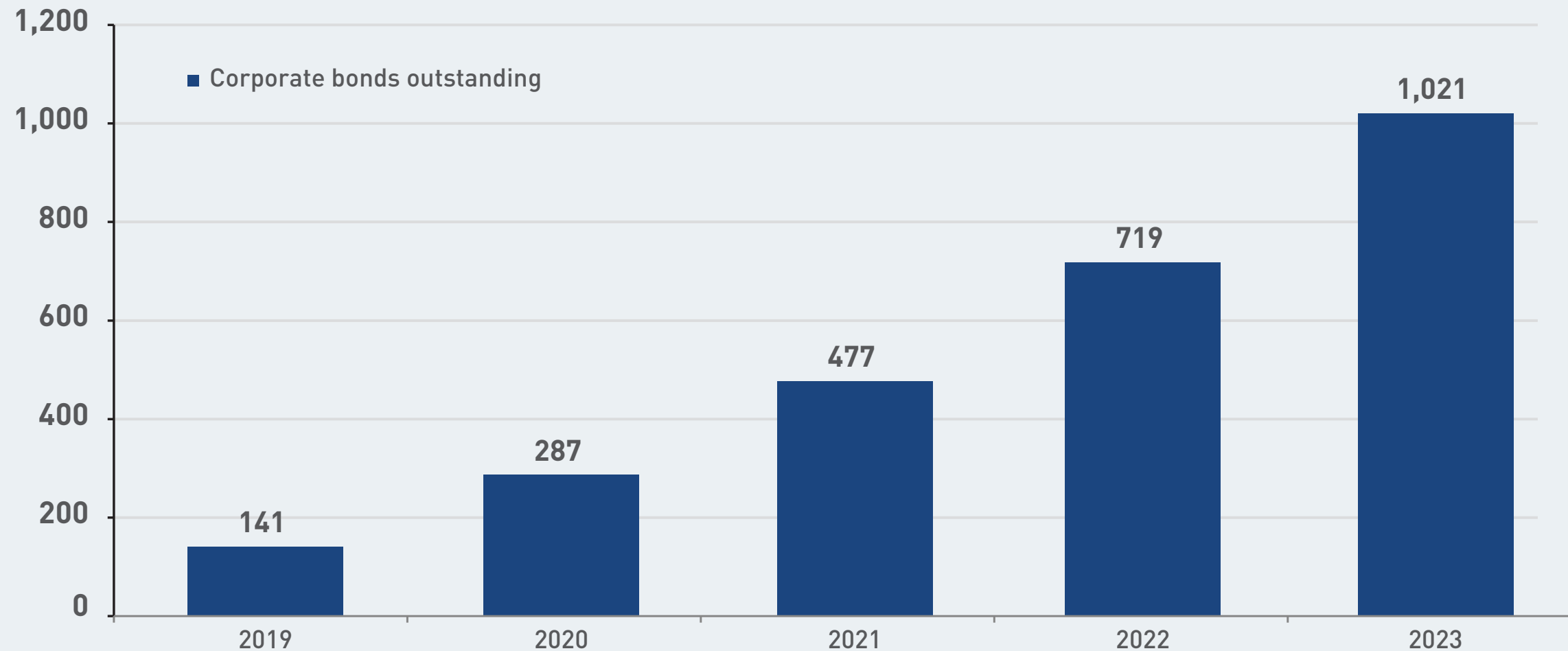
	2019 F	2020 F	2021 F	2022 F	2023 F	SUM
Pension fund's investment in local bonds	14.1	28.7	47.7	71.9	102.1	n/a
New issues	141	146	190	242	302	1,021
Cumulative issues	141	287	477	719	1,021	n/a
Number of new issues	7	7	9	12	15	51

Source: TBC Capital, MESD

- ▶ Pension fund assets are expected to grow to GEL 2.5b in 5 years
- ▶ Assumed corporate bonds share in total invested assets: 4%

