Georgian Capital Market Development

George Paresishvili, CEO
Evolution of corporate financing

<table>
<thead>
<tr>
<th>Firm size</th>
<th>Small</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm age</td>
<td>Start-up</td>
<td>Mature</td>
</tr>
<tr>
<td>Information availability</td>
<td>No track record</td>
<td>Track record</td>
</tr>
</tbody>
</table>

**Debt and Credit**

- Capital markets: Public debt (bonds) -> Commercial Paper -> Private placement
- Mezzanine financing
- Bank Letters of Credit, revolvers, loans
- Trade and supply chain credit

**Equity**

- Initial Insider/Angel finance
- Venture Capital
- Private Equity
- Public Equity

**Financing tenor (from issuer’s perspective):**

- Short-term
- Medium-term
- Long-term

Evolution of personal savings and investments

**Total personal income**
- Personal Financial Assets
- Discretionary consumption
- Taxes
- Essential consumption

- More wealth
  - More risky
  - Higher yield
- Less wealth
  - Less risky
  - Lower yield

**Total Savings**
- Hard assets (real estate, commodities)
- Retirement (pension) and insurance products
- “Retail” products (mutual funds, direct equity and debt instruments)
- Alternative investments (hedge funds, PE) and wealth management

**Increasing reliance on capital markets**
- Bank deposits, CDs

- Increased personal income allows for accumulation of personal financial assets
- As wealth increases, saver tries to diversify savings to those that can provide increased yields and to protect from future income shocks
- This leads to purchases of retirement and insurance products; savers start to participate in retail capital market products and alternative investments
- This leads to increased need for capital markets

Corporate bond market structure

**Issuers**
- Financial institutions
- Quasi-sovereigns
- Non-financial institutions (corporates)

**Financial instrument/Capital**
- Broker-dealers
- Banks
- Asset Managers

**Investors**
- Asset managers (mutual funds, hedge funds)
- Asset owners (insurers, pension funds, banks, governments, agencies)

**Information and rating providers**
- Market benchmarks and indices
- Data distribution vendors
- Risk assessment providers (rating agencies)

**Infrastructure providers**
- Exchanges
- Depositories/Custodians
- Clearing and settlement

**Regulation and legislation**
- Corporate governance and investor protection
- **Accounting and reporting standards**
- Securities market regulation
- Industry regulation

**Social and macroeconomic policies**
- Pension/retirement policies
- Tax regimes
- Education (financial)

Source: Oliver Wyman, World Economic Forum, Corporate Bond Market 2015
Current stage of capital market development

- Measuring progress
- Equities and bonds
Sequence of corporate bond market (players)

Stage 1: Establishing basic bond market processes

Stage 2: Enhance infrastructure and processes for corporate bond market

Stage 3: Widening the issuer and investor base

Stage 4: Improving liquidity and risk management

Stage 5: Expand integration with international markets

Market characteristics - Types of market participants

Issuer
- Government/Quasi
- Financial Institutions
- Largest corporates

- Government/Quasi
- Financial Institutions
- Medium/large corporates

- Government/Quasi
- Financial Institutions
- Wider range of local corporates

- Government/Quasi
- Financial Institutions
- Wider range of local corporates (including foreign)

Investors
- Foreign investors (limited)
- Banks
- Domestic Institutional (limited)

- Foreign investors
- Banks
- Domestic institutional
- Sophisticated domestic retail

- Foreign investors
- Banks
- Domestic institutional
- Retail investors
- Alternative investors

- Foreign investors
- Banks
- Domestic institutional
- Retail investors
- Alternative investors

Source: Oliver Wyman, World Economic Forum, Corporate Bond Market 2015, modified by GSE
Sequence of corporate bond market (policy)

Stage 1: Establishing basic bond market processes
- Establish basic market infrastructure
- Establish benchmark curve through government bond issuances
- Develop institutional investors

Stage 2: Enhance infrastructure and processes for corporate bond market
- Introduce corporate bond issuances
- Establish wholesale credit market
- Establish credit rating system

