

Weekly Market Watch

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February 9, 2015

Economy

Inflation was 1.4% y/y and 0.2% m/m in January 2015

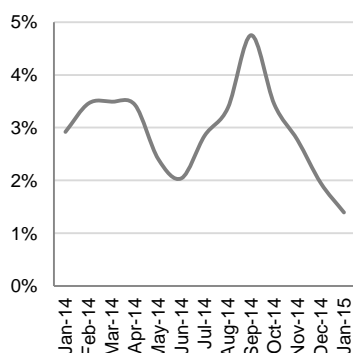
The annual inflation (CPI) rate in Georgia was recorded at 1.4% in January 2015, according to GeoStat. Overall price changes were driven by the price increases on food (+1.7% y/y, 0.53ppts), healthcare (+7.3% y/y, 0.75ppts) and alcohol and tobacco (+6.6% y/y, 0.34ppts), while prices in transport group decreased (-5.9% y/y, -0.71ppts), as prices were down on fuels and lubricants (-12.3% y/y) within this category).

January monthly inflation rate was 0.2%, with price increases on alcohol and tobacco (+4.5% m/m, 0.23ppts) and food and non-alcoholic beverages (+1.2% m/m, 0.38ppts) being the major drivers. Prices in transport group decreased (-3.7% m/m, -0.44ppts), as fuels and lubricants prices dropped by 7.3% m/m within this category).

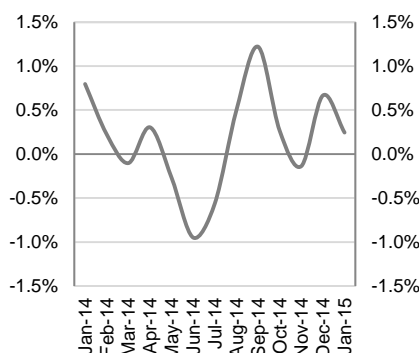
Gross international reserves stood at US\$ 2.6bn end-January 2015

Gross international reserves stood at US\$ 2.6bn (-3.3% m/m) as of end-January 2015 according to NBG. In the same period net foreign assets of NBG reached US\$ 2.4bn (-3.2% m/m).

Annual inflation (CPI)

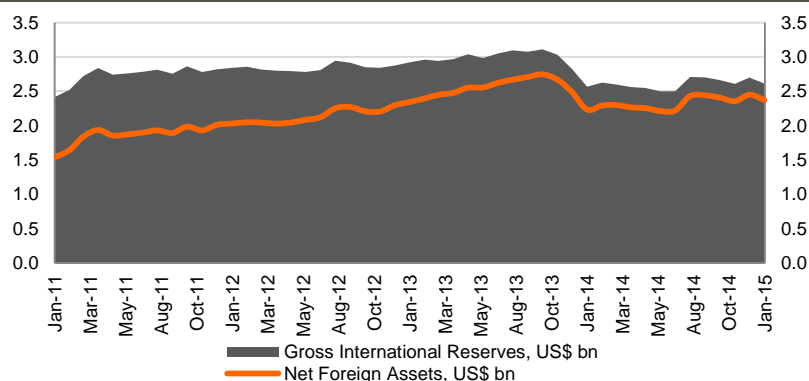


Monthly inflation (CPI)



Source: GeoStat

International Reserves of NBG



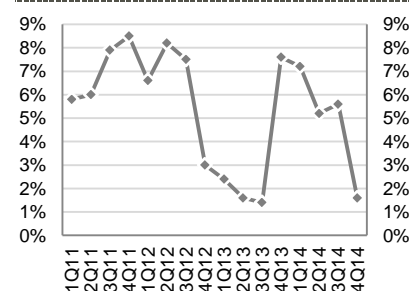
Source: NBG

Key macro indicators

| | 2014E | 2013 |
|------------------------------|-------|-------|
| GDP (% change) | 4.7% | 3.3% |
| GDP per capita (US\$) | 3,700 | 3,597 |
| Population (mn) | 4.5 | 4.5 |
| Inflation (eop) | 2.0% | 2.4% |
| Gross reserves (US\$ bn) | 2.7 | 2.8 |
| CAD (% of GDP) | 9.7% | 5.9% |
| Fiscal deficit (% of GDP) | 3.0% | 2.6% |
| Total public debt (% of GDP) | 35.0% | 34.7% |

