



Fast growing Georgian economy

Macroeconomic overview: 1Q18

Forward looking statements



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Sovereign Ratings with Stable Outlook and Favourable Macro Fundamentals

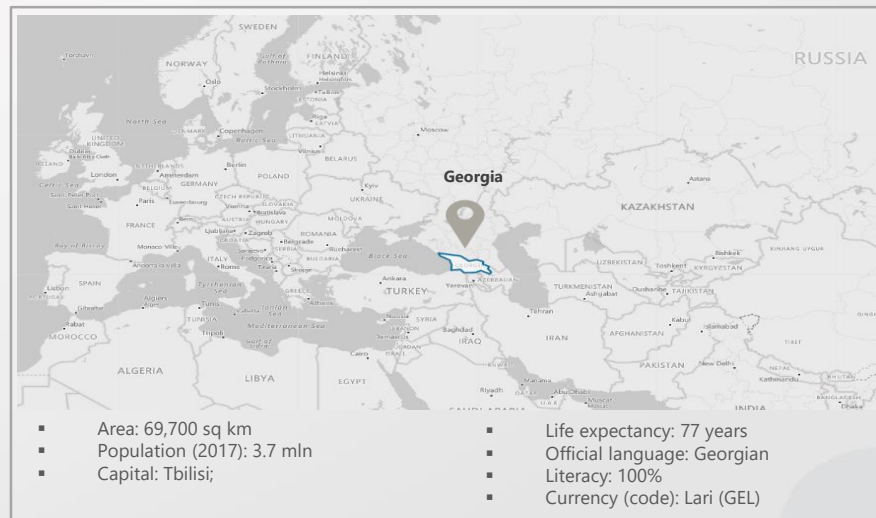
Key Ratings Highlights

| Rating Agency | Rating | Outlook | Affirmed |
|-----------------------|--------|----------|------------|
| MOODY'S | Ba2 | Stable | March 2018 |
| S&P Global | BB- | Stable | May 2018 |
| FitchRatings | BB- | Positive | March 2018 |

Georgia is favorably placed among peers

| Country | Country Rating | Rating Outlook |
|----------------|----------------|----------------|
| Armenia | B+ | Positive |
| Azerbaijan | BB+ | Stable |
| Belarus | B | Stable |
| Czech Republic | A+ | Positive |
| Georgia | BB- | Stable |
| Kazakhstan | BBB | Stable |
| Turkey | BB+ | Stable |
| Ukraine | B- | Stable |

General Facts



Economy

- Nominal GDP (Geostat, preliminary) 2017: GEL 38.0 bln (US\$15.2 bln)
- Real GDP growth rate 2013-2017: 3.4%, 4.6%, 2.9%, 2.8%, 5.0%
- Real GDP 2007-17 annual average growth rate: 4.5%
- GDP per capita 2017 (PPP) per IMF: US\$ 10,644
- Annual inflation (e-o-p) 2017: 6.7%
- External public debt to GDP 2017: 35.4%

