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First Georgian Cryptocurrency AISI COIN Thrives, Creating the First Georgian Ecosystem for Start-ups

By GELA MEGENEISHVILI

As the new era of technologies has paved the way for the money digitalization process, cryptocurrency has emerged as one of the most promising financial breakthroughs of the 21st century.

In August 2017 AISI COIN was established as the first Georgian cryptocurrency, with the emission of 250 million coins.

The FINANCIAL interviewed the founder of AISI COIN, Giorgi Shervashidze, where in a barrage of questions we covered both the fundamental and specific topics concerning cryptocurrency and its role in developing the Georgian economy.

Q. In what ways has Georgia caught up with the general development of cryptocurrency on a global scale?

A. Well, in my mind there are things that our government has done quite well. Georgia has been the first country in the whole world to announce public registry transactions via Blockchain,

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The Payments Revolution

Interview with Andrei Aleikin, Sr. Director, Digital Solutions at Visa CISSEE

Q. What are the key trends impacting cashless payments nowadays?

A. We are currently witnessing a revolution in the way people make payments, in fact in the whole lifestyle of our consumers, which on a scale is close to a technological revolution. Why am I speaking of a revolution?! It is because customers now have very powerful connected devices – mobile or smartphones, which provide constant 24/7 connectivity, the possibility to instantly access any information, any data, and any knowledge in the world though search systems, a possibility to select goods and services and etc. All of that is included in a small device with very convenient interface with huge processing capability. This is a very powerful device which changes the possibilities and capabilities of a consumer very significantly. Customers now expect a lot more and can do a lot more – in terms of choosing and paying for goods and services, receiving services from financial institutions or from other service providers.

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Is Georgia on the right path to reduce massive plastic bag usage?

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The Year 2019 Predicted to be a Period of Adaptation to the New Regulatory Systems

The FINANCIAL

With the arrival of the annual banking forum fast approaching, according to tradition The FINANCIAL.

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CURRENCIES

	Apr 12	Apr 5
1 USD	2.6960	▼2.6903
1 EUR	3.0408	▼3.0212
100 RUB	4.1865	▼4.1146
1 TRY	0.4705	▲0.4769

The Payments Revolution

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A. We are currently witnessing a revolution in the way people make payments, in fact in the whole lifestyle of our consumers, which on a scale is close to a technological revolution. Why am I speaking of a revolution?! It is because customers now have very powerful connected devices – mobile or smartphones, which provide constant 24/7 connectivity, the possibility to instantly access any information, any data, and any knowledge in the world though search systems, a possibility to select goods and services and etc. All of that is included in a small device with very convenient interface with huge processing capability. This is a very powerful device which changes the possibilities and capabilities of a consumer very significantly. Customers now expect a lot more and can do a lot more – in terms of choosing and paying for goods and services, receiving services from financial institutions or from other service providers. All the participants of financial and digital commerce ecosystems now have to meet these demands and these capabilities – and this impacts the whole industry. So, the number one trend, in our view, is connected/smart consumer with a connected device in their hands.

The 2nd trend is a proliferation of all-in-one-platforms. Huge platforms and solutions provided by all-in-one-platform companies like Apple, Google, Amazon, Alibaba with Alipay– these are the ecosystems which allow customers to fulfil most of their everyday needs within the ecosystem. This is a new experience and possibility for both customers and service providers to work within this ecosystem. Gartner expects that by 2020 Alibaba will become the largest retailer in the world. This is an indicator of the significance of this trend.

The 3rd important trend is big data proliferation. There are some assessments that the amount of data doubles every two years, and by 2020 it will reach 45 000 Exabyte, which is hard to imagine. This data brings new, very strong, capabilities to understand better the needs and behaviours of our customers, and to offer solutions personalised to the needs of individual people. Artificial intelligence systems are proliferating, with machine learning capabilities growing fast and becoming available via open platforms to the majority of market participants. Big data plus artificial intelligence and deep learning capabilities are bringing new opportunities on a mass scale we didn't have before.

And the 4th important trend is proliferation of new enabling technologies in connected devices, that help customers experience things much faster and in a much more exciting way than before. In payments this includes the new ways to authenticate the customer using biometrics - face recognition, voice recognition, etc., and the new ways to initiate payments. Customers can do it communicating through devices in a natural language interface, using chatbots and artificial intelligence advisers. According to forecasts, by 2020 about 85% of provider's relationships with customers will be accomplished via artificial intelligence advisors and using natural language interface.

These are the four key trends in the payment ecosystem and that's why we believe it's actually a technological revolution happening now.

Q. How mobile and Pay solutions (Apple Pay, Google Pay etc) and proliferation of e-wallets influence and change payments?

A. We see quite clearly on the statistics of our launches of the mentioned pay solutions (like Apple Pay, GooglePay, Samsung Pay as well as e-wallets/issuer wallets) that when they come to the market, the number of transactions made by mobile phones of our customers grows drastically. First of all this is due to the perfect customer experience that Apple Pay and similar pay solutions bring to customers. Initially they all started with contactless NFC payments made by NFC phones at contactless terminals, but we see clearly now that they are moving into the card-not-present space, with more and more payments within mobile applications (so-called "In-app payments") being made using Apple pay, Google Pay and other "Pay" solutions. One more important trend now is that "Pays" are moving to e-commerce. We see more and more often a button 'Pay with Apple Pay" on e-commerce websites and customers can make payments on such websites immediately, using Apple Pay. Again, the customer experience is very smooth and convenient, and this brings great potential of increasing the number of payments made in mobile commerce/e-commerce as well as in face-to-face NFC POS terminals. So, this is now very strong driver in moving to cashless and we believe that payment systems, banks, and financial industry in general should use this trend to increase the share of cashless payments in the economy.

Q. What is Visa's role as payments move to gadgets?

A. Visa plays several roles in this process of moving payments to gadgets. First and very obvious role is the technical enablement on the banking side of the industry, as banks have to implement some changes in their systems to support payments with gadgets. The second very important part is that Visa is a provider of secured technology which allows to store card credentials securely in mobile devices. Now with this obvious trend of customers moving to wearables/mobile devices there is a need to load payment credentials to millions of devices in a securer way, so that fraudsters will not be able to steal these credentials and use them for payments. As far as the number of devices is huge, it's quite difficult to manage this kind of security in a traditional way. That's why, Visa together with other payment systems worked on a new standard of storing payment credentials in gadgets, wearables and mobile devices by converting them into tokens. A token is a surrogate card number which resembles a real one, but which is just a pointer to a real card number stored securely on Visa side - at Visa Token Service. When you load tokens to mobile devices instead of real credentials, the fraudsters can't do much with these tokens. They won't be able to do payment transactions even if they steal tokens from devices. Visa as a payment system will control to whom that token has been issued and how it can be used; so Visa will not allow such fraudulent transactions. This is a new higher level of security of storing payment credentials in mobile devices and wearables and Visa is providing this tokenization technology widely to banks to offer customers NFC contactless payments within their mobile banking applications ("Issuer Wallets") in multiple markets – Georgia, Belarus, Bosnia & Herzegovina, Kazakhstan, Serbia, Ukraine and others.

We are proud that we have partnered with Apple, Google, Samsung in launching tokenization technology together with their "Pays" applications in multiple countries in our region. In particular, in Ukraine we've launched Google Pay with Google in November 2017 and Apple Pay with Apple in May 2018 - both based on Visa Token Service. Apple Pay has also been launched in Kazakhstan and Samsung Pay - in Belarus. Now Garmin Pay allowing to pay with Garmin smartwatches that support NFC) is also available in all abovementioned markets These technologies are moving quickly around our region and the background for that is tokenization and the Visa Token Service as a securer way to store card credentials on mobile devices.

