

Weekly Market Watch

 Weekly Market Watch | Georgia
 August 1, 2016

Economy

Real GDP up 3.1% y/y in 2Q16

Georgia's real GDP growth was 2.9% y/y in June 2016, and output growth averaged 3.1% y/y in 2Q16, higher than 2.6% growth in 1Q16, according to GeoStat's rapid estimates. In 1H16 real growth was 2.9% y/y. Monthly rapid estimates are based on VAT turnover, fiscal and monetary statistics.

NPLs at 3.7% y/y in June 2016

In June 2016, the banking sector loan portfolio increased 8.2% y/y, excluding the exchange rate effect (+11.1% y/y and +7.8% m/m in unadjusted terms), to GEL 16.4bn (US\$ 7.0bn). Deposits increased 10.7% y/y, excluding the exchange rate effect (+13.5% y/y and +6.3% m/m in unadjusted terms), to GEL 14.3bn (US\$ 6.1bn). NPLs stood at 3.7% in June 2016, up 0.3ppts y/y and down 0.1ppts m/m.

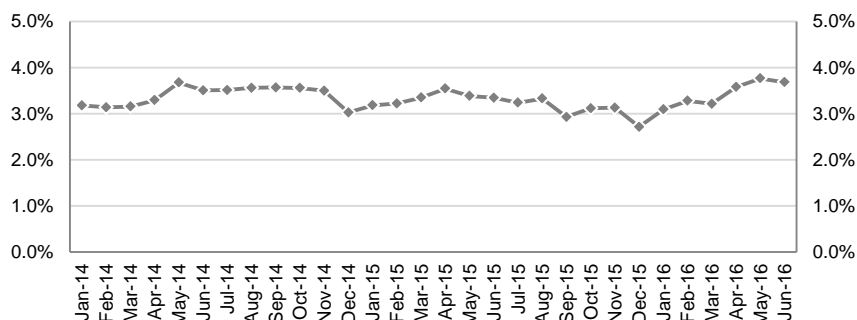
NBG cuts its policy rate to 6.75%

At its meeting on July 27, 2016, NBG's monetary policy committee cut its policy rate by 25 basis points to 6.75%, citing that there is a need to ease monetary policy and to reduce key rate to neutral level of 6% in the medium term, if no other factors emerge. Annual inflation in June 2016 slowed more than expected to 1.1%, far below target level of 5.0% in 2016; This was largely due to the decrease in inflation expectations and larger-than-expected transmission of the lower world prices of oil and food. NBG also cited that inflation will remain low in following quarters and will reach the inflation target by the end of 2017, which is set at 4.0%. The next committee meeting is scheduled for September 7, 2016.

BGEO Group successfully completed the issuance of its New Notes

BGEO Group PLC, the holding company of JSC BGEO Group (the Company), has completed the issuance of its US\$350,000,000 6.00% notes due 2023 (the New Notes). The Regulation S / Rule 144A senior unsecured Notes were issued and sold at an issue price of 99.297% of their principal amount on 26 July 2016. BofA Merrill Lynch and J.P. Morgan acted as Joint Lead Managers for the New Notes, with Galt & Taggart acting as Co-Manager. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Company, respectively. The New Notes are rated BB- (Fitch) and B1 (Moody's). The New Notes are listed on the Irish Stock Exchange.