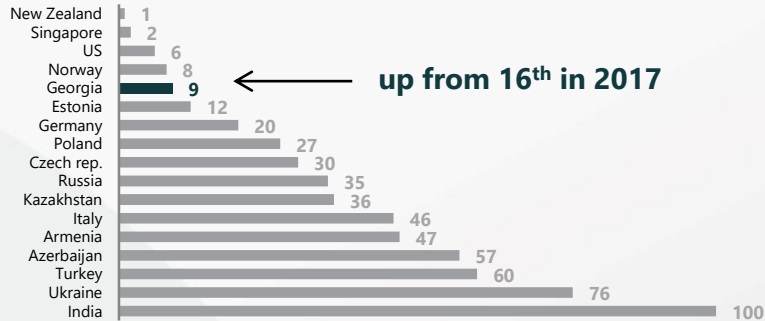
Georgia's key Economic Drivers



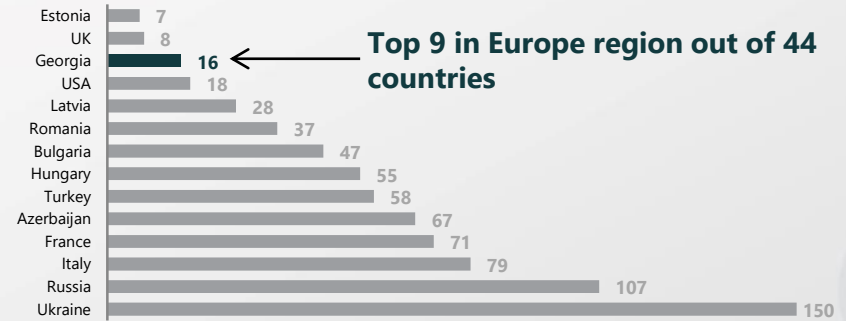
| | |
|---|--|
| Liberal economic policy | <p>Top performer globally in WB Doing Business over the past 12 years</p> <ul style="list-style-type: none">Liberty Act (effective January 2014) ensures a credible fiscal and monetary framework:Public expenditure/GDP capped at 30%; Fiscal deficit/GDP capped at 3%; Public debt/GDP capped at 60%Business friendly environment and low tax regime (attested by favourable international rankings) |
| Regional logistics and tourism hub | <p>A natural transport and logistics hub, connecting land-locked energy rich countries in the east and European markets in the west</p> <ul style="list-style-type: none">Access to a market of 2.8bn customers without customs duties: Free trade agreements with EU, China, CIS and Turkey and GSP with USA, Canada, Japan, Norway and Switzerland; FTA with Hong Kong expected to be signed shortly; FTA with India under considerationTourism revenues on the rise: tourism inflows stood at 18.2% of GDP in 2017 and arrivals reached 7.6mln visitors in 2017 (up 18.8% y-o-y), out of which tourist arrivals were up 27.9% y-o-y to 3.5mln visitors.Regional energy transit corridor accounting for 1.6% of the world's oil and gas transit volumes |
| Strong FDI | <p>An influx of foreign investors on the back of the economic reforms have boosted productivity and accelerated growth</p> <ul style="list-style-type: none">FDI stood at US\$ 1.9bln (12.3% of GDP) in 2017, up 16.2% y-o-yFDI averaged 10.0% of GDP in 2007-2017 |
| Support from international community | <p>Georgia and the EU signed an Association Agreement and DCFTA in June 2014</p> <ul style="list-style-type: none">Visa-free travel to the EU is another major success in Georgian foreign policy. Georgian passport holders were granted free visa entrance to the EU countries from 28 March 2017Discussions commenced with the USA to drive inward investments and exportsStrong political support from NATO, EU, US, UN and member of WTO since 2000; Substantial support from DFIs, the US and EU |
| Electricity transit hub potential | <p>Developed, stable and competitively priced energy sector</p> <ul style="list-style-type: none">Only 20% of hydropower capacity utilized; 145 renewable (HPPs/WPPs/SPPs) energy power plants are in various stages of construction or developmentGeorgia imports natural gas mainly from AzerbaijanSignificantly boosted transmission capacity in recent years, a new 400 kV line to Turkey and 500 kV line to Azerbaijan built, other transmission lines to Armenia and Russia upgradedAdditional 2,000 MW transmission capacity development in the pipeline, facilitating cross-border electricity trade and energy swaps to Eastern Europe |
| Political environment stabilised | <ul style="list-style-type: none">Georgia underscored its commitment to European values by securing a democratic transfer of political power in successive parliamentary, presidential, and local elections and by signing an Association Agreement and free trade agreement with the EUNew constitution amendments passed in 2013 to enhance governing responsibility of Parliament and reduce the powers of the PresidencyContinued economic relationship with Russia, although economic dependence is relatively lowRussia began issuing visas to Georgians in March 2009; Georgia abolished visa requirements for Russians – Russia announced the easing of visa procedures for Georgians citizens effective December 23, 2015Direct flights between the two countries resumed in January 2010Member of WTO since 2000, allowed Russia's access to WTO; In 2013 trade restored with RussiaIn 2017, Russia accounted for 14.5% of Georgia's exports and 9.9% of imports; just 3.5% of cumulative FDI over 2003-2017 |

Institutional Oriented Reforms

Ease of Doing Business | 2018 (WB-IFC Doing Business Report)

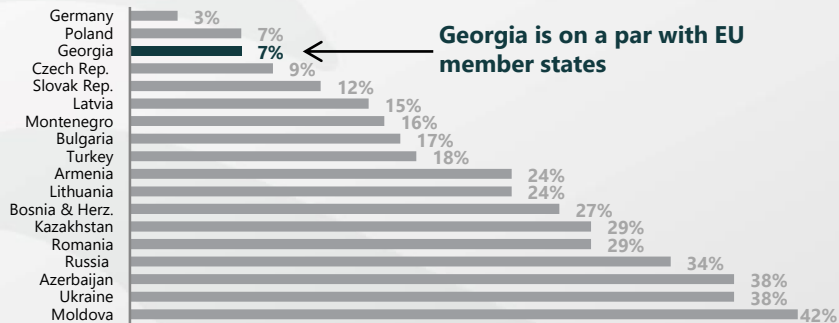


Economic Freedom Index | 2018 (Heritage Foundation)

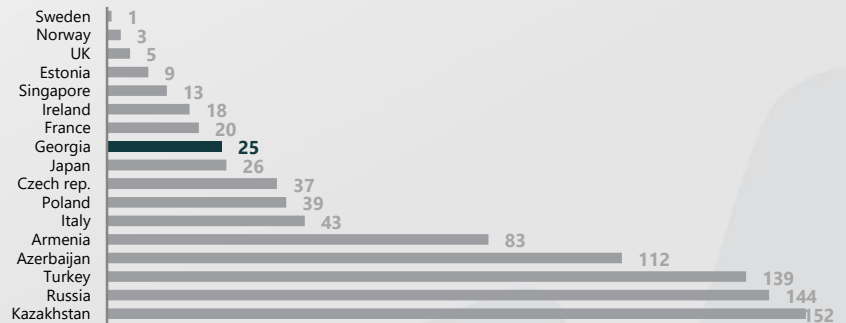


Global Corruption Barometer | TI 2017

% admitting having paid a bribe last year



Business Bribery Risk, 2017 | Trace International

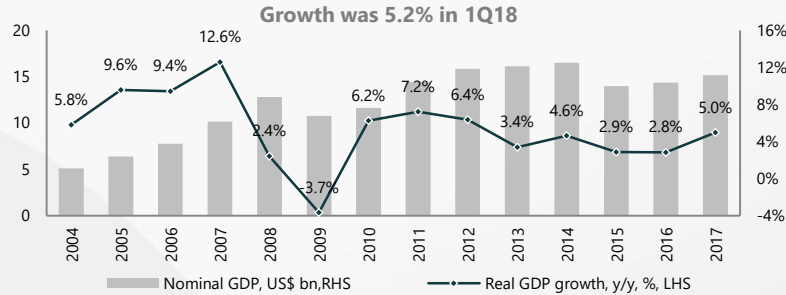


Sources: Transparency International, Heritage Foundation, World Bank, Trace International