Stage 3: Widening the issuer and investor base
- Reduce issuance costs and accelerate issuance timeline
- Promote growth of asset management industry
- Promote investor relations culture and ability to manage compliance with covenants

Stage 4: Improving liquidity and risk management
- More sophisticated financial instruments
- Enhance investor and issuer awareness
- Development of a domestic swap curve
- Ability for repos -securities borrowing and lending

Stage 5: Expand integration with international markets
- Regulatory approval processes for international issuers
- Linkages of domestic market with international markets (linking of exchanges, collateral management, and clearing systems)
- Potential treaties to facilitate and govern cross-border capital flows
- Extend capital account liberalization

Policy actions

Market and product development
- Establish basic market infrastructure
- Establish benchmark curve through government bond issuances
- Develop institutional investors
- Introduce corporate bond issuances
- Establish wholesale credit market
- Establish credit rating system

Risk management
- Establish regulatory body to govern securities markets
- Restrict permissible investment for institutional investors
- Establish market standards (accounting, corporate governance) and regulations (insider trading laws)

Source: Oliver Wyman, World Economic Forum, Corporate Bond Market 2015
Equity instruments

Equity market remains underdeveloped:
- company owners are reluctant to give up their stake and seek other sources of financing
- cost of equity is too high
- and equities are riskier investment for mainstream investors (banks, pension funds, retail clients)

Equities, number of trades

Equities, value traded, thousand GEL

Number of equity issuers

Source: GSE
Bond market is currently more attractive for both issuers and investors:

- bonds are similar to bank loans
- cost of debt is lower
- bonds are less risky investment for mainstream investors (banks, pension funds, retail clients).
- some bonds can be used by banks for getting refinancing loans from NBG which makes them attractive liquidity instrument

**Bonds, value traded, thousand GEL**

<table>
<thead>
<tr>
<th>Year</th>
<th>On-Exchange</th>
<th>OTC</th>
<th>Share of On-Exchange trades in total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2015</td>
<td>3%</td>
<td>39%</td>
<td>20%</td>
</tr>
<tr>
<td>2016</td>
<td>20%</td>
<td>70%</td>
<td>89%</td>
</tr>
<tr>
<td>01.06.17</td>
<td>89%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Source: GSE

**Bonds, number of trades**

<table>
<thead>
<tr>
<th>Year</th>
<th>On-Exchange</th>
<th>OTC</th>
<th>Share of On-Exchange trades in total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2015</td>
<td>9%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>2016</td>
<td>38%</td>
<td>65%</td>
<td>65%</td>
</tr>
<tr>
<td>01.06.17</td>
<td>81%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

Source: GSE
## Recent bond issuances: Eurobonds

<table>
<thead>
<tr>
<th></th>
<th>GOGC</th>
<th>GoG</th>
<th>GR</th>
<th>BGEO</th>
<th>BOG</th>
<th>EBRD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue Size</td>
<td>250 mln</td>
<td>500 mln</td>
<td>500 mln</td>
<td>350 mln</td>
<td>500 mln</td>
<td>120 mln</td>
</tr>
<tr>
<td>Currency</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>GEL</td>
<td>GEL</td>
</tr>
<tr>
<td>Issue Date</td>
<td>26-Apr-16</td>
<td>12-Apr-11</td>
<td>5-Jul-12</td>
<td>26-Jul-16</td>
<td>1-Jun-17</td>
<td>24-Apr-17</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>26-Apr-21</td>
<td>12-Apr-21</td>
<td>11-Jul-22</td>
<td>26-Jul-23</td>
<td>1-Jun-20</td>
<td>24-Apr-22</td>
</tr>
<tr>
<td>Tenor</td>
<td>5 Y</td>
<td>10 Y</td>
<td>10 Y</td>
<td>7 Y</td>
<td>3 Y</td>
<td>5 Y</td>
</tr>
<tr>
<td>Coupon</td>
<td>Fixed</td>
<td>Fixed</td>
<td>Fixed</td>
<td>Fixed</td>
<td>Fixed</td>
<td>Floating</td>
</tr>
<tr>
<td>Issuer rating</td>
<td>BB-/B+/-</td>
<td>BB-/BB-/Ba3</td>
<td>B+/B+/-</td>
<td>BB-/-/B1</td>
<td>BB-/-/Ba3</td>
<td>AAA</td>
</tr>
<tr>
<td>Fitch/S&amp;P/Moody’s</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coupon Rate</td>
<td>6.75%</td>
<td>6.88%</td>
<td>7.75%</td>
<td>6.0%</td>
<td>11.0%</td>
<td>3 m GEL/CD/ NBG</td>
</tr>
<tr>
<td>Listed on</td>
<td>LSE</td>
<td>LSE</td>
<td>LSE</td>
<td>LSE</td>
<td>LSE</td>
<td>LSE</td>
</tr>
</tbody>
</table>