NPLs



Source: NBG

Key macro indicators

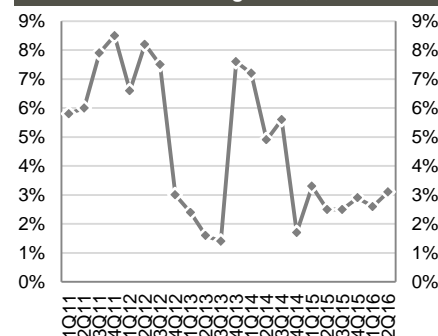
| | 6M16 | 2015 | 2014 |
|------------------------------|---------|-------|-------|
| GDP (% change) | 2.9% | 2.8% | 4.6% |
| GDP per capita (ppp) | ... | 9,566 | 9,209 |
| GDP per capita (US\$) | ... | 3,743 | 3,676 |
| Population (mn) | 3.7* | 3.7** | 4.5 |
| Inflation (eop) | 1.1% | 4.9% | 2.0% |
| Gross reserves (US\$ bn) | 2.9 | 2.5 | 2.7 |
| CAD (% of GDP) | 13.1%** | 11.8% | 10.6% |
| Fiscal deficit (% of GDP) | | 3.8% | 3.0% |
| Total public debt (% of GDP) | ... | 41.5% | 35.5% |

Source: Official data, IMF, G&T

*Preliminary results of census, previous data is subject to recalculation

**As of 1Q16

Real GDP growth, %



Source: GeoStat

Note: 2Q16 figure based on rapid estimates

International ranking of Georgia, 2016

Ease of Doing Business # 24 (regional leader)
 Economic Freedom Index # 23 (mostly free)
 Global Competitiveness Index # 66 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

| | | |
|---|---|---|
| STANDARD & POORS BB- Stable Affirmed Nov-2015 | Moody's INVESTORS SERVICE Ba3 Stable Affirmed Mar-2016 | FitchRatings BB- Stable Affirmed Apr-2016 |
|---|---|---|

Source: Rating agencies

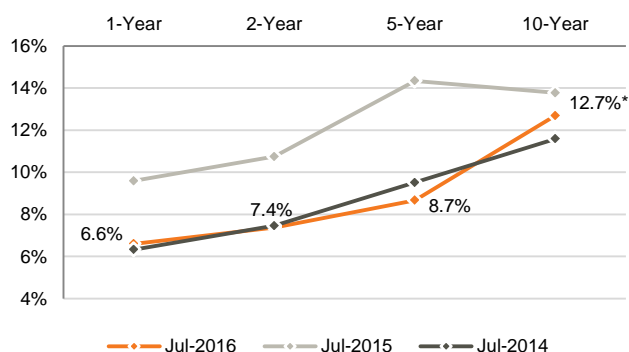
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 650mn (US\$ 277.2mn).

Certificates of deposit: NBG sold 182-day, GEL 20mn (US\$ 8.5mn) certificates of deposit, with an average yield of 6.44% (down 22bps from previous issue).

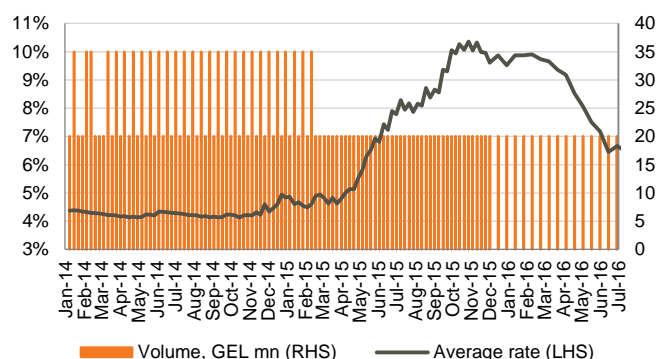
Ministry of Finance Treasury Notes: 1-year GEL 30mn (US\$ 12.8mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on July 27, 2016. The weighted average yield was fixed at 6.598%. The nearest treasury securities auction is scheduled for August 3, 2016, where GEL 30mn nominal value 2-year T-Notes will be sold.