At the same time, Visa helps to provide customers with seamless customer experience when paying with smartphones and wearables. , and this is due to implementation of biometric authentication. In payments it's very important to validate the owner of the card before making the payment. The most convenient way to do it on a mobile device now is using biometric authentication, like finger print or face recognition which are already very popular,voice recognition is coming soon and Visa supports these methods with special solutions as well. These are the main new roles Visa is playing in payment ecosystem in order to support payments with mobile devices, in addition to its traditional roles of payment network, connecting all payment ecosystem participants, and payment scheme, establishing the rules for Visa card-based payments

Q. Do you think that all financial transactions will soon become cashless?

A. There are different opinions about that. We see obvious trend to cashless. Governments are interested in cashless payments; customers want them too, because they are safer and more convenient; the merchants understand that this is now a preferred way of payment for their customers and are also moving to cashless now. Meanwhile, there are some merchants that still prefer cash, because of some habit, taxation and other reasons,. There is the opinion that cash will still remain existing in some markets, especially in those that are moving slower than others. But here we should take into account the possibility of "leap-frogging" - great progress made by some markets which initially were at earlier stage of development, but are implementing the latest technologies intensively and are quickly becoming leaders in the industry. I think Georgia is a great example of this kind of leadership. Georgia was one of the first markets in our region to launch Visa payWave contactless payments in 2009 and in just a few years it has become one of the global leaders in terms of penetration of Visa payWave contactless transactions. Over 93% of all face-2-face transactions (transactions made at merchant POS terminals) are being done now with contactless technology: contactless cards, or smartphones, or wearables. This is the second-best result in the world. Now, Georgia is moving fast to tokenization. Three Georgian banks – Bank of Georgia, TBC Bank and VTB Bank - have already launched tokenized Issuer wallets, Bank of Georgia has also launched Garmin Pay, which prepares them for Pays coming to Georgian market.

Q. What are the current demands of modern customers towards payment providers? How Visa is responding to these changing demands from customer experience?

A. I have already mentioned that we witness the revolution in the capabilities of customers because of the connected devices in their hands. Because of it they have new needs and new possibilities in terms of gaining knowledge about goods and services, choosing among them and making payments in a secure and seamless way. Visa is responding to this need for security by offering a securer way to store card data and pay with smart-devices using the above mentioned 'tokenization' technology. We also provide seamlessness with the help of contactless technology and biometrics.

There is also one more important demand which our customers with new great capabilities are developing: they expect their banks, merchants and service providers to offer additional value, bonuses, services, propositions, which will be fine-tuned to individual preferences of a particular customer. Such "personalization" is possible now due to artificial intelligence and big data capabilities, so this demand also has to be supported. In order to help our clients deliver this targeted personalized offers to customers, Visa provides loyalty and merchant offer platforms as well as customer segmentation capabilities based on analysis of customer behaviour and transaction history.

We also see that there are multiple new players on the market offer innovative customer experience, new ways to interact with customers – so Visa is really open to cooperation with fintechs and other players in the market in order to deliver better experience and additional value to our cardholders.

Q. What do you think differentiates Visa from the rest of its competitors in the payments sector in the new digital age?

A. Despite a lot of new players in the financial services world, Visa remains the largest payment platform in the world in terms of global coverage, the number of connected participants and processing power for financial transactions. Visa is present in 200 countries and connects more than 17 300 banks and financial institutions. We have 3.2 billion cards issued currently and 44 million merchants connected to the Visa network, which is processing 165 billion financial transactions per year.

But these are not the only distinguishing factors. Our strength is in combining global coverage with global interoperability. All the solutions which we launch are globally interoperable, which means that they will work the same smooth way at any point in the world where Visa card is accepted. Visa applies the highest security standards and our tokenization solution is a proof of that. Because of that Visa has gained loyalty and trust from our clients, the banks, merchants and customers, and as a result Visa is one of the most trusted brands in the world. But now Visa is changing – it is opening itself to other participants of the market: fintech companies, service providers. Visa was probably the first among payment systems, who opened more than 40 API interfaces to fintechs and other "external" non-bank partners. "API" is an "Application Programming Interface", which is a simple way to connect directly to VisaNet and use Visa services together with banks to offer new solutions to customers.

Visa also has established a number of Innovation Centres in all regions, where we are conducting co-creation sessions with banks and fintech companies in order to help them build new customer solutions based on our technology. Also, we have a number of programs to support fintechs.

Q. How does Visa work with new fintech players?

A. Visa is diversifying the ways how we work with fintechs.

I have already mentioned the first way APIs, which Visa has opened to the world through the special platform – the Visa Developer Platform. Anyone can access this platform through a website **developer.visa.com** and get all information about our APIs, try them in a "sandbox" and apply for production system access. **.**

Second way: Visa has launched a "Visa-Fintech Fast Track" programme, which is a program to speed up establishing partnerships, signing of standard contracts, and getting connected to Visa APIs and partner banks.

Third way: Visa has created a new function called the "Innovation and Strategic Partnership Team" with a task to identify the most capable, interesting solutions and fintech providers with highest potential; to find partners for them among banks; and develop solutions together.

Forth way: We have launched the "Visa Everywhere Initiative", which is a new generation of hackathons for fintech players. Our finalists will have much more time to develop proper prototypes of their solutions, which helps the jury to identify the solutions with the highest potential for commercial success.

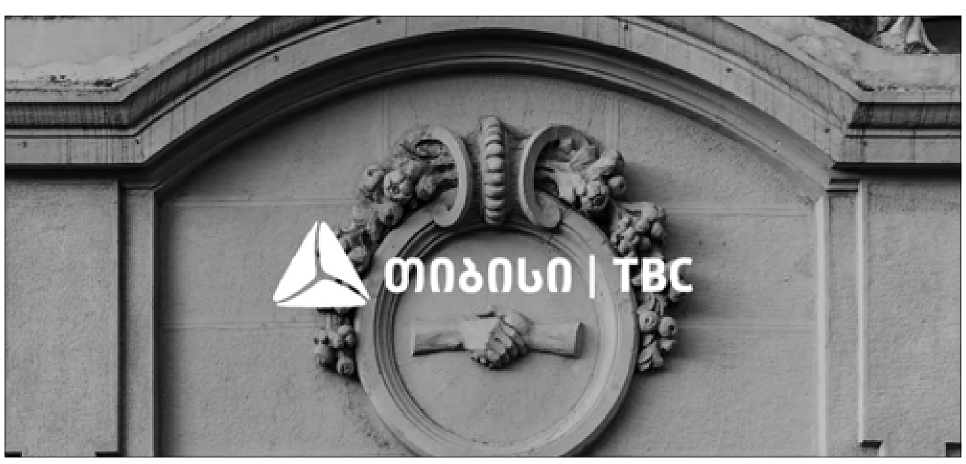
Q. What do you think is the future of cryptocurrency? And what will be the impact of cryptocurrency on traditional cashless payments?

A. I propose to divide this question into two parts. The first part is about cryptocurrencies themselves, and the second about the background technology on which cryptocurrency is based – blockchain technology. If we are speaking about cryptocurrency, currently Visa cards can be used to buy and sell cryptocurrency in markets where it's allowed, and legitimate transactions can be done. In april 2019 Visa and the major bitcoin and cryptocurrency exchange Coinbase have launched the Coinbase Visa Debit Card which allows users to spend crypto as effortlessly as the money in their bank.

Another example of how Visa is using blockchain technology for building new services is "B2B Connect". It is a non-card based cross border payments solution for corporate entities, developed and provided by Visa using distributed ledger (block chain) technology. It allows for cross border account to account payment from payer to payee.This solution has been piloted and launched successfully and we are now rolling it out in several markets.