Diversified resilient economy

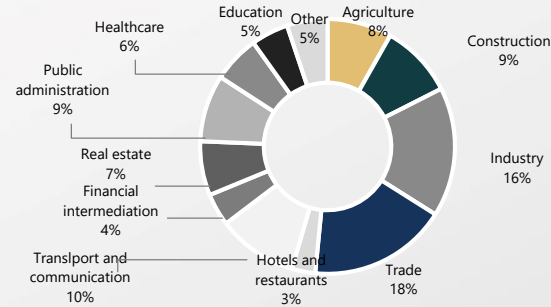
Gross domestic product

Source: Geostat



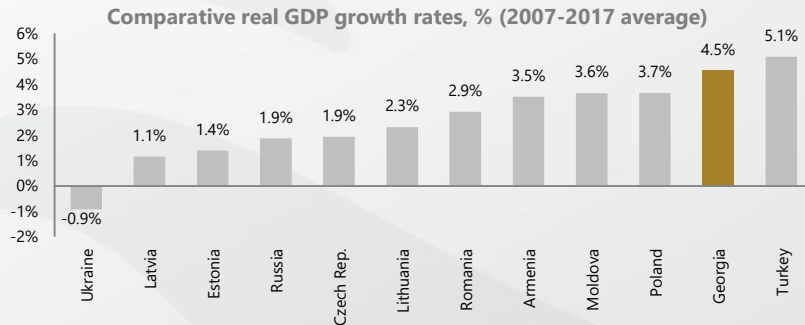
Diversified nominal GDP structure, 2017

Source: Geostat



One of the Fastest Developing Economies in the Region (2007-2017 average)

Sources: IMF



Monthly Economic Activity Estimate, y/y growth

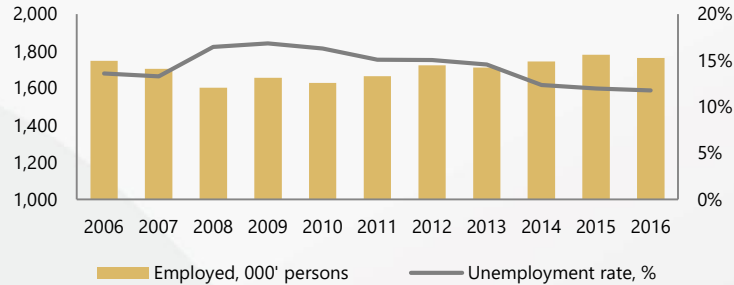
Sources: GeoStat



Room for Further Job Creation

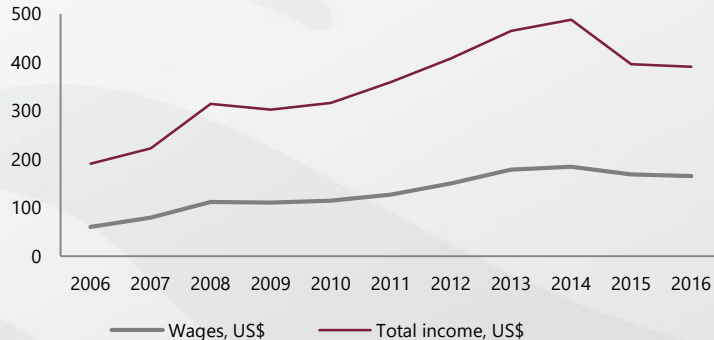
Unemployment rate down 0.2ppts y/y to 11.8% in 2016

Sources: GeoStat



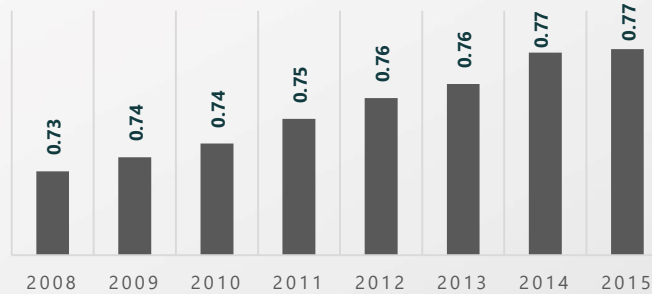
Average monthly wages and income per household

