Fast growing Georgian economy

Macroeconomic overview: 1H18 results
Forward looking statements

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Georgia is favorably placed among peers

<table>
<thead>
<tr>
<th>Country</th>
<th>Country Rating</th>
<th>Fitch Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>B+</td>
<td>Positive</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>BB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Belarus</td>
<td>B</td>
<td>Stable</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>A+</td>
<td>Positive</td>
</tr>
<tr>
<td>Georgia</td>
<td>BB-</td>
<td>Positive</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Turkey</td>
<td>BB</td>
<td>Negative</td>
</tr>
<tr>
<td>Ukraine</td>
<td>B-</td>
<td>Stable</td>
</tr>
</tbody>
</table>
# Georgia’s key economic drivers

## Liberal economic policy
- **Top performer globally in WB Doing Business over the past 12 years**
  - 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
- **A natural transport and logistics hub, connecting land-locked energy rich countries in the east and European markets in the west**
  - 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 was signed in June 2018. FTA with India under consideration.
  - Tourism revenues on the rise: tourism inflows stood at 18.1% of GDP in 2017 and arrivals reached 7.9 mln visitors in 2017 (up 18% y-o-y), out of which tourist arrivals were up 23% y-o-y to 4.1 mln visitors.
  - Regional energy transit corridor accounting for 1.6% of the world’s oil and gas transit volumes

## Strong FDI
- **An influx of foreign investors on the back of the economic reforms have boosted productivity and accelerated growth**
  - FDI stood at US$ 1.9bln (12.3% of GDP) in 2017, up 16.2% y-o-y
  - FDI averaged 10.0% of GDP in 2007-2017

## Support from international community
- **Georgia and the EU signed an Association Agreement and DCFTA in June 2014**
  - 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 2017
  - Discussions commenced with the USA to drive inward investments and exports
  - Strong 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
- **Developed, stable and competitively priced energy sector**
  - Only 20% of hydropower capacity utilized; 145 renewable (HPPs/WPPs/SPPs) energy power plants are in various stages of construction or development
  - Georgia imports natural gas mainly from Azerbaijan
  - Significantly 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 upgraded
  - Additional 2,000 MW transmission capacity development in the pipeline, facilitating cross-border electricity trade and energy swaps to Eastern Europe

## Political environment stabilised
- 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 EU
- New constitution amendments passed in 2013 to enhance governing responsibility of Parliament and reduce the powers of the Presidency
- Continued economic relationship with Russia, although economic dependence is relatively low
- Russia 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, 2015
- Direct flights between the two countries resumed in January 2010
- Member of WTO since 2000, allowed Russia’s access to WTO; In 2013 trade restored with Russia
- In 2017, Russia accounted for 14.5% of Georgia’s exports and 10.0% of imports; just 3.5% of cumulative FDI over 2003-2017
**Institutional oriented reforms**


- **New Zealand**
- **Singapore**
- **US**
- **Norway**
- **Georgia**
- **Estonia**
- **UK**
- **Poland**
- **Czech rep.**
- **Russia**
- **Kazakhstan**
- **Italy**
- **Armenia**
- **Azerbaijan**
- **Turkey**
- **Ukraine**
- **India**

Up from 16th in 2017

**Economic Freedom Index | 2018 (Heritage Foundation)**

- **Estonia**
- **UK**
- **Georgia**
- **USA**
- **Latvia**
- **Romania**
- **Bulgaria**
- **Hungary**
- **Turkey**
- **Azerbaijan**
- **France**
- **Italy**
- **Russia**
- **Ukraine**

Top 9 in Europe region out of 44 countries

**Global Corruption Barometer | TI 2017**

- **Georgia** is on a par with EU member states

% admitting having paid a bribe last year

**Business Bribery Risk, 2017 | Trace International**

- **Sweden**
- **Norway**
- **UK**
- **Estonia**
- **Singapore**
- **Ireland**
- **France**
- **Georgia**
- **Japan**
- **Czech rep.**
- **Poland**
- **Italy**
- **Armenia**
- **Azerbaijan**
- **Turkey**
- **Russia**
- **Kazakhstan**