All the above examples prove that Visa is expanding its role in payments ecosystem far beyond just card payment network – to a universal payment technology provider.

TBC Regional Business Forum Held in Imereti



Organized by TBC, a series of large business forums are being held in the regions of Georgia. Following the first one held in Adjara, TBC business clients gathered in Imereti. The event was held in Tskhaltubo, and about 300 representatives of businesses operating in the Imereti region participated in it.

Participants of the event were provided with information from business experts on issues concerning businesses nowadays. Nine speakers presented on a variety of topics to TBC's business clients, the subjects covered were: Business Support State Programmes; TBC Bank Corporate Services in the Regions; Contemporary Trends in Business; Culture 3.0; Macroeconomic Overview; "Silavmarke"; IFRS for SME; Tax News and Environmental Business; and, Motivation in Sales.

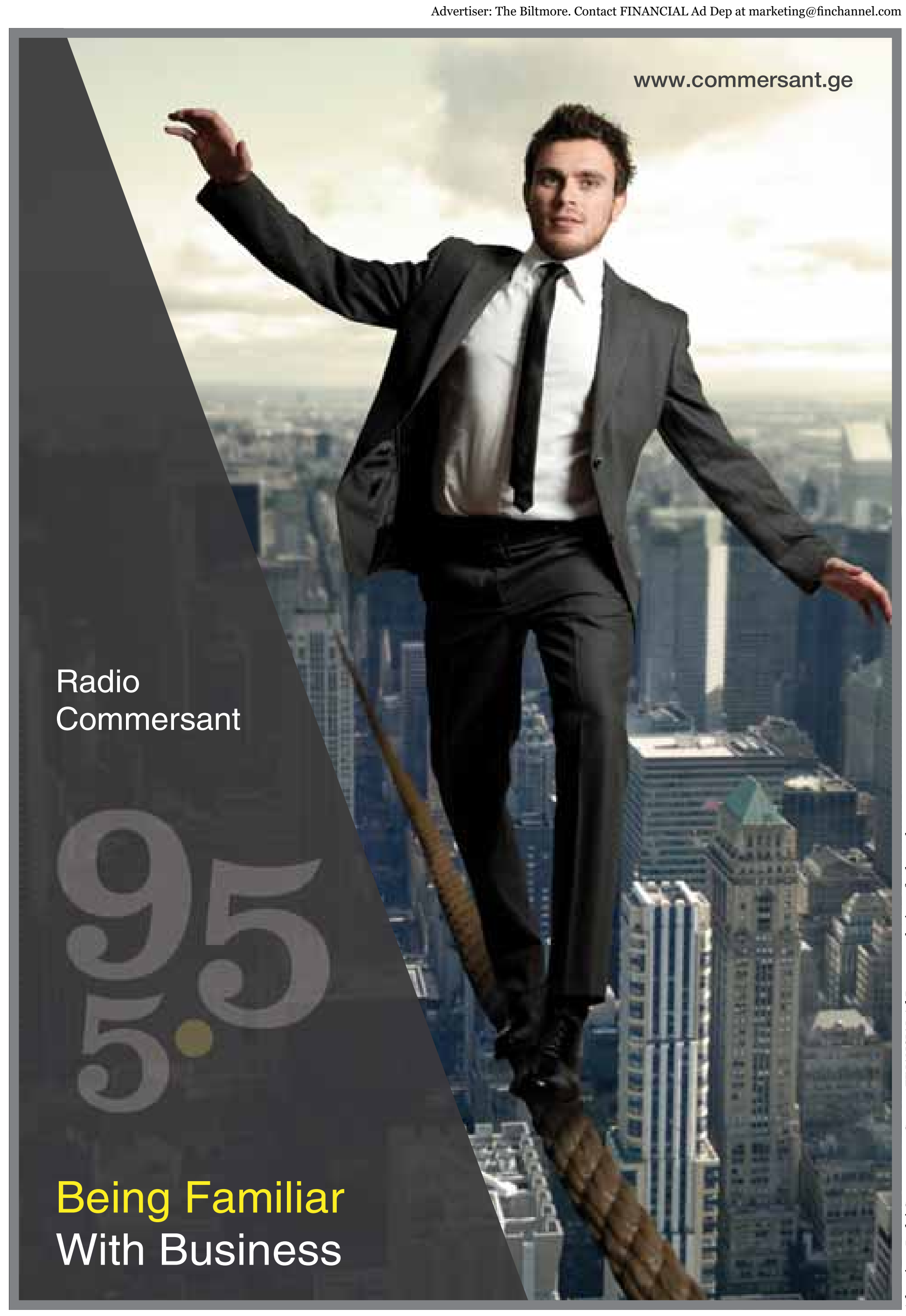
After that, business representatives had the opportunity to attend workshops and get information on further issues they were interested in, including: social media management; hotel management; new technologies; finances and more.

"The series of forums initiated by TBC is continuing with the Imereti business forum. Entrepreneurs have received information from professional speakers at the second business forum, which will make them able to better manage their businesses in different directions, in macroeconomics, social media and marketing or sales techniques," said Nika Kurdiani, the Deputy General Director of TBC Bank.

The aim of TBS Business Forum is to introduce relevant and interesting business innovations to business representatives in the different regions of Georgia, thereby promoting business in general.

After Adjara and Imereti, TBC Business Forum will be held in other regions of Georgia.

The partner of TBC's regional business forums is the European Foundation for South Eastern Europe (EFSE).



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Q. In what ways has Georgia caught up with the general development of cryptocurrency on a global scale?

A. Well, in my mind there are things that our government has done quite well. Georgia has been the first country in the whole world to announce public registry transactions via Blockchain, (the integrated secured bundle of payments that are trackable at every stage of a transaction).

However, there are follow-up steps that I would like to have seen taken towards further development. It would have been amazing if the Government integrated smart contracts in the public registry. Nowadays the system, in my mind, is outdated. When a buyer wants to purchase and register a piece of real estate, the process usually lasts days. Both parties (buyer and seller) have to expend a lot of effort to avoid misunderstanding.

Smart contracts solve the problem with ease. Once the terms are agreed by both parties, an algorithm transfers digitalized money in cryptocurrency to the recipient.

Q. Why is the development of cryptocurrency essential?

A. The reason why the development of cryptocurrency is so crucial lies in the concept of cryptocurrency itself. Emission is prohibited. The idea is that once a certain amount of cryptocurrency has been created, its additional emission is prohibited. This is great for numerous reasons, one of which is obviously no risk of inflation.

To specify further, there are two types of cryptocurrencies – coins and tokens. Coins are just currencies which have a certain exchange value. On the other hand, tokens are emitted by companies and carry a certain value of the shares of a company.

Crypto tokens enable companies' out funding, (out funding is currently only available for a physical person, any sort of out funding for companies is prohibited by Georgian law), which is something I believe our government should really focus on incentivizing.

Companies as jurisdictional entities are well protected by laws and enable both parties (potential shareholder and the company management team) to conduct a more productive business partnership.

Imagine if these token emissions were regulated in exchange for the Georgian Lari, demand would increase and therefore the GEL would appreciate in value.

Q. Do you see the necessity for the National Bank to emit cryptocurrency?

A. Personally, I do not feel very supportive of that idea. The whole beauty is in the decentralization that cryptocurrency provides, when government-based organizations such as the National Bank are involved in the process, the sector would probably see some regulations that go against the whole concept of cryptocurrency.

In my opinion, the only role the National Bank should have, is to come up with several defensive mechanisms to defend the equity of investors.

Q. Do you see ways that the National Bank can regulate the sector?

A. I really do not see many ways. Cryptocurrency is connected to Blockchain; the transactions are trackable, the accounts are visible, my currency is on stock for purchase on the world wide web.