Sources: GeoStat



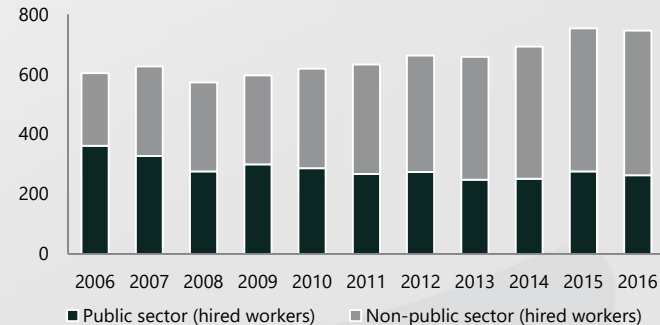
UNDP Human Development Index

Sources: UNDP



Hired workers accounted for 42.3% in total employment in 2016

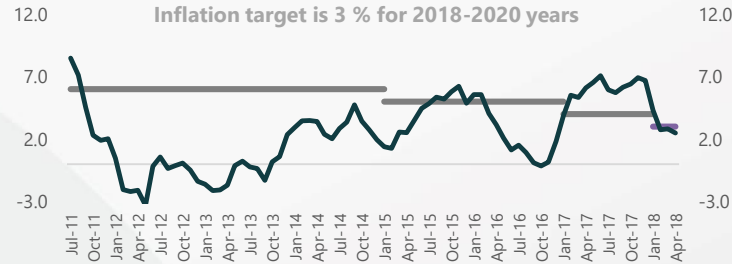
Sources: GeoStat



Inflation targeting since 2009

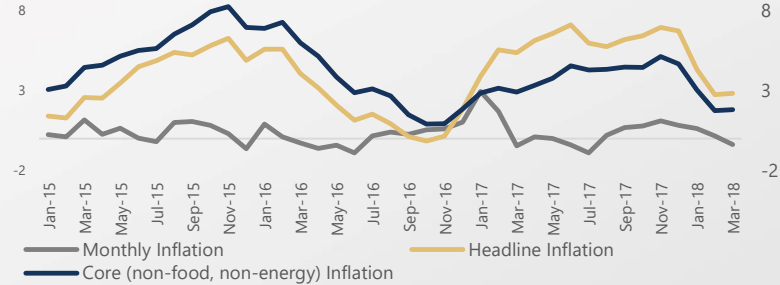
Inflation y/y vs. inflation target

Sources: NBG, GeoStat



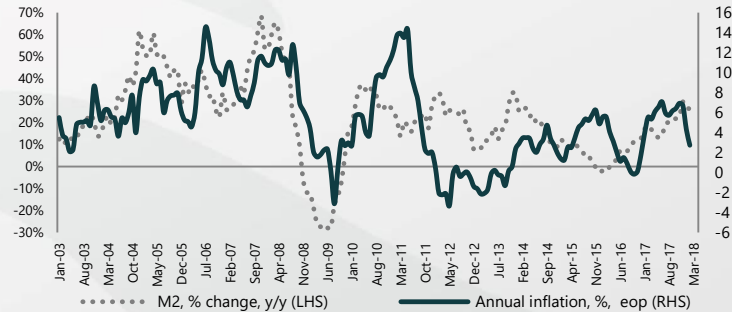
Inflation y/y

Source: GeoStat



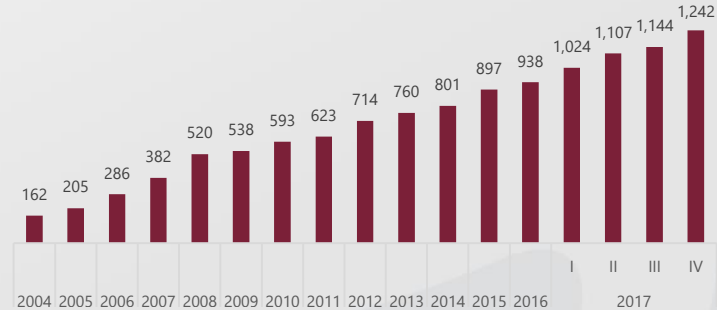
M2 vs. inflation, y-o-y, %

Sources: Geostat, NBG



Average monthly wages in business sector

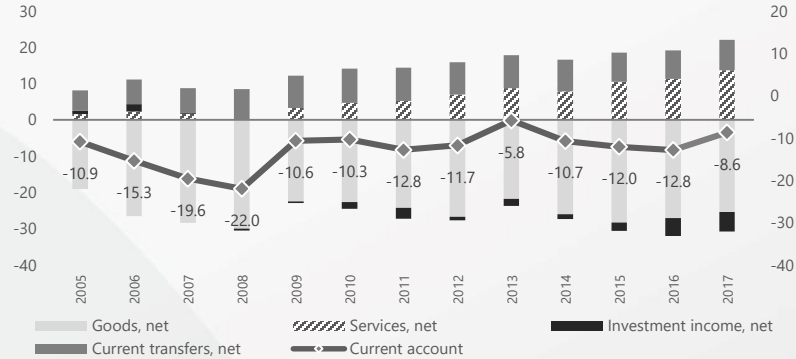
Source: Geostat



Current account deficit supported by FDI

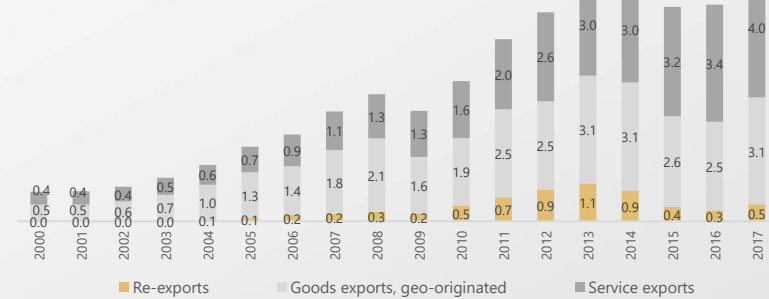
Current account balance (% of nominal GDP)