Source: Bloomberg
## Recent bond issuances: corporate

### Selected corporate issues

<table>
<thead>
<tr>
<th></th>
<th>GLC</th>
<th>m2 Real Estate</th>
<th>Nikora</th>
<th>GWP</th>
<th>EVEX</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue Size</strong></td>
<td>10 mln</td>
<td>25 mln</td>
<td>5 mln</td>
<td>30 mln</td>
<td>15 mln</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
<td>GEL</td>
<td>USD</td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>22-Sep-14</td>
<td>7-Oct-16</td>
<td>18-Mar-16</td>
<td>6-Dec-16</td>
<td>19-May-15</td>
</tr>
<tr>
<td><strong>Maturity Date</strong></td>
<td>22-Sep-17</td>
<td>7-Oct-19</td>
<td>18-Mar-18</td>
<td>6-Dec-21</td>
<td>19-May-17</td>
</tr>
<tr>
<td><strong>Tenor</strong></td>
<td>3 Y</td>
<td>3 Y</td>
<td>2 Y</td>
<td>5 Y</td>
<td>2 Y</td>
</tr>
<tr>
<td><strong>Coupon</strong></td>
<td>Fixed</td>
<td>Fixed</td>
<td>Fixed</td>
<td>Floating</td>
<td>Fixed</td>
</tr>
<tr>
<td><strong>Issuer rating</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>BB-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Coupon Rate</strong></td>
<td>8.75%</td>
<td>7.5%</td>
<td>11.0%</td>
<td>NBG Ref Rate + 3.5%</td>
<td>9.5%</td>
</tr>
<tr>
<td><strong>Listed on</strong></td>
<td>GSE</td>
<td>GSE</td>
<td>GSE</td>
<td>-</td>
<td>GSE</td>
</tr>
</tbody>
</table>

Source: GSE
## Recent bond issuances: International

### IFIs issues

<table>
<thead>
<tr>
<th></th>
<th>EBRD</th>
<th>EBRD</th>
<th>ADB</th>
<th>ADB</th>
<th>IFC</th>
<th>BSTDB</th>
<th>BSTDB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue Size</strong></td>
<td>25 mln</td>
<td>107 mln</td>
<td>64 mln</td>
<td>100 mln</td>
<td>108.3 mln</td>
<td>48 mln</td>
<td>60 mln</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>GEL</td>
<td>GEL</td>
<td>GEL</td>
<td>GEL</td>
<td>GEL</td>
<td>GEL</td>
<td>GEL</td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>13-Feb-15</td>
<td>17-Jun-16</td>
<td>6-Jul-16</td>
<td>19-Feb-15</td>
<td>1-Jun-17</td>
<td>5-Nov-15</td>
<td>4-Aug-16</td>
</tr>
<tr>
<td><strong>Maturity Date</strong></td>
<td>13-Feb-18</td>
<td>11-Jun-21</td>
<td>6-Jul-19</td>
<td>15-Feb-18</td>
<td>1-Jun-20</td>
<td>1-Nov-18</td>
<td>29-Jul-21</td>
</tr>
<tr>
<td><strong>Tenor</strong></td>
<td>3 Y</td>
<td>5 Y</td>
<td>3 Y</td>
<td>3 Y</td>
<td>3 Y</td>
<td>3 Y</td>
<td>5 Y</td>
</tr>
<tr>
<td><strong>Coupon</strong></td>
<td>Floating</td>
<td>Floating</td>
<td>Floating</td>
<td>Floating</td>
<td>Fixed</td>
<td>Floating</td>
<td>Floating</td>
</tr>
<tr>
<td><strong>Issuer rating</strong></td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>A2/A-</td>
<td>A2/A-</td>
</tr>
<tr>
<td><strong>Fitch/S&amp;P/Moody's</strong></td>
<td>3 m GEL/CD/ NBG + 20bps</td>
<td>3 m GEL/CD/ NBG + 20bps</td>
<td>3 m GEL/CD/ NBG</td>
<td>7.99%</td>
<td>3 m GEL/CD/ NBG</td>
<td>3 m GEL/CD/ NBG</td>
<td></td>
</tr>
<tr>
<td><strong>Listed on</strong></td>
<td>GSE</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Government of Georgia