T-bills / T-notes, yield curve



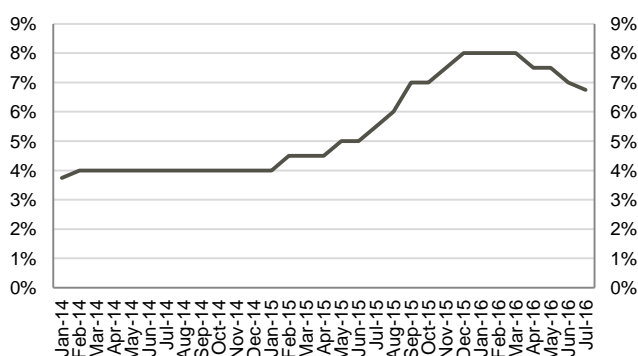
Source: NBG
*As of latest auction

Certificates of Deposits (weighted average rate)



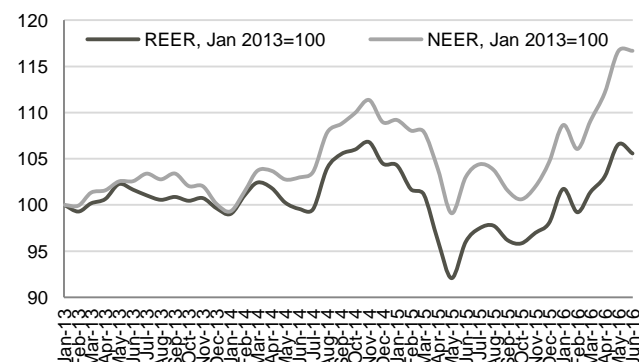
Source: NBG

Monetary policy rate



Source: NBG
Note: Next revision of a monetary policy rate is scheduled for 7 September 2016

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

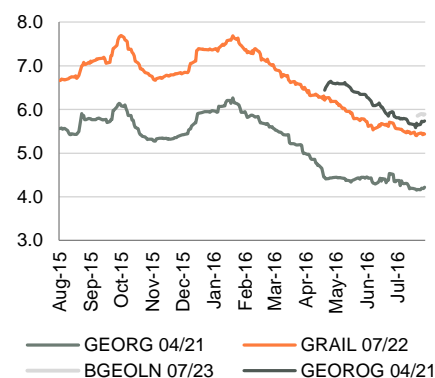


Fixed income

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.9% yield, trading at 100.64. GOGC's Eurobonds (GEOROG 05/17) were trading at 101.9 (unchanged w/w), yielding 4.4% and (GEOROG 04/21) were trading at 104.1 (-0.5% w/w), yielding 5.7%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 111.6 (+0.1% w/w), yielding 5.4%.

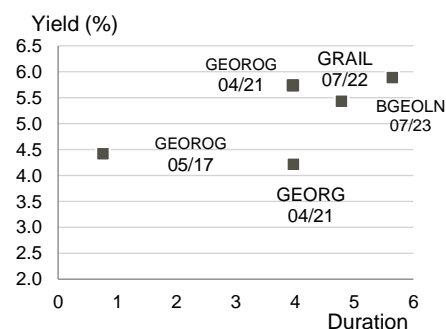
Georgian Sovereign Eurobonds (GEORG) closed at 111.2 (-0.3% w/w) at 4.2% yield to maturity.

Georgia Eurobonds, YTM (%)



Source: Bloomberg

Georgian Eurobond universe



Source: Bloomberg

| | Local bonds | | | | | Eurobonds | | | | |
|-------------------|-----------------|--------------|---------------|---------------|--------------|-----------------|-----------------|-----------------|----------------|----------------|
| | Nikora 03/18 | GWP 11/17 | M2RE 03/17 | EVEX 05/17 | GLC 09/17 | GEOROG 04/21 | GEOROG 05/17 | BGEOLN 07/23 | GEORG 04/21 | GRAIL 07/22 |
| Amount, US\$ mn | 5 | 6* | 20 | 15 | 10 | 250 | 250 | 350 | 500 | 500 |
| Issue date | 03/16 | 12/15 | 03/15 | 05/15 | 09/14 | Apr-2016 | May-2012 | Jul-2016 | Apr-2011 | Jul-2012 |
| Maturity date | 03/18 | 12/17 | 03/17 | 05/17 | 09/17 | Apr-2021 | May-2017 | Jul-2023 | Apr-2021 | Jul-2022 |
| Coupon, % | 11.000 | 15.000** | 9.500 | 9.500 | 8.750 | 6.750% | 6.875% | 6.000% | 6.875% | 7.750% |
| Fitch/S&P/Moody's | -/- | BB-/- | -/- | -/- | -/- | BB-/- | BB-/B+ | BB-/B1 | BB-/BB-/Ba3 | BB-/BB-/ |
| Mid price, US\$ | 100.0 | 100.0* | 101.6 | 101.87 | 100.65 | 104.1 | 101.9 | 100.6 | 111.2 | 111.6 |
| Mid yield, % | 11.0 | 15.0 | 7.75 | 7.75 | 8.25 | 5.7 | 4.4 | 5.9 | 4.2 | 5.4 |
| Z-spread, bps | n/a | n/a | n/a | n/a | n/a | 456.6 | 280.7 | 461.7 | 301.5 | 432.7 |