Again, the only intervention I would love to see from the National Bank would be to establish some sort of ethics for trading, and currency exchange in order to create a healthy financial environment.

Q. Can cryptocurrency users take out loans without the involvement of any financial intermediary?

A. The liquidity of cryptocurrency enables that precisely, and in a much more efficient way than people are used to. The primary function of a bank is to gather around lenders and borrowers anyway, and in the process they take their commission.

An online ecosystem created by our cryptocurrency enables both borrowers and lenders to choose the terms that they find appealing.

The only thing that needs to be created is regulation for interactions with the help of a smart contract. In the event a contract is broken, or the money is not given back, the lender should have compensation with some sort of asset estimated at the value in which money was borrowed (every term will be written in a contract in advance).

Q. How would you describe the business portfolio of AISI COIN and its potential for development?

A. The concept of cryptocurrency surrounds so many fields, that potential for development truly has no boundaries.

Our team genuinely believes that the aim of any company should be to create something truly valuable to mankind.

We would really love to see some sort of ecosystem, where similar to Kickstarter, many start-up companies emit their crypto tokens and seek out investors globally. This investment process is taken to a whole new level, where in just a matter of seconds anybody can get shares of presented Georgian start-up companies on a global scale.

Each company will have its individual tokens, and the single currency of purchase will be AISI COIN of course.

This is one of the main purposes of AISI COIN and we would really love to see more supportive steps taken from our government in order to accelerate the creation of such an ecosystem.

Currently, we operate on 5 stock markets globally, with 15 locations on the Georgian market and 2 on the Latvian market.

The future is bright, and we are looking forward to putting Georgia on the map.

Fitch Affirms 4 Georgian Banks, Revises Outlooks on TBC and BOG to Stable

The FINANCIAL

Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of JSC TBC Bank Group (TBC) and JSC Bank of Georgia (BOG) at 'BB-' and revised their Outlooks to Stable from Positive. Fitch has also affirmed the Long-Term IDRs of JSC Liberty Bank (LB) at 'B+' and Procredit Bank (Georgia) (PCBG) at 'BB+' with Stable Outlooks.

Bank of Georgia

Long-Term Foreign- and Local-Currency IDRs affirmed at 'BB-'; Outlook revised to Stable from Positive

Short-Term Foreign- and Local-Currency IDRs affirmed at 'B'

Support Rating affirmed at '4'

Support Rating Floor affirmed at 'B'

Viability Rating affirmed at 'bb-'

Senior unsecured long-term rating affirmed at 'BB-'

Subordinated debt rating affirmed at 'B-'

TBC Bank

Long-Term Foreign-Currency IDR affirmed at 'BB-'; Outlook revised to Stable from Positive

Short-Term Foreign-Currency IDR affirmed at 'B'

Support Rating affirmed at '4'

Support Rating Floor affirmed at 'B'

Viability Rating affirmed at 'bb-'

Liberty Bank

Long-Term Foreign-Currency IDR affirmed at 'B+'; Outlook Stable

Short-Term Foreign-Currency IDR affirmed at 'B'

Support Rating affirmed at '4'

Support Rating Floor affirmed at 'B'

Viability Rating affirmed at 'b+'

ProCredit Bank (Georgia)

Long-Term Foreign- and Local-Currency IDRs affirmed at 'BB+'; Outlook Stable

Short-Term Foreign- and Local-Currency IDRs affirmed at 'B'

Support Rating affirmed at '3'

Viability Rating affirmed at 'bb-'

KEY RATING DRIVERS

The IDRs of TBC, BOG and LB are driven by the banks' intrinsic strength, as reflected by their Viability Ratings (VRs). BOG's senior unsecured debt is rated in line with its Long-Term IDR.

The revision of the Outlooks on TBC and BOG to Stable from Positive reflects our view of still significant risks associated with continued rapid loan growth and sizable foreign currency (FC) lending.

The IDRs and VRs of TBC, BOG and LB, and the VR of PCBG, reflect their exposure to the still relatively high-risk Georgian operating environment. These ratings also reflect the four banks' generally sound financial metrics, reflected in reasonable asset quality metrics, strong performance, adequate capitalisation and stable funding profiles and comfortable liquidity.

LB's lower VR and Long-Term IDR factor in its moderate market shares compared with BOG and TBC, its large, albeit decreasing, exposure to unsecured retail lending and its as yet untested growth in the corporate segment following ownership and strategy changes.

PCBG's IDRs and Support Rating are driven by the potential support it may receive from its sole shareholder, ProCredit Holding AG & Co. KGaA (PCH, BBB/Stable), in case of need. In Fitch's view, PCH will continue to have a high propensity to provide support to its Georgian subsidiary given the importance of Georgia to the group, full ownership, common branding, strong operational and management integration between the parent and the subsidiary and a record of capital and liquidity support.

Fitch caps PCBG's ratings at one notch above the 'BB' sovereign rating to reflect the country risks that domestic banks are exposed to.

In our view, in case of extreme macroeconomic and sovereign stress scenarios, these risks could limit PCBG's ability to service its obligations or the parent's propensity to continue providing support, or both.

The affirmation of BOG, TBC and LB's Support Ratings at '4' and Support Rating Floors (SRFs) at 'B' reflects Fitch's view of the limited probability of support being available from the Georgian authorities, in case of need. We believe that the authorities would likely have a high propensity to support BOG, TBC and LB, at least in the near term, in light of their high systemic importance (BOG/TBC) and extensive branch network and role in distributing pensions and benefits (LB).

However, the ability to provide support, especially in FC, may be constrained, given the banks' large FC liabilities (USD6.1 billion at end-2018) relative to sovereign FX reserves (USD3.3 billion at end-2018).

Furthermore, Fitch understands that the National Bank of Georgia (NBG) plans to submit to parliament draft legislation on bank resolution. If legislation is ultimately adopted that provides a credible framework for the bail-in of senior creditors of failed banks, then Fitch would likely downgrade the Support Ratings of TBC, BOG and LB to '5' and revise their SRFs to 'No Floor'.

Continued on p. 18


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CURRENT PRICES ON GASOLINE AND DIESEL

22 APRIL, 2019, GEORGIA

Gulf — Prices in GEL

G-Force Super	2.57
G-Force Premium	2.43
G-Force Euro Regular	2.35
Euro Regular	2.29
G-Force Euro Diesel	2.59
Euro Diesel	2.49
CNG	1.49

Wissol — Prices in GEL

Eko Super	2.64
Eko Premium	2.57
Eko Diesel	2.63
Euro Diesel	2.59
Euro Regular	2.49
Diesel Energy	2.53

ლუკოილი — Prices in GEL

Super Ecto 100	2.69
Super Ecto	2.55
Premium Avangard Ecto	2.44
Euro Regular	2.29
Euro Deasel	2.49

SOCAR — Prices in GEL

Nano Super	2.58
Nano Premium	2.48
Nano Euro Regular	2.38
Nano Diesel	2.40
Nano Euro Diesel	2.53
GNG	1.45

ROMPETROL — Prices in GEL

Efix Euro 98	2.64
Efix Euro Premium	2.57
Euro Regular	2.49
Efix Euro Diesel	2.59
Euro Diesel	2.53

THE ISET ECONOMIST

A BLOG ABOUT ECONOMICS AND THE SOUTH CAUCASUS www.iset-pi.ge/blog

Is Georgia on the right path to reduce massive plastic bag usage?

By MARIAM LOBJANIDZE, NORBERTO PIGNATTI, and MARIAM TSULUKIDZE

ISET

In October 2018, a new law came into force which prohibits producing, importing, and selling single-use bags thinner than 15 microns.[1] The second wave of this reform was introduced in April 2019, and expanded to all forms of plastic bags. It is important to ask, why was it necessary to impose a restriction on plastic bags? What are the implications and the expected consequences of the ban?