Sources: NBG



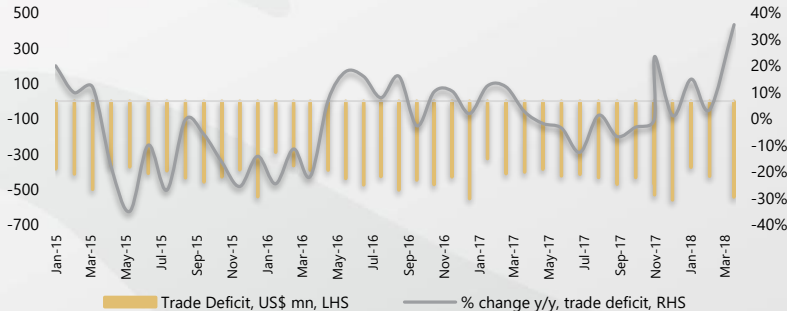
Exports and Re-exports, US\$ bln

Source: NBG



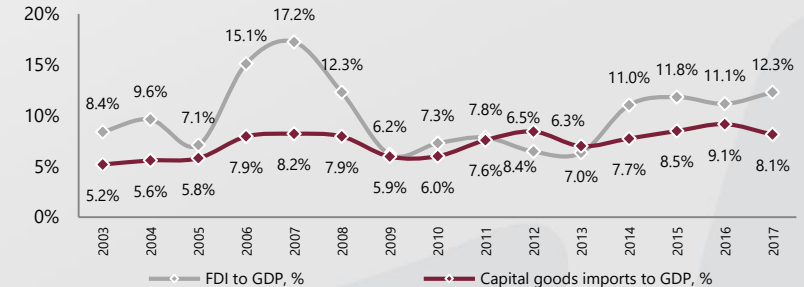
Goods' Trade Deficit

Source: GeoStat



FDI and capital goods import

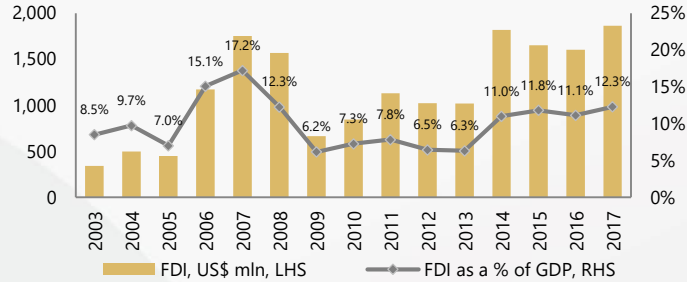
Source: GeoStat



Diversified sources of capital

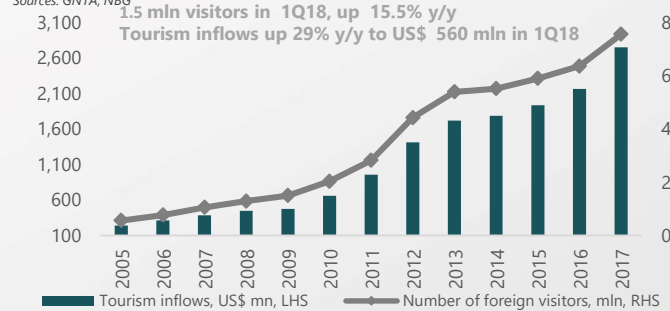
Strong foreign investor interest

Sources: GeoStat



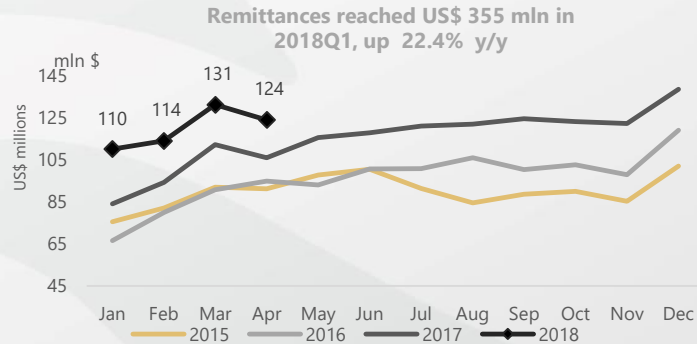
Visitors and tourism revenues on the rise

Sources: GNTA, NBG



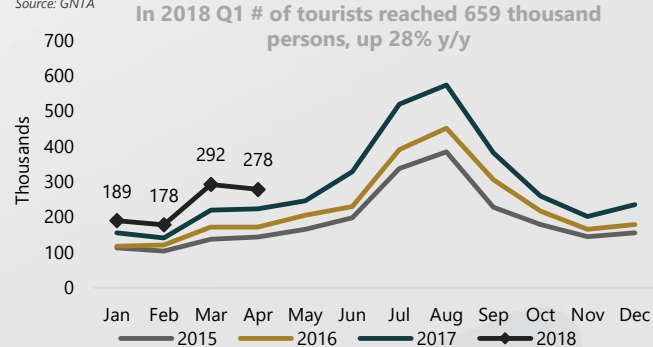
Remittances - steady source of external funding