Source: Bloomberg

*GWP 11/17 bonds are in Georgian lari

**Floating rate with 7.5% over the NBG's refinancing rate

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 | 111.2 | 4.2 | 301.5 |
| Azerbaijan | 1,250 | 4.750% | 18/03/2024 | BB+/-/Ba1/- | 101.4 | 4.5 | 319.9 |
| Bulgaria | 323 | 5.000% | 19/07/2021 | BBB-/ | 120.2 | 0.8 | -240.7 |
| Croatia | 1,250 | 3.875% | 30/05/2022 | BB/BB/Ba2 | 104.8 | 3.0 | 300.3 |
| Hungary | 3,000 | 6.375% | 29/03/2021 | BB+/BB+/Ba1 | 114.7 | 3.0 | 192.6 |
| Romania | 2,250 | 6.750% | 07/02/2022 | BBB-/BBB-/Baa3 | 119.6 | 2.9 | 177.3 |
| Russia | 3,500 | 5.000% | 29/04/2020 | BBB-/BB+/Ba1 | 106.8 | 3.1 | 198.1 |
| Turkey | 2,000 | 5.625% | 30/03/2021 | BBB-/NR/Baa3 | 106.6 | 4.1 | 294.5 |

Source: Bloomberg

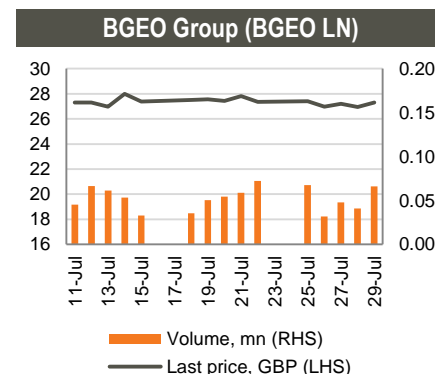
Equities

BGEO Group (BGEO LN) shares closed at GBP 27.31/share (-0.18% w/w and +9.68% m/m). More than 254k shares traded in the range of GBP 26.75 – 28.20/share. Average daily traded volume was 52k in the last 4 weeks, less than in the previous month. FTSE 250 Index, of which BGEO is a constituent, gained 1.78% w/w and gained 8.01% m/m. The volume of BGEO shares traded was at 0.64% of its capitalization.

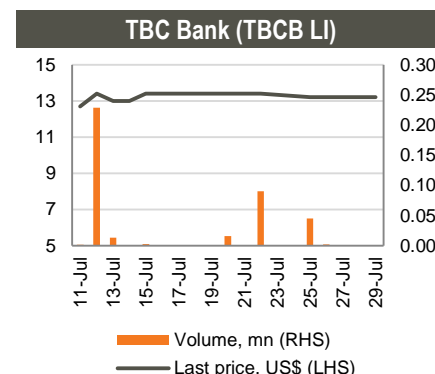
TBC Bank (TBCB LI) closed the week at US\$ 13.20 (-1.49% w/w and unchanged m/m). More than 46k GDRs changed hands in the range of US\$ 13.20 – 13.20/GDR. Average daily traded volume was 33k in the last 4 weeks, more than in the previous month.