Source: Official data, G&T Research

Real GDP growth, %



Source: GeoStat

International ranking of Georgia, 2014

Ease of doing business # 15 (regional leader)
 Economic freedom index # 22 (mostly free)
 Global competitiveness rank # 69 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

| | | |
|---|---|---|
| STANDARD & POORS BB- Stable Affirmed May-2014 | Moody's INVESTORS SERVICE Ba3 Positive Affirmed Sep-2014 | FitchRatings BB- Positive Affirmed Oct-2014 |
|---|---|---|

Source: Rating agencies



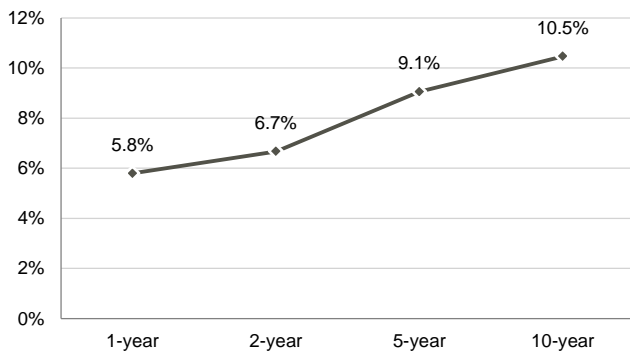
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 351mn) with an average yield of 4.00% (unchanged w/w).

Certificates of deposit: NBG sold 182-day, GEL 20mn (US\$ 10mn) certificates of deposits, with an average yield of 4.49% (down by 18bps from previous issue).

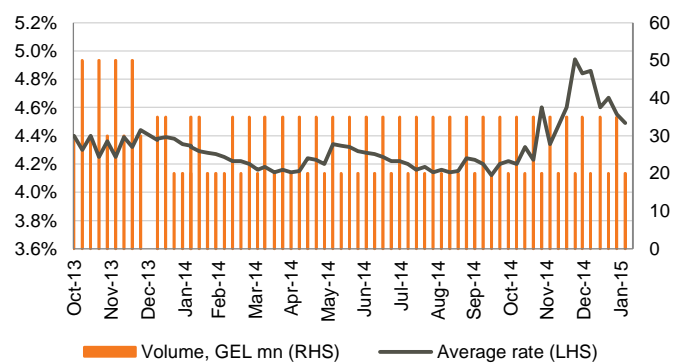
Ministry of Finance Treasury Notes: 10-year, GEL 10mn (US\$ 5mn) T-Notes of Ministry of Finance were sold at the auction held at NBG. Minimum yield was 10.380%, maximum yield was 10.550% and the weighted average yield was fixed at 10.464%. The coupon rate was 10.5%. Coupons will be paid semi-annually. The nearest treasury securities auction is scheduled for February 12, 2015, where GEL 25mn nominal value 2-year, T-Notes will be sold.

T-bills / T-notes, yield curve



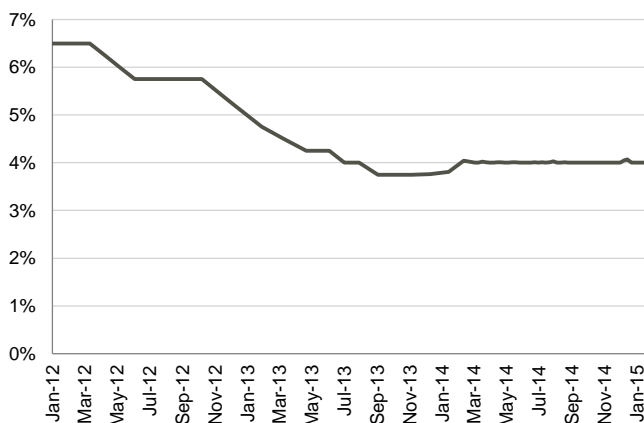
Source: NBG

Certificates of Deposits (weighted average rate)