Plastic shopping bags are produced at a rate of one trillion a year and distributed at store checkout counters across the globe. More than two thirds created are single-use plastic bags. We now often find plastic bags everywhere: on the streets, in pastures and agricultural lands, in the sea, in rivers, etc. While we can all see such waste material plastering our surroundings, most of us are not fully aware of the real threats behind these extremely convenient and apparently "innocuous" products.

We commonly hear that plastic bags are not biodegradable, which means they can virtually last forever (compared to the human lifespan) and remain blocking the environment. However, a lesser known fact is that over time they spread micro plastic fragments that leak toxins into soil and drinking water. Even when properly disposed of, because of their light weight single-use plastic bags are easily blown out of landfills, potentially damaging agricultural land and providing ideal breeding grounds for mosquitos. Furthermore, in developing countries like Georgia, where the waste management sector is not properly controlled, plastic bags can also cause blockages in local drainage systems, potentially leading to disastrous consequences.[2] Finally, they pose a threat to the natural habitat around us. Animals, birds, marine life, and cattle often mistakenly eat plastic or use it for nest-building, which leads to entanglement, choking, and poisoning. Single-use disposable plastic bags have a potentially larger adverse impact, as they are incredibly hard to recycle, and consequently block the sorting equipment in recycling facilities.

Seeing the consequences of such enormous use of these products, the European Union has set a target capping the use of plastic bags to 90 bags per person by the end of 2019, to a total of 46 billion - based on the current population – compared to the 116 billion bags used in 2016. Georgia took the responsibility and brought its legislation in line with the EU after signing the Association Agreement in 2014. Data from the Centre for Education and Protection of the Environment shows that, over the course of a single year, one Georgian resident uses some 525 plastic bags, which clearly exceeds the target set by the EU. Most of the plastic bags used in Georgia are imported and 40% are single-use plastic bags. This thus explains the choice to initially ban single-use plastic bags and all other plastic bags at a later date.

So, one must ask... is banning a promising strategy? What are the alternatives? And, why was banning chosen?

Banning is a command-and-control strategy which works in association with fines sanctioning illegal actions. A ban might be preferred by those who think plastic bags should not be used at all. An alternative instrument, for example, could be taxation, which does not eliminate the possibility of selling plastic bags, but makes them more costly to consumers, who then internalize the real cost of using plastic bags.

Both bans and taxation generate revenue. With a ban, financial flows depend on the number of violators and on the quality of enforcement. Whereas, in the case of taxation, tax revenues depend on the number of plastic bags sold. While monitoring and enforcement could be assigned to tax revenue commissioners; utilizing the preexisting tax collection and monitoring infrastructure. Therefore, the incremental cost of introducing a plastic bag tax would not be excessively high. However, banning might require the establishment of new responsible bodies, or at least the hiring and training of additional personnel to monitor the process of enforcement.

Which policy is more effective?

International evidence shows that, in different contexts, the results vary. For example, taxation was implemented in Denmark and by certain American states with great success. Denmark was a pioneer, introducing a tax on plastic bags in 1994. After the introduction of the tax, their plastic bags use halved (from 800 mln to 400 mln per year). In Washington D.C. (USA) a tax on plastic bags was only introduced in 2009, and the effect was immediate, with consumption reduced by 85% from 22.5 to 3.3 mln bags per month, following the introduction of the tax. Bear in mind, though, that the taxation system is well-structured and controlled in both Denmark and Washington D.C.

Bangladesh and China, on the other hand, resorted to a strategy of banning. Bangladesh was a pioneer in implementing a ban on thin plastic bags, introduced in 2002. However, their ban strategy was not as successful as expected, due to weak enforcement mechanisms. Whereas, China was much more successful. China introduced a ban on single-use plastic bags in 2008. Following this ban, there has been a 66% decline in plastic bag usage. It is worth noting that Chinese companies faced significant fines, of 10,000 yuan (approximately 1,593 USD), for the illegal production and distribution of plastic bags. Moreover, China established a strict enforcement mechanism, sending regulators across the country in order to make sure that grocery stores complied.

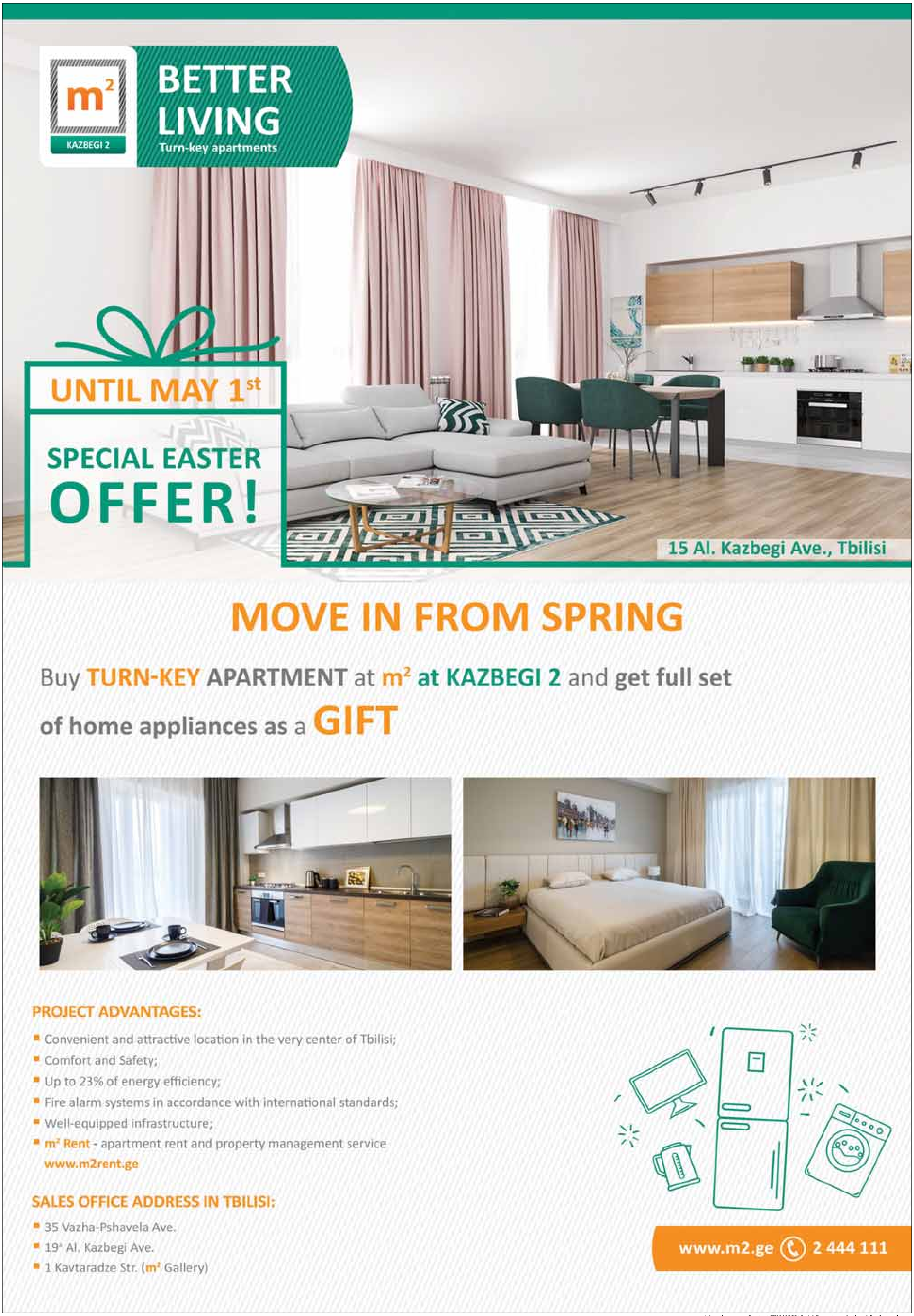
Thus, it appears that both plastic banning and taxation policies have been quite successful in the countries where the systems and enforcement/monitoring mechanism were successfully applied.