Georgia Healthcare Group (GHG LN) shares closed at GBP 3.06/share (+1.28% w/w and +5.52% m/m). More than 145k shares were traded in the range of GBP 3.00 – 3.30/share. Average daily traded volume was 24k in the last 4 weeks. The volume of GHG shares traded was at 0.05% of its capitalization.

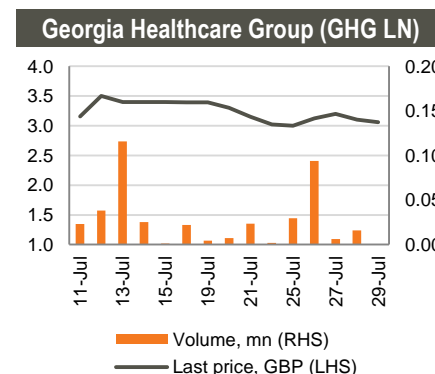
On the Georgian stock exchange, Bank of Georgia shares were traded at GEL 37.00 (unchanged w/w), Liberty Bank shares were traded at GEL 0.015 (unchanged w/w), and Teliani Valley shares were traded at GEL 0.18 (+38.5% w/w). As a result, the G&T Index went up to 842.35 (+0.12% w/w).



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Eastern European banks

| Eastern European Banks | | | | | | | | |
|------------------------|-------------------|---------------|---------|---------|---------|----------|---------|--------|
| Ticker | Share price, US\$ | MCap, US\$ mn | 1M, chg | 3M, chg | 6M, chg | YTD, chg | 1Y, chg | |
| BGEO* | BGEO | 36.26 | 1,432 | 8.1% | 8.3% | 43.6% | 12.1% | 15.0% |
| TBC | TBC | 13.20 | 661 | 0.0% | 25.7% | 46.7% | 4.8% | 34.8% |
| Halyk Bank | HSBK | 4.80 | 1,319 | 6.5% | 33.3% | 14.3% | -43.5% | -40.1% |
| KKB | KKB | 1.59 | 634 | 0.0% | 6.0% | 76.7% | -58.2% | -47.0% |
| VTB Bank | VTBR | 1.98 | 12,837 | -5.2% | -7.5% | 5.3% | -13.9% | -17.7% |
| Vozrozhdenie Bank | VZRZ | 9.66 | 229 | -3.9% | 22.6% | 41.1% | 31.0% | -2.8% |
| Sberbank | SBER | 8.70 | 46,957 | -0.9% | 8.5% | 58.5% | 114.8% | 77.9% |

Source: Bloomberg

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

Healthcare sector peers

| Ticker | Share price, US\$ | MCap, US\$ mn | 1M, chg | 3M, chg | 6M, chg | YTD, chg | 1Y, chg | |
|---------------|-------------------|---------------|---------|---------|---------|----------|---------|--------|
| GHG* | GHG | 4.06 | 535 | 4.0% | 43.2% | 64.3% | nm | nm |
| Mouwasat | MOUWASAT | 34.79 | 1,740 | 2.0% | 0.8% | 15.7% | 5.8% | -11.8% |
| Fortis | FORH | 2.57 | 1,192 | 9.8% | -2.4% | -2.2% | 46.5% | -11.2% |
| Raffles | RFMD | 1.17 | 2,048 | 5.8% | 0.8% | 23.4% | 19.8% | 2.4% |
| IHH | IHH | 1.62 | 13,327 | -0.5% | -3.2% | 2.4% | 17.6% | 3.7% |
| Bangkok Chain | BCH | 0.38 | 939 | 6.7% | 27.6% | 62.7% | 56.6% | 93.5% |
| Netcare | NTC | 2.31 | 3,383 | 11.3% | -9.0% | 9.6% | -29.6% | -26.6% |

Source: Bloomberg

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

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