Source: NBG



Number of Tourists⁽¹⁾

Source: GNTA

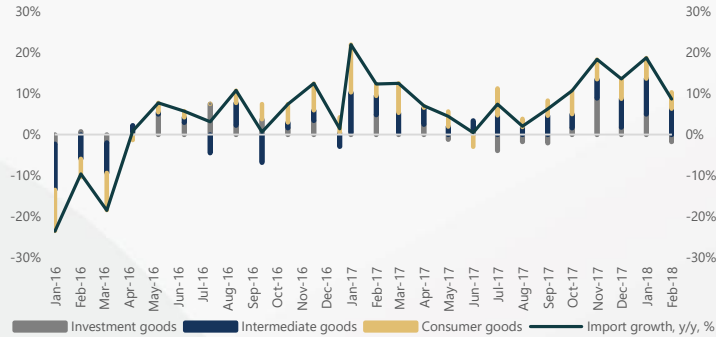


(1) Tourists are defined as visitors staying 24 hour and more

Diversified foreign trade

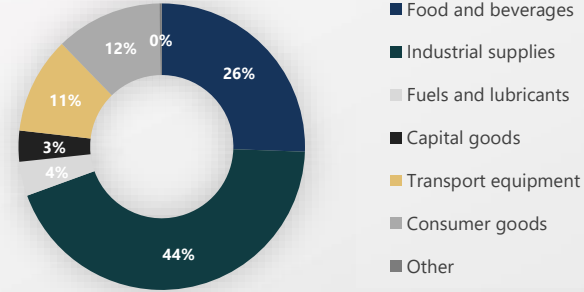
Contribution to import growth

Source: NBS



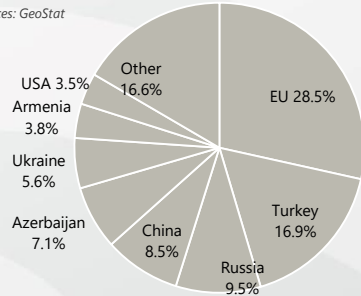
Foreign Demand, 2017

Source: Geostat



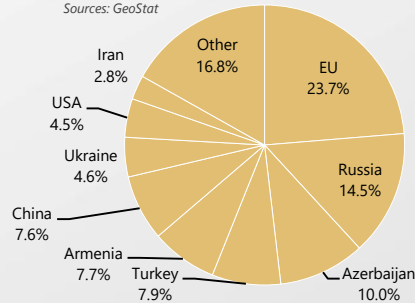
Imports, 2017

Sources: GeoStat



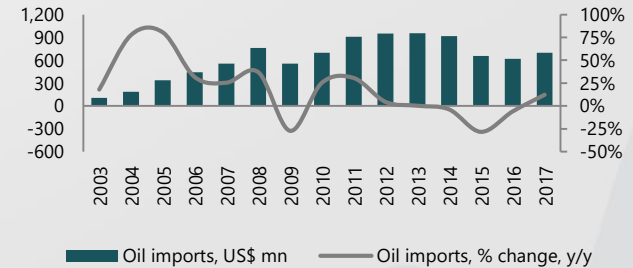
Exports, 2017

Sources: GeoStat



Oil imports

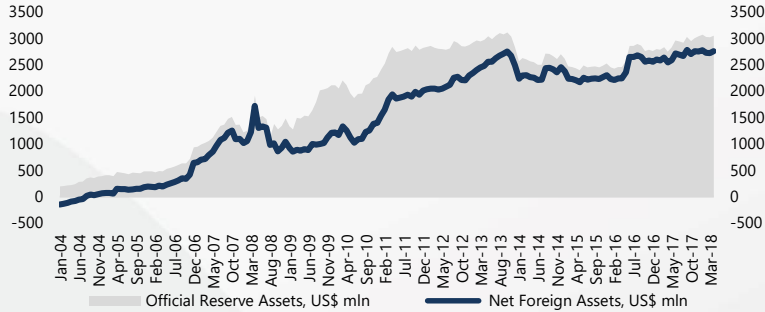
Sources: GeoStat



Prudent monetary policy ensures macro-financial stability

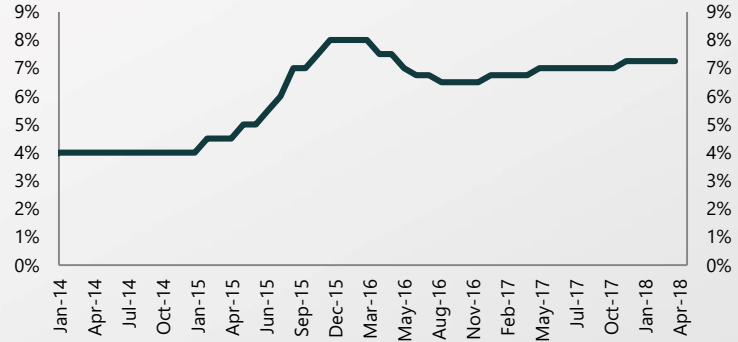