GEL denominated government bonds: GEL 2.2 billion outstanding

- 1, 2 and 5-year Treasury Notes
- 10-year Treasury Bonds
  - Owned primarily by Georgian banks and large non-resident (7% of total) institutional clients
  - Used by banks primarily for liquidity management purposes
  - Traded by primary dealers (banks) over the counter

Source: GSE, MOF
## Issuing bonds in foreign vs domestic currency

<table>
<thead>
<tr>
<th>Market:</th>
<th>International</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency:</td>
<td>Foreign “hard” currency</td>
<td>Local currency “floating” rate</td>
</tr>
</tbody>
</table>

### Investor perspective
- **International**
  - + Lower inflation risk
  - + Lower currency risk (for foreign investors)
  - + Greater information availability
  - + Access to a wide set of issuers
  - + Falls under international regulation which many cases is more investor friendly
    - Greater currency risk (for certain domestic issuers – those with limited international trade operations)
- **Domestic**
  - + Exposure to issuers who cannot access international markets
  - + No asset-liability currency mismatch (for domestic investors)
    - Greater currency risk (for foreign investors)
    - Higher inflation risk
    - Size of domestic issuances may not be sufficiently large for foreign investors to dedicate resources

### Issuer perspective
- **International**
  - + Access to a wide set of investors, hence issuances are likely to be fully subscribed
  - + Lower cost of financing (vs less liquid domestic market)
    - Asset-liability currency mismatch
    - More burdensome documentation process including requirements for internationally-recognized credit rating
    - More expensive issuance costs and longer execution time frame (avg. 10-12 weeks), particularly for first-time issuers
- **Domestic**
  - + No asset-liability currency mismatch
  - + Typically quicker execution (average 3-4 weeks)
  - + Fewer financial disclosure/compliance requirements
    - Limited set of investors
    - Higher chances that issuances will not be fully subscribed
    - Higher cost of financing as investors demand greater risk and liquidity premium