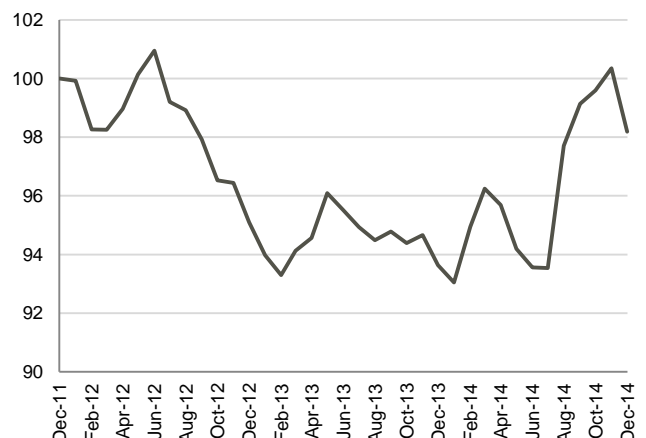
Source: NBG

Monetary policy rate



Source: NBG

Real Effective Exchange Rate



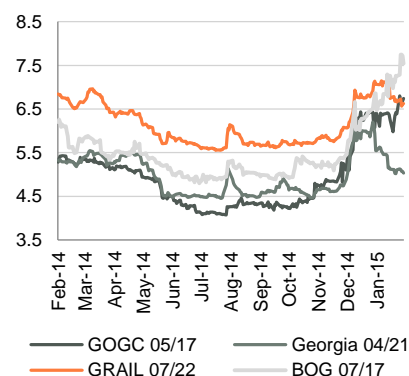
Source: NBG

Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG; US\$ 400mn coupon: 7.75%; maturity 07/17) closed at 7.5% yield, trading at a premium, at 100.4 (down 0.7% w/w). GOGC Eurobonds (GEOROG; US\$ 250mn, coupon: 6.875%; maturity: 05/17) were trading at a premium, at 100.3 (down 0.7% w/w) yielding 6.7%. Georgian Railway Eurobonds (GRAIL; US\$ 500mn, coupon: 7.75% maturity: 07/22), also traded at a premium at 106.5 (up 0.4% w/w) yielding 6.6%.

Georgian Sovereign Eurobonds (GEORG; US\$ 500mn, coupon: 6.875% maturity: 04/21) went up to 109.6 (up 0.4% w/w) closing at 5.0% YTM.

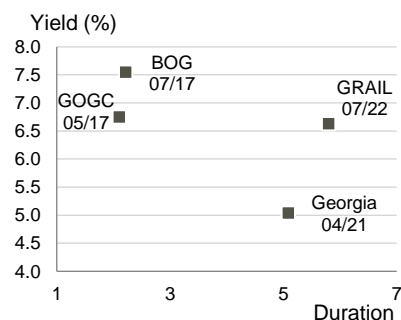
Georgia Eurobonds, YTM (%)



| | Local bonds | | | Eurobonds | | | |
|-------------------|----------------------|----------------------|-----------|------------|---------------|----------|-------------|
| | M ² 04/15 | M ² 06/15 | GLC 09/17 | GOGC 05/17 | Georgia 04/21 | GR 07/22 | BOG 07/17 |
| Amount, US\$ mn | 5 | 10 | 10 | 250 | 500 | 500 | 250 |
| Issue date | 04/14 | 06/14 | 09/14 | 05/12 | 04/11 | 07/12 | 07/12 |
| Maturity date | 04/15 | 06/15 | 09/17 | 05/17 | 04/21 | 07/22 | 07/17 |
| Coupon | 9.500% | 8.420% | 8.750% | 6.875% | 6.875% | 7.750% | 7.750% |
| Fitch/S&P/Moody's | -/- | -/- | -/- | BB-/B+/- | BB-/BB-/Ba3 | BB-/BB-/ | BB-/BB-/Ba3 |
| Mid price, US\$ | 102.2 | 102.8 | 100.0 | 100.3 | 109.6 | 106.5 | 100.4 |
| Mid yield, % | 9.00% | 8.00% | 8.75% | 6.7 | 5.0 | 6.6 | 7.5 |
| Z-spread, bps | n/a | n/a | n/a | 609.7 | 321.9 | 488.9 | 674.8 |