ACHIEVING GEL 1b CORPORATE BONDS OUTSTANDING FOR PENSION FUND

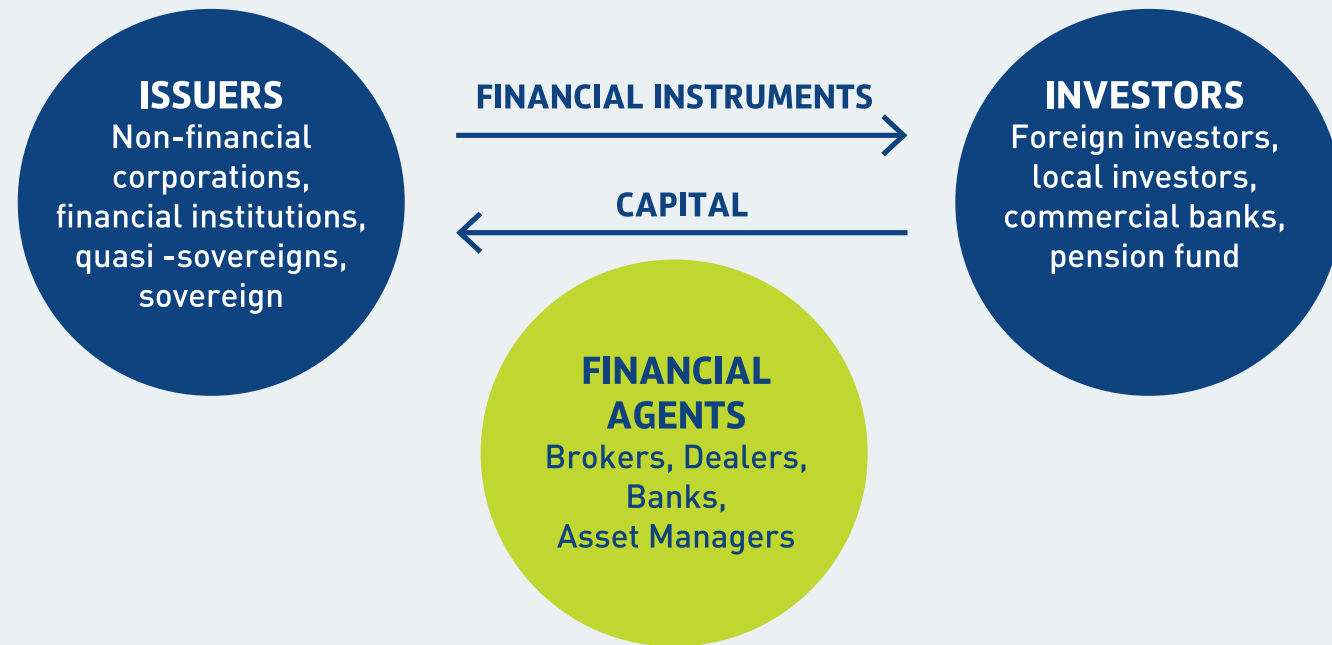
CORPORATE BONDS OUTSTANDING NEEDED FOR ASSUMED PORTFOLIO ALLOCATION (GEL m)



Source: TBC Capital

- ▶ Approximate number of issues: 50
- ▶ Assumed average issue: GEL 20m

BOND MARKET SYSTEM



MARKET INTERMEDIARIES & INFRASTRUCTURE PROVIDERS

INFORMATION / RATING PROVIDERS <ul style="list-style-type: none">> Market benchmarks and indices> Data distribution vendors> Rating agencies	INFRASTRUCTURE PROVIDERS <ul style="list-style-type: none">> Exchanges> Custodians/depositories> Clearing and settlement system providers
--	---

MARKET ENABLERS

REGULATION AND LEGISLATION <ul style="list-style-type: none">> Corporate governance & investor protection> Financial reporting standards> Securities regulation> Industry regulation	SOCIAL AND MACROECONOMIC POLICIES <ul style="list-style-type: none">> Pension / retirement policies> Tax regimes> Financial education
--	---

BOND MARKET DEVELOPMENT STAGES



Source: Adapted from the World Economic Forum

Overview:

- ▶ The preliminary stage is characterized by the introduction of the benchmark yield curve, often formed through sovereign bond issuances. The benchmark yield curve provides a reference point for investors to determine the relative value of other securities.

Our view:

- ▶ The Georgian bond market has a solid foundation created by the necessary infrastructure and a benchmark yield curve set by sovereign bond issuances.

BOND MARKET DEVELOPMENT STAGES



Source: Adapted from the World Economic Forum

Overview:

- ▶ Other market enablers such as corporate bond issuance procedures, corporate governance requirements, and accounting and reporting standards also need to be established if non-existent.

Our view:

- ▶ The Georgia's bond market has enhanced its infrastructure/processes by introducing rules governing public and private issuance, enabling the use of bonds as collateral, and requiring large corporates to publish IFRS financial statements.
- ▶ Basic corporate governance requirements exist for corporates with publicly listed securities, but more can be done to implement sound practices from more developed markets.