International reserves

Sources: NBG



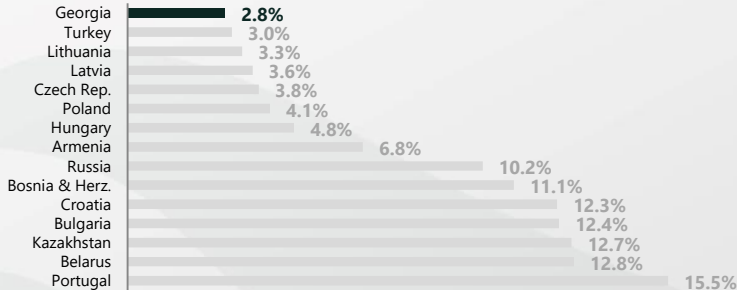
Monetary policy rate

Sources: NBG



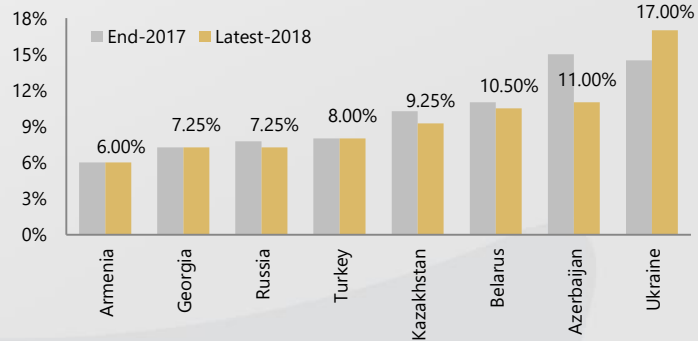
Nonperforming loans to total gross loans

Sources: IMF, NBG



Monetary policy rate remains low vs. peers

Sources: Central banks

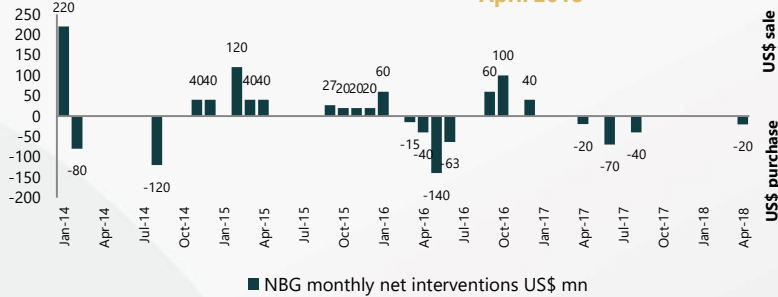


Floating exchange rate - policy priority

Central Bank's interventions

Sources: NBG

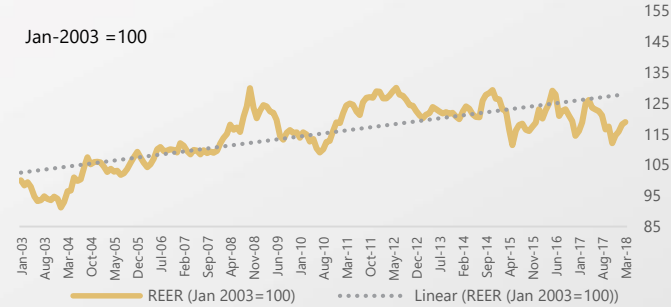
NBG purchased US\$ 20mn in April 2018



Real effective exchange rate (REER)

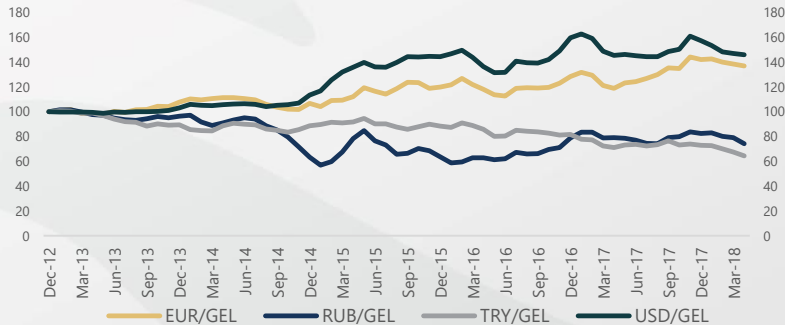
Sources: NBG

Jan-2003 = 100



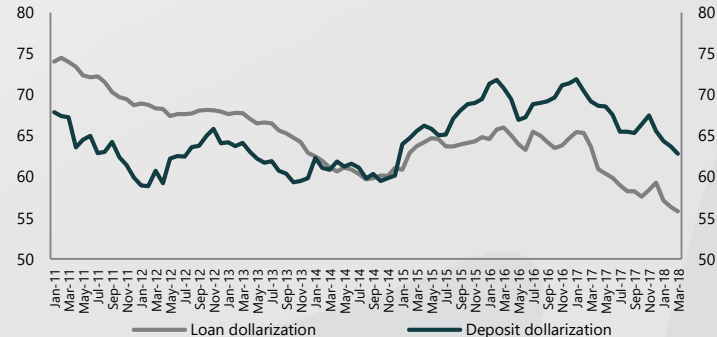
Bilateral exchange rate indices (Dec2012=100)