Ultimately, we cannot discern the rationale behind Georgia choosing banning over an environmental tax on plastic bags, nor whether this choice will deliver the expected benefits. Surely, given that with bans only violators pay a fine, while an environmental tax impacts every producer and consumer, and individuals can therefore feel the tax burden, a ban appears to be the most politically feasible measure. However, taxation can have additional benefits in terms of preparing the ground for more restrictive measures. A taxation system can help society smoothly transition from decreased plastic bag usage to its total elimination.

In light of international experiences, it seems reasonable to expect that the success of the Georgian government's initiative will depend on whether monitoring and enforcement function effectively. Unfortunately, so far it has been impossible to receive any information on the details of the process, or any official statistics reporting the scale of violations, financial flows from fines, or other outcomes associated with the introduction of the policy.

What we do know is that the responsibility for monitoring and enforcement is split between different agencies, depending, for example, on whether the bags are produced domestically or imported from abroad and, in some cases, there seem to still be gaps on the inspection side. For ex-

Continued on p. 10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Is living with a mother in law good for your health?

ANI LORTKIPANIDZE, GORBI

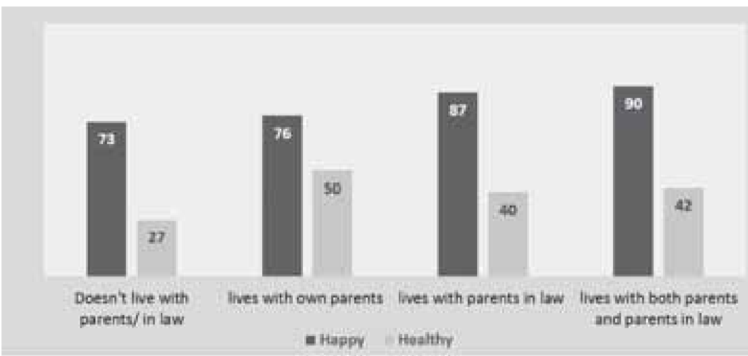
Family structure and composition are social determinants that can affect health behaviors and outcomes. In Georgia, individuals living together with their parents or parents in law report that they are happier, healthier and more involved in cultural activities than those living without them.

Extended family is usually defined as a type of family in which relatives beyond parents and children (such as grandparents, aunts, uncles, and cousins) live in a single household, while a nuclear household consists of only a couple and their dependent children.

Talcott Parsons, a prominent sociologist and the father of structural functionalism, believed that the nuclear family developed mainly as a result of industrialization. He thought of families as extended units of production, before industry took over the family's functions. This means that work and home lives were combined in a way which allowed family members to teach one another different skills for life. Parsons thought that the extended family stayed together so they could provide health care for one another and look after the old people whilst the elderly looked after the young children while the parents were out working. In contrast to pre-industrial society, in industrial society (from the 1800s in the UK) the isolated "nuclear family" consisting of only parents and children becomes the norm.

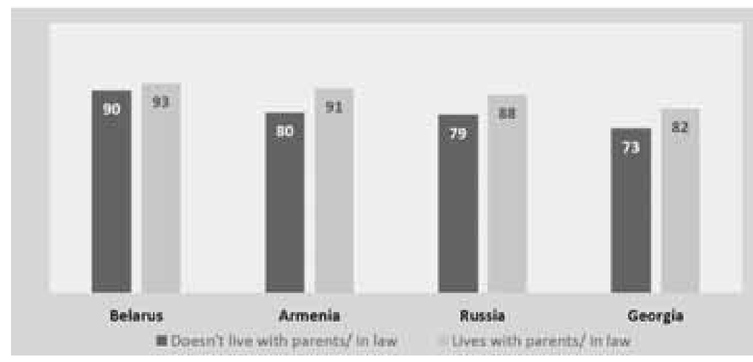
This trend is well demonstrated in the results of the European Value Study, a large multinational survey research program that has been studying basic human values for almost 40 years. GORBI has been part of the project since 2008 and is the data provider for Georgia and Azerbaijan for the most recent year.

Graph1. Happy and Healthy by household composition (%)



Source: European Value Study, 2017-2018

Graph2. Happy by household composition and countries (%)



Source: European Value Study, 2017-2018

When asked if they live with your parents or parents in law, in all of 16 countries surveyed by the EVS a majority of population reported living without a parent or parent in law. This trend strengthens Parson's argument that there has been a shift from extended to nuclear family after pre-industrial society. In Georgia, 70% of the population reports that they live without a parent or parent in law, but even so, this number puts Georgia 2nd in the list, with biggest number of extended families after Armenia.

According to a study conducted by the Graduate School of Tokyo Medical University, subjects living alone were significantly more likely to be in ill health, in comparison to those living in extended families. This finding is in line with Parson's idea that the extended family stayed together so they could provide health care for one another. Results from the EVS also confirm this trend. When Georgian respondents were asked how they would describe their health these days, those living with parents or parents in law, reported to be in better health than those living in nuclear families. If 27% of Georgian respondents living without parents or parents in law reported to be in a good health, 40% of individuals living with parents in law and 50% of individuals living with their own parents reported to be in better health. So after all, maybe it is beneficial for your health to live with your mother in law?

The results from the EVS also demonstrate that individuals living with parents or parents in law in Georgia report being happier than those living without them. If 73% of individuals living without a parent or parent in law in Georgia report being happy, 87% of individuals living with parents in law consider themselves to be happy.

As Graph 2 demonstrates, the trend of happiness by household composition is similar in other post-Soviet countries as well. Similar to Georgia, in Armenia, Belarus and Russia, those living with parents or parents in law report being happier than those living without them. This trend is analogous to all 16 countries surveyed by EVS, where individuals living in extended families report to be happier.

In addition, in Georgia, individuals living with parents or parents in law report more involvement in cultural activities than those in nuclear families. This could be due to division of household labor in the extended family, where due to support from the family members, individuals have more time to get involved in the cultural activities.

Finally, in Georgia, individuals living with parents or parents in law, report having less problems with foreign workers or Muslims living in their neighborhood, than those living without.

According to Will Durant, "The Family is the nucleus of civilization." As noted by Pew Research, the vast majority of American adults (roughly 75 percent) consider their own family to be the most important and most satisfying element of their lives. Even though Europe is seeing a lot of nuclear families, as results from EVS demonstrate on Georgia's example, it is more rewarding to live with parents or parents in law, as individuals feel happier and healthier. The more, the merrier.

GORBI is an exclusive member of the Gallup International research network and has more than two decades of experience in survey research (gorbi.com)

GORBI

The Year 2019 Predicted to be a Period of Adaptation to the New Regulatory Systems

The FINANCIAL

With the arrival of the annual banking forum fast approaching, according to tradition The FINANCIAL has gathered relevant information concerning the banking sector.

David Rusia, Analytics Director of the Banking Association of Georgia, evaluated the previous year.

According to the Georgian Banking Association, the year 2019 will probably act as some sort of an adaptation period towards the new regulation systems. The creditor system has been renewed concerning physical persons, while several changes have been seen in the fine laws of banks as well.

In order to adjust the money supply, the lower limit of credits was established at GEL 200, and the upper limit on interest rates was given at 50%.