BOND MARKET DEVELOPMENT STAGES



Source: Adapted from the World Economic Forum

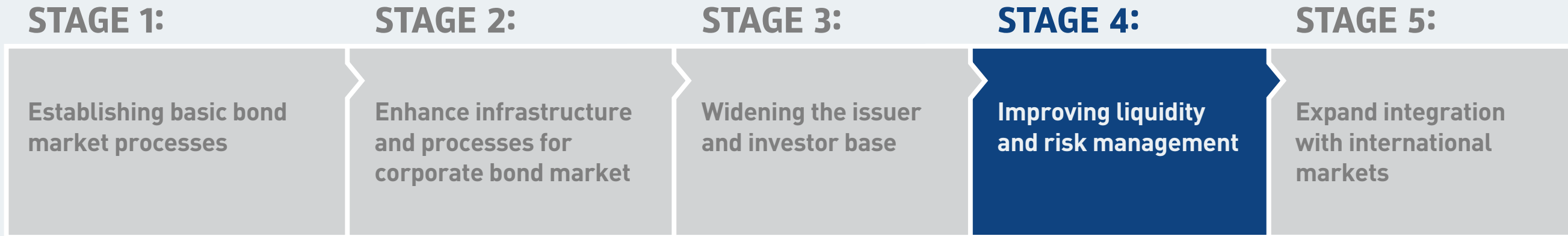
Overview:

- ▶ Market access, at first, may be limited to the largest or most sophisticated issuers and investors. Expanding access to other participants is important for addressing the breadth of private-sector financing needs and, thus, creating a truly effective corporate bond market.

Our view:

- ▶ The Georgian bond market is currently widening its issuer and investor base.
- ▶ An increasing number of local blue-chip companies are eager to diversify their funding structure by issuing bonds.
- ▶ Many institutional and retail investors are also gradually increasing and expanding beyond just investing in local bank deposits.
- ▶ Despite the market's progress, the current number of issuers and the investor universe remains relatively small.

BOND MARKET DEVELOPMENT STAGES



Source: Adapted from the World Economic Forum

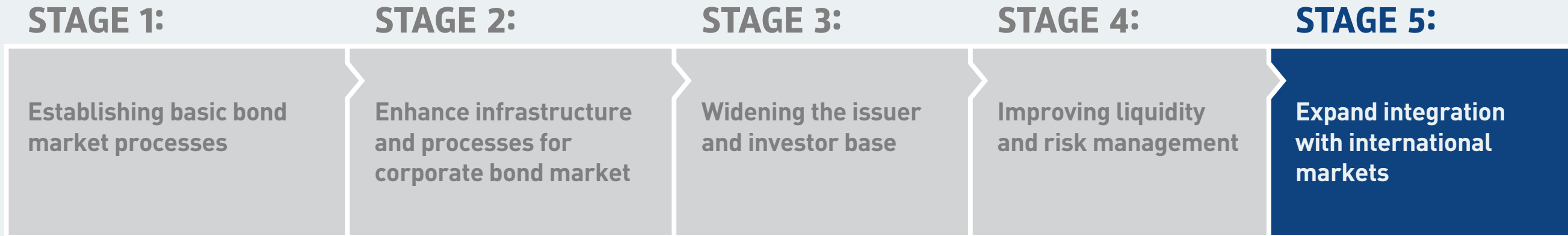
Overview:

- ▶ As a market grows in size and complexity, risk management becomes more challenging. New risk management products and an evolution in regulations may be required to support changing stakeholder needs and manage additional risk.

Our view:

- ▶ Limitations within the secondary securities market in Georgia are clear obstacles that require attention from market participants and stakeholders.
- ▶ Future growth in the market size will be tied to further increases in secondary market liquidity.
- ▶ Additionally, the development of risk management products will help better manage the inherent risk of debt securities.

BOND MARKET DEVELOPMENT STAGES



Source: Adapted from the World Economic Forum

Overview:

- ▶ Integration with existing international infrastructure for clearing and settlement. Technological advances and regional integration efforts are accelerating the integration of domestic capital markets with international markets.

Our view:

- ▶ Georgia’s stated aspiration to become the regional hub for financial services will largely depend on its ability to integrate with international financial markets by creating easy access and providing attractive investment opportunities and incentives to international investors.
- ▶ Several initiatives have been launched, including revitalizing local stock exchange and central depository infrastructure, introducing tax breaks for locally listed securities, and promoting transparency by requiring companies to publish IFRS financials.

THANK YOU