Sources: NBG



Dollarization ratios

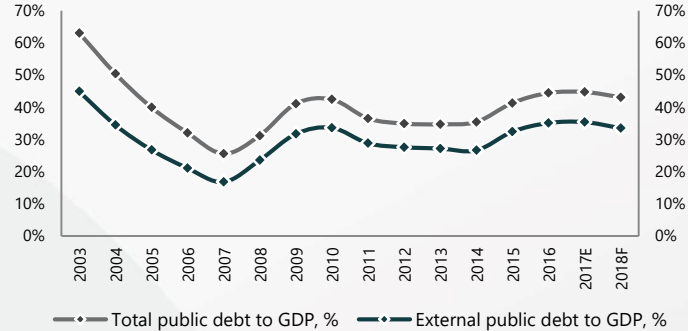
Source: NBG



Low public debt

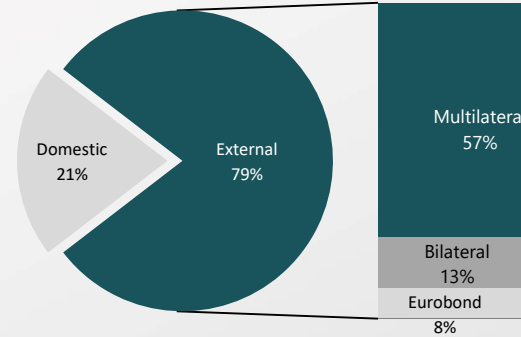
Public debt as % of GDP is capped at 60%

Sources: MOF



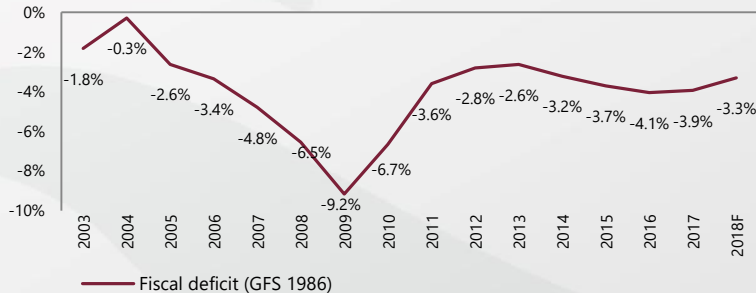
Breakdown of public debt

Source: MOF, as of 31 December 2017



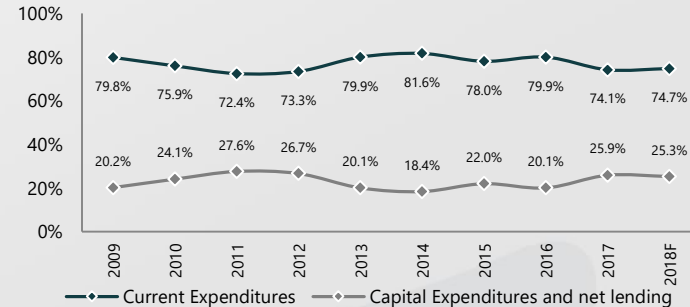
Fiscal deficit

Source: MOF
Note: Deficit calculated based on IMF's GFSM-1986 methodology



Current vs Capital Expenditure

Source: MOF



Government 4-pillar of Reforms

1 Structural Reforms

- **Tax Reform**
 - Corporate income tax reform
 - Enhancing easiness of tax compliance
- **Capital Market Reform**
 - Boosting stock exchange activities
 - Developing of local bond market
- **Pension Reform**
 - Introduction of private pension system
- **PPP Reform**
 - Introduction of transparent and efficient PPP framework
- **Public Investment Management Framework**
 - Improved efficiency of state projects
- **Deposit Insurance**
 - Boosting private savings
 - Enhancing trust to financial system
- **Accounting Reform**
 - Increased Transparency and financial accountability
 - Enhanced protection of shareholder rights
- **Association Agreement Agenda**

2 Promoting Transit & Tourism Hub

- **Roads**
 - Plan to finish all spinal projects by 2020 – East-West Highway, other supporting infrastructure
- **Rail**
 - Baku – Tbilisi Kars new railroad line
 - Railway modernization project
- **Air**
 - Tbilisi International Airport
 - 2nd runway to be constructed
 - International Cargo terminal
- **Maritime**
 - Anaklia deep water Black Sea port
 - Strategic location
 - Capable of accommodating Panamax type cargo vessels
 - High capacity – up to 100mln tons turnover annually
 - **Up to USD 1bln** for first phase (out of 9) in Georgia

3 Promoting Open Governance

- **Improvement of Public Services offered to the Private Sector**
 - Creation of "Front Office"
 - Application of "Single Window Principle"
- **Involvement of the Private Sector in Legislative Process**
 - Discussion of draft legislation at an early stage
- **Strict monitoring of implementation of government decisions**
 - Creation of special unit for monitoring purposes

4 Education Reform

- **General Education Reform**
 - Maximising quality of teaching in secondary schools
- **Fundamental Reform of Higher Education**
 - Based on the comprehensive research of the labour market needs
- **Improvement of Vocational Education**
 - Increase involvement of the private sector in the professional education