The newly required registry for any financial institution will be a determining factor for mass behaviour as well.

Many existing financial intermediaries alongside other financial establishments are expected to come up with new products created for Georgian society. These initial product developments are expected to affect existing business models and create a new challenge for both the financial market and regulatory systems.

In order to incentivize product selling, Georgian financial intermediaries are expected to become more customer-oriented. "The customer is always right" has become a well established global trend, as society constantly demands to be given better deals. This usually creates new expectations and leading companies are in a constant attempt to match their offerings with customers' expectations.

As more regulations are emerging, and the transaction processes are becoming more complicated, Georgian financial intermediaries are continuing to fully digitalize their operations. This leads experts to believe that organizations will be able to better characterize customer behaviour and deliver services more efficiently.

Money digitalization seems to be an emerging trend, therefore 2019 might see a new supportive incentive towards the establishment of cryptocurrency as an investment tool. For the past 5 years, Georgia has been a mining leader of cryptocurrency, the new year's trends showing the first steps taken into fully exploiting the leading minery position.

As for the banking sector, we will probably see 'Open Banking Systems', provided that IT platforms will guarantee maximum security. However, we can say with certainty that the financial sector will be integrated with technology, such as never seen before. Global advancements are so rapid, that no financial organizations are likely to adapt on their own. The long period of testing often makes the current technologies already outdated. Therefore it is most likely that the internet and the Open Banking Systems will soon dominate the Georgian market.

In order to fully establish the banking systems, the Georgian financial market will require the creation of a quicker data-delivery method, which will most certainly present a new challenge to both the profit-oriented financial organizations, as well as regulatory establishments.

A further complication of the AML (Anti Money Laundering) process, should not hinder the creation and management process of a financial account. The current system does not offer an efficient solution to this problem.

Despite the Government's supportive stance towards the money digitalization process, the barriers they create greatly hinder financial establishments delivering such a service.

The electronic signature seems to be one of the brightest examples of that, where despite its flexibility, the signature presents serious identification problems. It was the potential risks that hindered the development of the electronic signature.

In 2019, lowering the dominance of USD remains one of the most pressing issues. Despite constant attempts by the National Bank, lending in foreign currencies has been fluctuating between 56% and 57% for the last two years.

In an attempt to stabilize the Georgian Lari, the National Bank has raised the upper ceiling of lending from GEL 100K to GEL 200K, however, considering the long term

Continued on p. 10

Inside of Conference Systems

Eva BOLKVADZE
The FINANCIAL

Interview with Merab Gokhelashvili, General Manager of Conference System, PhD

Q. Can you tell us a brief history of your company?

A. Our company "Conference System" has been operating in Georgia since 2013. It started when my friends and I decided to offer customers a service of conference systems that would pleasantly surprise them. As you know, there is no one service area in our country that fully meets high standards. Accordingly, in many situations where we were ourselves customers, we did not like the services offered by others. This was the inspiration for us to create a company whose service would have been oriented at the client, would be easily accessible, and very near to perfection.

Q. Why did you decide to launch such a company?

A. In our community circle, there was always the initiative to organize events. After conducting a social survey and summarising the results, the provision of service for events in our country was one of the weakest areas, and so we decided to go into this direction.

Q. What are the products and services you offer your customers?

A. From 2013 till now we have overcome many difficulties. As I already mentioned, this direction was absolutely new for us and we had to start everything from the very beginning: the training of staff in the technical direction and more. There are technical nuances rooted in our experiences, our strengths, and thus we have a company that offers one of the highest technical services in the country. Specifically: synchronous translation equipment, microphones and sound systems, LCD monitors and all the other details that are necessary for perfectly organizing and running conferences and meetings.

The company is developing on a daily basis, we do not stay in one place and we always keep refurbishing our technical inventory and retraining our staff. A clear example of this is that in 2018 we bought one of the best 2P LED displays in the country and our clients already have the opportunity to receive high quality from this.

Q. Why should customers trust your company? In what ways is it exceptional compared to other companies?

A. Our company has the trust of leading international organizations, embassies and state agencies in the country. In 2018, Conference System provided technical service for the largest event in Georgia – OGP, with 2500 delegates, providing technical support for simultaneous translation, audio and video visualization.

Also, I would proudly note that, for the first time, on 26 May, 10 languages were simultaneously translated and technically provided by our company. The technical inventory, which is the highest European quality and professional team, allows us to say that one of the best companies in the country in this direction is none other than Conference System.

Q. What price policy do you have?

A. The prices are individual and depend on the specific order. We have corporate clients for whom prices are different. Instead of concrete numbers, the main thing for us is the attitude that our company and its employees receive from Conference System's customers.

I would recall in particular one occasion when we were technically providing for a project of the US Embassy. At the end of the event, for the first time in history, they prepared exclusively for our staff member, and awarded them, a 'Certificate of Best Technician' – this was great validation for us.

Q. And finally, is there anything you would like to add?

A. I would like to thank each member of our technical team. In fact, it is they that created this company. If it weren't for their attitude towards Conference System, and if it weren't for the team spirit they are distinguished for, we would not be a successful company today. I would like to wish for the continued success of Conference System and wish for the improvement of service standards throughout the country in general.

GRASS FACTCHECK

Zakaria Kutsnashvili:

STATEMENT:

WITH THE CURRENT GROWTH RATE, WE ARE AHEAD OF THE EUROPEAN COUNTRIES. GERMANY'S GDP GROWTH RATE IS 1.17% AND OURS IS 4.5%. GREAT BRITAIN'S IS UNDER 2% WHILST THE US GROWTH RATE IS 1.2%. HENCE, OUR 4.5% IS TWO AND THREE TIMES HIGHER THAN THEIRS

VERDICT:

ZAKARIA KUTSNASHVILI'S STATEMENT IS A MANIPULATION OF NUMBERS.

Vakhtang DEMURIA
FactChek

RESUME:

The internationally recognised indicator to assess an economy is the gross domestic product. The GDP is the market value of all of the final goods and services produced within a country. The higher a country's GDP growth is, the better it is reflected upon the well-being of that country's population.

In 2018, Georgia's real GDP increased by 4.7%. The total economic growth rate in the EU constituted 1.9% in 2019, the German GDP increased by 1.5%, the UK GDP increased by 1.4% and the US GDP growth was 2.9%. Therefore, Zakaria Kutsnashvili's figures are not fully accurate. Even if they had been factually accurate, however, making a comparison of a developing country's economic growth figures to those of developed countries in this manner is pointless and misleading for a variety of reasons.

In the first place, the base effect is important. In particular, a change in small figures gives a bigger percentage difference as compared to changes in big figures. For instance, if citizen A's income was GEL 100 in 2017 and that income increased to GEL 190 in 2018 whilst citizen B's income was GEL 1,000 and increased to GEL 1,800, then citizen A's income increased by 90% and citizen B's income increased by 80%. If we ask the question as to which citizen had a more successful year, there is no straightforward answer because A's financial resource increased faster in terms of percentage whilst B's budget accumulated more funds. This analogy applies to countries, too. In wealthy countries, even a marginal percentage growth of the economy equals large sums of money. Of further note is that because of unutilised economic resources/potential, developing countries have strong prospects of growth and their economic growth figures are usually higher.

Therefore, in order to compare a certain country's economic growth rate to those of other countries, it is relevant to make the comparison with a group of countries with relatively similar characteristics. In the aforementioned case, a comparison of countries with substantially different economic development levels does indeed mislead the public. Comparing Georgia's economic growth rate to the GDP growth of developed countries is manipulative because the audience thinks that the economic dynamic and conjuncture are better in Georgia in this period as compared to the EU countries and the US and the only problem Georgia has is that developed countries are ahead of us in terms of their development.