Source: Bloomberg

Georgian Eurobond universe



Eastern European sovereign 10-year bond performance

| Issuer | Amount, US\$ mn | Coupon | Maturity date | Ratings (Fitch/S&P/Moody) | Mid price, US\$ | Mid yield, % | Z-spread, bps |
|------------|-----------------|--------|---------------|---------------------------|-----------------|--------------|---------------|
| Georgia | 500 | 6.875% | 12/04/2021 | BB-/BB-/Ba3 | 109.6 | 5.0 | 321.9 |
| Azerbaijan | 1,250 | 4.750% | 18/03/2024 | BBB-/Baa3 | 100.0 | 4.8 | 273.3 |
| Bulgaria | 323 | 5.000% | 19/07/2021 | BBB-/ | 122.1 | 1.4 | -130 |
| Croatia | 1,250 | 3.875% | 30/05/2022 | BB/BB/Ba1 | 104.1 | 3.2 | 270.1 |
| Hungary | 3,000 | 6.375% | 29/03/2021 | BB+/BB/Ba1 | 117.1 | 3.3 | 153.3 |
| Romania | 2,250 | 6.750% | 07/02/2022 | BBB-/BBB-/Baa3 | 122.3 | 3.2 | 133 |
| Russia | 3,500 | 5.000% | 29/04/2020 | BBB-/BB+/Baa3 | 92.5 | 6.7 | 500.1 |
| Turkey | 2,000 | 5.625% | 30/03/2021 | BBB-/Baa3 | 110.7 | 3.7 | 187.2 |
| Ukraine | 1,500 | 7.950% | 23/02/2021 | CCC/CCC-/Caa3 | 53.3 | 22.4 | 2013.6 |

Source: Bloomberg

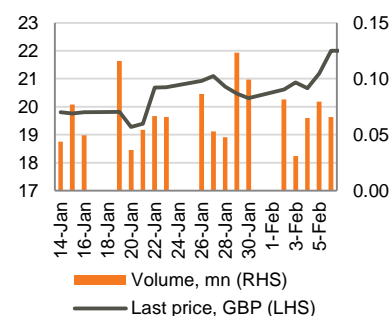
Equities

Bank of Georgia Holdings (BGEO LN) shares closed at GBP 22.00/share +8.32% w/w and +0.41% m/m). More than 330K shares traded in a range of GBP 20.24 – 22.22/share. Average daily traded volume was 68k in the last 4 weeks, less than in previous month. FTSE 250 index, of which BOGH is the constituent, has gained 2.33% w/w and 5.75% m/m. The volume of BOGH shares traded was at 0.84% of its capitalization.

TBC Bank closed the week at US\$ 13.50 (+2.66% w/w and +5.47% m/m), more than 240k GDRs changed hands in the range of US\$ 13.15 – 13.55/GDR. Average daily traded volume was 75k in the last 4 weeks, less than in previous month. The price has increased 3.85% since the start of the trading on June 5, 2014.

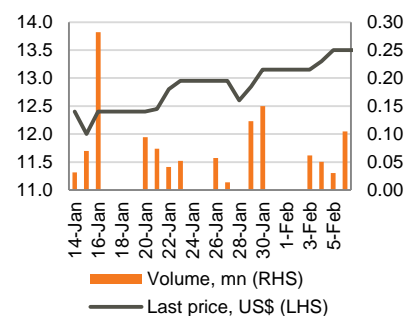
On the Georgian stock exchange, Caucasus Energy & Infrastructure shares were traded at GEL 0.85 (+6.25 w/w) as a result G&T Index increased to the level of 799.13 (+0.05% w/w).

Bank of Georgia (BGEO LN)



Source: Bloomberg

TBC Bank (TBCL LI)



Source: Bloomberg

Eastern European banks

| | Ticker | Share price, US\$ | MCap, US\$ mn | 1M, chg | 3M, chg | 6M, chg | YTD, chg | 1Y, chg |
|-------------------|--------|-------------------|---------------|---------|---------|---------|----------|---------|
| BGEO* | BGEO | 33.53 | 1,592 | 0.9% | -8.0% | -19.4% | -15.5% | -10.0% |
| TBC | TBC | 13.50 | 665 | 5.5% | -7.5% | N/A | N/A | N/A |
| Halyk Bank | HSBK | 6.50 | 1,808 | -23.5% | -22.2% | -35.6% | -36.6% | -35.4% |
| KKB | KKB | 3.21 | 1,075 | -8.3% | -14.4% | -21.7% | 78.3% | 88.8% |
| VTB Bank | VTBR | 2.04 | 13,881 | -2.5% | 16.1% | -4.9% | -31.9% | -22.2% |
| Vozrozhdenie Bank | VZRZ | 11.35 | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Sberbank | SBER | 2.74 | N/A | 0.0% | 0.0% | 0.0% | -12.7% | 0.0% |

Source: Bloomberg

Note: * BGEO is traded in GBP and is shown in US\$ equivalent



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