### Key challenges: issuers and investors

#### Factors impacting market

<table>
<thead>
<tr>
<th>Ability to access</th>
<th>Key challenges for issuers</th>
<th>Key challenges for investors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Length and costly issuance process</td>
<td>• Market not included in global benchmark indices</td>
</tr>
<tr>
<td></td>
<td>• Burdensome corporate governance or reporting standards (companies either not sophisticated enough to comply with standards or reluctant to do so)</td>
<td>• Difficulty for foreign investors to get to scale due to capacity and remoteness of the market</td>
</tr>
<tr>
<td></td>
<td>• Burdensome regulatory approval process</td>
<td>• Underdeveloped asset management industry</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk of market framework</th>
<th></th>
<th>• Restrictions on investment criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Concerns that issuing corporate bonds to banks will cannibalize the issuer's bank lending rates</td>
<td>• Volatile macroeconomic and political conditions (or history of)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Weak regulatory/legal framework</td>
<td>• Inconsistent application or enforcement of the legal and regulatory framework</td>
</tr>
<tr>
<td></td>
<td>• History of unexpected changes to policies</td>
<td>• History of unexpected changes to policies</td>
</tr>
<tr>
<td></td>
<td>• Limited standards around corporate governance</td>
<td>• Limited standards around corporate governance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relative costs and returns</th>
<th></th>
<th>• Limited number and size of issuances to meet investor requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High cost of capital relative to other sources of debt financing, such as bank loans</td>
<td>• Limited secondary market liquidity making it hard for investors to exit their positions without causing disruption to the market price</td>
<td></td>
</tr>
<tr>
<td>• High premium on primary market issuances due to perceived risks of the market framework or lack of secondary market liquidity</td>
<td>• Limited financial reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Low transparency of market information</td>
<td>• Limited financial reporting</td>
</tr>
<tr>
<td></td>
<td>• Limited credibility of credit ratings</td>
<td>• Limited financial reporting</td>
</tr>
<tr>
<td></td>
<td>• Limited secondary market activity from which to base pricing of primary and secondary market offerings</td>
<td>• Limited financial reporting</td>
</tr>
<tr>
<td></td>
<td>• Underdeveloped financial intermediation industry</td>
<td>• Limited financial reporting</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ability to match supply and demand</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lack of intermediaries for market-making</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lengthy transaction and execution time</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Regulation and legislation

- Corporate governance and investor protection
- Accounting and reporting standards
- Securities market regulation
Regulation and legislation update

Law on Entrepreneurs and Securities Market Law

Corporate Governance, Accounting and Reporting Standards

New standards on:
- Independent board members and audit committee
- Disclosure requirements for related party transactions and management compensation
- Protection of minority investors

- Corporate Governance standards are improving
- Companies are required to publish annual reports
- Annual reports need to be prepared according to IFRS
- Capital markets development strategy approved by the government in 2016
SARAS and GSE: cooperation

Currently working on Memorandum of Understanding regarding cooperation related to reporting of listed companies

Our common universe of companies: Public Interest Entity which are Accountable Enterprises listed on Stock Exchange

Has developed sector specific/standard reporting platform for companies in A and B listing in 12 sectors /subsectors:
  - Financial Statements
  - Ratios
  - Operational data (disclosures)

Held consultations with 24 companies in these sectors. Have developed forms from investor perspective

Currently working on integration of GSE reporting platform for Accountable Enterprises listed on Stock Exchange into the SARAS reporting platform.

The aim is to create One Reporting Window for companies and simplify information submission

Disclosure and Corporate Governance support the development of capital markets and increase market liquidity

- Corporate governance disclosure = reduced risks = increased market valuation and investor confidence
- Uniform accounting standards improves comparability of companies across markets and countries = the use of information less costly for investors = lower cost of capital
Social and macroeconomic policies

- Pension and retirement policies
- Tax regimes
Pension Reform: Pillar II System

Pension reform highlights

Pension reform design (current proposal):
- Employees contribute 2% from their monthly salary to their individual pension account
- Employers match this contribution by another 2%
- Government matches with additional 2% contribution

Thus total monthly contribution will be 6% of employee’s gross salary

Estimated accumulation of pension fund assets, mln Lari

Source: Ministry of Finance of Georgia, Ministry of Economy and Sustainable Development of Georgia

Significant funding source for domestic economy through debt and equity issuances (long-term GEL funding)

Source: Ministry of Economy and Sustainable Development of Georgia
Information and rating providers

• Risk assessment providers (rating agencies)
Credit rating

How much difference a credit rating can make for a bond’s price/yield during the placement or after?

At least 50 basis points which translates into GEL 500k annual savings for a GEL 100 million bond issue

To compare: cost of obtaining and maintaining credit rating is USD 25 - 50k annually

GSE organized two roadshows for Fitch Ratings. Met with approximately 20 large Georgian companies.