**Open Budget Index, 2017 | International Budget Partnership**

- **New Zealand**
- **Norway**
- **Georgia**
- **US**
- **Italy**
- **Russia**
- **Germany**
- **Czech rep.**
- **Poland**
- **Turkey**
- **Ukraine**
- **India**
- **Azerbaijan**

Up from 16th in 2015

Diversified resilient economy

Gross domestic product
Source: Geostat

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

Comparative real GDP growth rates, % (2007-2017 average)
Sources: IMF

Monthly Economic Activity Estimate, y/y growth
Sources: Geostat

¹ preliminary data
Room for further job creation

Unemployment rate down 0.1ppts y/y to 13.9% in 2017
Sources: GeoStat

Average monthly nominal earnings in business sector
Sources: GeoStat

UNDP Human Development Index
Sources: UNDP

Labor force decomposition 2017
Sources: GeoStat

Hired workers accounted 48% in total employment in 2017
Inflation targeting since 2009

**Inflation y/y vs. inflation target**
Source: NBG, GeoStat

Inflation target is 3% from 2018

**Average monthly nominal earnings**
Source: GeoStat

Monthly nominal earnings increased on average 8% y-o-y in 2010-2018
Current account deficit supported by FDI

Current account balance (% of nominal GDP)

Sources: NBG

Exports and Re-exports, US$ bln

Source: NBG

FDI and capital goods import

Source: GeoStat
Strong foreign investor interest
Sources: GeoStat

Visitors and tourism revenues on the rise
Sources: GNTA, NBG

Remittances - steady source of external funding
Source: NBG

Export continues to support economic growth
Source: Georstat
Tourism sector on the rise

Tourism revenues to GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Tourism inflows, US$ mn, LHS</th>
<th>Number of foreign visitors, mln, RHS</th>
</tr>
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<tbody>
<tr>
<td>2005</td>
<td>100</td>
<td>3.8%</td>
</tr>
<tr>
<td>2006</td>
<td>150</td>
<td>4.0%</td>
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<tr>
<td>2007</td>
<td>200</td>
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<tr>
<td>2008</td>
<td>250</td>
<td>3.5%</td>
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<td>2009</td>
<td>300</td>
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<tr>
<td>2010</td>
<td>350</td>
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<td>2011</td>
<td>400</td>
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<tr>
<td>2012</td>
<td>450</td>
<td>8.9%</td>
</tr>
<tr>
<td>2013</td>
<td>500</td>
<td>10.7%</td>
</tr>
<tr>
<td>2014</td>
<td>550</td>
<td>10.8%</td>
</tr>
<tr>
<td>2015</td>
<td>600</td>
<td>13.8%</td>
</tr>
<tr>
<td>2016</td>
<td>650</td>
<td>15.1%</td>
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<tr>
<td>2017</td>
<td>700</td>
<td>18.1%</td>
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</table>

Spending per arrival, 2016

<table>
<thead>
<tr>
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<tr>
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<td>1400</td>
<td>1500</td>
<td>1600</td>
<td>1700</td>
</tr>
<tr>
<td>Turkey</td>
<td>2000</td>
<td>2100</td>
<td>2200</td>
<td>2300</td>
<td>2400</td>
<td>2500</td>
<td>2600</td>
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<td>2800</td>
<td>2900</td>
<td>3000</td>
<td>3100</td>
<td>3200</td>
</tr>
</tbody>
</table>

Arrivals to country’s population, 2016

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Albania</td>
<td>5.0%</td>
<td>6.0%</td>
<td>7.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6.0%</td>
<td>7.0%</td>
<td>8.0%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

Number of Tourists (overnight visitors)

In 1H2018 # of tourists reached 1.9 mn persons, up 23% y/y
Diversified foreign trade

Goods’ Trade Deficit

Source: GeoStat

Oil imports

Source: GeoStat

Electricity generation and trade, GWH

Source: ESCO
Diversified foreign trade

**Imports of Goods**
Source: NBG

- EU countries: 29%
- Turkey: 16%
- Russia: 10%
- China: 10%
- Azerbaijan: 7%
- Ukraine: 5%
- Germany: 5%
- Bulgaria: 5%
- Armenia: 4%
- United States: 4%
- France: 3%
- Other: 7%
- Russia: 10%
- China: 10%