Some of them already hired Fitch and got rated (GWP: BB-, Silknet: B+, more in the pipeline)
Infrastructure providers

• Exchanges
• Depositories/Custodians
• Clearing and settlement system
New clearing and settlement system (1)

NBG Payment System  ATS (RTGS+ACH)  (Interbank Payments)

DVP and FOP  
T+1 Primary  
T+0 Secondary

NBG CSD Module  (Settlement and Safekeeping of Government Bonds and NBG CDs)

Bloomberg  
Government Bonds:  
• Primary Auctions  
• OTC (Secondary Market)  
• REPO

Commercial Banks  (Primary Dealers)

Commercial CSD (owned by GSE):  
• Equities  
• Corporate Bonds  
• Government Bonds  
• FX  
• Commodity futures

Share Registrar

• Issuer accounts
• Nominee Accounts
• Beneficial Owners’ Accounts
• Accounts of ICSD and Global Custodians
• Overall up to 500 000 accounts

New Members:  
• Pension Funds  
• Investment Funds  
  • Hedge Funds  
  • Mutual Funds  
• Wealth Management  
  • Family Offices  
  • HNWI (Qualified Institutional Buyers)  
• ICSD and Global Custodians (Clearstream, Euroclear, Citi, Deutsche, BNYM, State Street)

Pension Scheme Members:  
• More than 1 million personal accounts

Current Members  
• Banks  
• Brokerage Companies

Bank Proprietary Account

Client Omnibus Account

Client Segregated Account

New clearing and settlement system (1)
New clearing and settlement system (2)

**New system capabilities**

**Georgian Central Securities Depositary (GCSD)**
- Clearing and settlement of on-Exchange trades
- OTC trades clearing and settlement
- IPOs
- REPOS (among GSE members and with NBG)
- Margin Calculation
- Guarantee Fund
- Collateral Management
- Securities Lending / Borrowing
- Corporate Actions (Dividends, Coupon Payments, Stock Splits, Shareholders Meetings, etc.)
- Tax services for investors
- Custody and safekeeping of local and foreign securities

**Share Registrar “Kavkasreestri”**
- Keeping records of securities of beneficial and nominal owners
- Transfer of securities, collateral and blocking
- Account/turnover statements, issuing ownership/title certificates
- Holding and servicing individual accounts of pensioners
- Recording Individual units of pension and mutual funds
- Calculation of fund Net Asset Value for Asset Managers and Administrators
- Reliable and independent source for market value of securities for Brokers and Asset Managers
## New clearing and settlement system (3)

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Clearing and settlement in Central Bank’s money</td>
<td>Higher speed, lower operational risks and costs</td>
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<tr>
<td>Better access to secondary market by institutional investors (including pension and mutual funds)</td>
<td>Institutional investors will be able to trade and hold government securities though GSE and GCSD, thus increasing liquidity of government bond market</td>
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<tr>
<td>NBG and commercial banks will be able to conduct REPO operations using corporate bonds</td>
<td>Corporate bonds will be accepted as collateral electronically, directly from market participants (banks, brokers, pension funds) in semi-automated manner</td>
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<tr>
<td>Reduced counterparty risk</td>
<td>Counterparty risk reduces for OTC trades as settlements will take place in DVP (Delivery vs Payment) mode</td>
</tr>
<tr>
<td>Access to foreign investors</td>
<td>Foreign investors will be able to hold Georgian corporate securities through Clearstream. This will increase demand for Georgian securities and market liquidity</td>
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</tbody>
</table>
Issuing corporate bonds

- Is it the right time for Georgian companies to issue corporate bonds and in which currency?
- Is it better to issue a bond or take a bank loan?

Interest rates on bank deposits dropped, making investments in bonds far more attractive

Leading Georgian companies have matured for a public issue (good corporate governance, competent management, IFRS accounting and so forth), especially in GEL

Banks are willing to buy corporate bonds, subject to NBG’s new REPO scheme eligibility

Cost of obtaining international credit rating became more affordable

International investors are increasingly seeking higher yield in prolonged historically low interest rate environment

Get ready for pension reform to tap much larger and more liquid markets (larger issues, longer term, GEL denominated, lower rates)
Thank you!