**Foreign Demand, 1H2018**
Source: Geostat

- Food and beverages: 45%
- Industrial supplies: 22%
- Fuels and lubricants: 13%
- Capital goods: 13%
- Transport equipment: 4%
- Consumer goods: 3%
- Other: 7%

**Importing countries, 1H2018**
Source: GeoStat

- Turkey: 16%
- EU countries: 29%
- China: 10%
- Russia: 10%
- Armenia: 7%
- Ukraine: 5%
- Azerbaijan: 5%
- United States: 4%
- Germany: 4%
- France: 3%
- Other: 7%

**Exporting countries, 1H2018**
Source: GeoStat

- EU countries: 23%
- Russia: 13%
- Azerbaijan: 13%
- Bulgaria: 8%
- Armenia: 8%
- Turkey: 10%
- Ukraine: 5%
- United States: 5%
- China: 5%
- Switzerland: 3%
- Other: 7%
Prudent monetary policy ensures macro-financial stability

**International reserves**
Sources: NBG

**Monetary policy rate**
Sources: NBG

NBG started gradual exit from moderately tightened monetary policy and decreased its refinancing rate by 25 basis points to 7% on 25 July 2018.

**Nonperforming loans to total gross loans, latest 2018**
Sources: IMF

<table>
<thead>
<tr>
<th>Country</th>
<th>end-2017</th>
<th>latest-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>6.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Georgia</td>
<td>7.00%</td>
<td>7.25%</td>
</tr>
<tr>
<td>Russia</td>
<td>17.75%</td>
<td>9.00%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Belarus</td>
<td>17.00%</td>
<td>17.00%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>10.00%</td>
<td></td>
</tr>
</tbody>
</table>

**Monetary policy rate remains low vs. peers**
Sources: Central banks

- Armenia: 6.00% (end-2017), 7.00% (latest-2018)
- Georgia: 7.00% (end-2017), 7.25% (latest-2018)
- Russia: 17.75% (end-2017), 9.00% (latest-2018)
- Turkey: 10.00% (end-2017), 10.00% (latest-2018)
- Kazakhstan: 17.00% (end-2017), 17.00% (latest-2018)
- Belarus: 10.00% (end-2017), 10.00% (latest-2018)
- Ukraine: 10.00% (end-2017), 10.00% (latest-2018)
- Azerbaijan: 10.00% (end-2017), 10.00% (latest-2018)
Floating exchange rate - policy priority

Central Bank's interventions

Sources: NBG

NBG purchased US$ 70mn in 7M2018 to farther accumulate reserves

Real effective exchange rate (REER)

Sources: NBG

Bilateral exchange rate indices (Dec2012=100)

Sources: NBG

Flexible exchange rate regime plays a role as shock-absorber

Dollarization ratios

Source: NBG

De-dollarization mechanisms increase resilience to currency fluctuations
Low public debt

Public debt as % of GDP is capped at 60%

Source: MOF

Note: Deficit calculated based on IMF’s GFSM-1986 methodology

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

Note: Deficit calculated based on IMF’s GFSM-1986 methodology
### Growth-oriented government reforms (2018-2020)

#### Structural Reforms

- **Small government concept**
  - Optimization of government units and decrease bureaucracy expenses to get small, efficient and flexible government
  - Compensation of employees as a% of GDP will decrease and remain close to 3.9% of GDP

- **Tax Reform**
  - Favorable tax rates for SME development
  - Special tax regimes for regional offices of multinational companies
  - 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

- **Law of Georgia on Entrepreneurs**
  - New law will be drafted reflecting requirements of Association Agreement between EU and Georgia

- **Responsible Lending**
  - Regulatory actions to support responsible lending
  - Decrease household over indebtedness

- **Association Agreement Agenda**

#### 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 and integration in international transport systems

- **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 2.5 bln** for the project completion;

#### Education

- **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