ANALYSIS

On 8 April 2019, on air on Diana Trapaidze's TV broadcast, *Dgis Ambebi*, Georgian Dream member, Zakaria Kutsnashvili, stated: "Germany's GDP growth rate is 1.17%. Ours is 4.5%, Great Britain's is under 2% and the US growth rate is 1.2%. Therefore, our 4.5% is two and three times higher than theirs. As these countries are far advanced, our current 2-3% growth rate does not mean that we will catch up to these countries in two or three years. We are ten and 20 times backward and this is why we need a growth rate this is four and five times higher. With the current growth rate, Georgia is on average two and three times ahead of European countries. These are objective indicators and any economist would confirm that."

The internationally recognised indicator to assess the economic situation and a country's well-being is the gross domestic product (GDP). The GDP is the market value of all of the final goods and services produced within a country. The higher a country's annual GDP growth is, the better it is reflected upon the well-being of that country's population.

In 2018, Georgia's real GDP increased by 4.7%. The total economic growth rate in the EU was 1.9% in 2019, the German GDP increased by 1.5%, the UK GDP increased by 1.4% and the US GDP growth was 2.9%. Therefore, Zakaria Kutsnashvili's figures are not fully accurate. Even if they had been factually accurate, however, a comparison of a developing country's economic growth figures to those of developed countries in this manner is pointless.

In the first place, the base effect is important. In particular, a change in small figures gives a bigger percentage difference as compared to changes in big figures. For instance, let us consider the changes of the incomes of citizens A and B. Assume, citizen A's income was GEL 100 in 2017 and that income increased to GEL 190 in 2018 whilst citizen B's income was GEL 1,000 and increased to GEL 1,800. In this case, citizen A's income increased by 90% and citizen B's income increased by 80% although the growth of citizen B's income is GEL 710 higher. If we ask the question as to which citizen had a more successful year, there is no straightforward answer because A's financial resource increased faster in terms of percentage whilst B's budget accumulated more funds.

Georgia's GDP was nearly GEL 41 billion in 2018 whilst the US GDP was USD 20.9 trillion and even a marginal percentage growth of the latter's economy is translated into vast sums of money. Of note is that because of unutilised economic resources/potential, developing countries have strong prospects of growth and their economic growth figures are usually higher.

Whilst doing a comparative analysis of GDP figures, it is important to analyse them vis-à-vis the amount of the population. It is relevant for comparison to analyse the GDP dynamic in international dollars per capita (PPP). The PPP indicator adjusts the GDP in terms of price levels.

In this case, too, the GDP growth in international dollars is higher in developed countries although Georgia is the leader in terms of percentage growth because of the base effect.

The relatively lower economic growth rate in developed countries is caused by the economic effect which is also known as the so-called diminishing marginal return law. This means that employing an additional unit of the factor of production (human resource, capital) causes a smaller increase in output. Developed countries almost fully utilise their existing production resources and technologies and being close to their maximum level of output, they therefore have limited room for further growth. Developed economies achieve fast growth only under significant technological progress which allows a more efficient use of their existing resources or in a post-crisis period when they return to the pre-crisis level of production after a temporary decline. In turn, developing countries are far from their maximum level of output, they do not fully use their production factors or they are afflicted by the lack of them (mostly technologies and capital). Therefore, they have an opportunity to achieve a relatively high so-called catch-up growth[1] by fully utilising their potential as well as by copying technologies and attracting capital from developed countries.

1 Existence of this theoretical opportunity does not mean that every developing country is able to implement it in practice.

Table 2: GDP Per Capita in International Dollars (PPP) in 2017-2018

	2017	2018	Absolute Change	% Change
Georgia	10,741	11,600	858	8.0
Germany	50,803	52,896	2,093	4.1
USA	59,792	62,517	2,725	4.6
UK	44,292	45,642	1,350	3.1

Source: International Monetary Fund

Restaurant delivery – where is it most popular around the world?

The FINANCIAL

A whopping 85% of global consumers have ordered food to be delivered to their homes - the United Arab Emirates led the way with 98%, closely followed by China (97%), Mexico (96%), Brazil (96%) and Chile (94%). In fact only three countries dropped below 90%; the US, Germany and Italy.

89% of US consumers had ordered food delivery, compared with 92% of UK consumers.

According to our research Chinese consumers are those who order delivery the most frequently, with 41% of those surveyed stating they order 'at least once a week'.

20% of US consumers order food for delivery at least once a week, with 34% doing so several times a month. The Germans and Swedes used delivery services the least, with just 9% of Swedes ordering food once a week.

The Year 2019 Predicted to be a Period of Adaptation to the New Regulatory Systems

Continued from p. 8

portfolios that the previous contracts had, the regulation is only estimated to have effect starting from this year.

In order to appreciate the national currency, the reserve requirements on foreign investments were increased up to 28%, even going as high as 30% in May 2018. For a stronger effect, the National Bank might decrease the reserve requirements for GEL by 5% as well.

For greater effect, Georgian banks might incentivize deposits, where the financial sector will receive additional money supply and with the effect of a deposit certificate, decrease the demands on reserve requirements.

In the third quarter of 2019, financial intermediaries will be forced to lower the interest rates for foreign lenders, which will highly jeopardize the loyalty of most foreign investors. The establishment of a two-year long practice to attract lenders is an option that is out there as well.

However, it remains uncertain if lowering the interest rates or increasing the deposit contracts will incentivize lenders to exchange their deposits from foreign currencies to GEL. It is only estimated to increase overall demand to place savings through various financial intermediaries.

As for last year's positive estimates, the increase of the reserve requirements by the National Bank and the promotion of Fitch Ratings from BB- to BB, is a prime safety indicator of the Georgian business environment in terms of bond-credit rating.

The last year has also seen steps taken into developing the financial market, one of which were the establishment of a new pension savings plan.

The Banking Association believes that the Georgian economy will benefit if the National Bank deregulates the creditor system, and maintains the current mortgage loan policies.

THE ISET ECONOMIST

A BLOG ABOUT ECONOMICS AND THE SOUTH CAUCASUS www.iset-pi.ge/blog

Is Georgia on the right path to reduce massive plastic bag usage?

Continued from p. 6

ample, a laboratory required to determine the quality and composition of imported products does not yet exist; it is to be built soon, thanks to a grant from the Italian government.

We also know that local producers have been lobbying for an amendment to the legislation, or for a delay in its implementation, claiming that they did not have sufficient time to switch to more environmentally friendly alternatives and have lost competitiveness against foreign providers, with most retail stores using imported products.

Consequently, the full enforcement of the new law might be delayed for a while and, according to representatives of the responsible entities, the regulation might ultimately be revised. Therefore, the short-term success of the reform is far from guaranteed. In the longer term, the results of the reform will depend crucially on gauging the competitiveness of local producers, without their sacrificing environmental quality: a tough task for Georgian regulators.

1 Violators of the law will be fined up to 500 lari (about 200 USD). Further violations will double the fine to 1000 lari (400 USD).

2 For example, a 1998 flood in Bangladesh was caused by a plastic litter blockage.

The world's 100 largest banks

The FINANCIAL

Despite global trade tensions and a weakening yuan, Chinese banks continued to grow and remain among the world's largest, the latest global bank ranking from S&P Global Market Intelligence shows.

China's "Big Four" banks — Industrial & Commercial Bank of China Ltd., China Construction Bank Corp., Agricultural Bank of China Ltd. and Bank of China Ltd. — continued to dominate the top of the ranking. All four now have more than $3 trillion in assets and have a combined asset value of $13.784 trillion, 1.07% higher compared to a year ago. The annual increase would have been 6.84% without the impact of exchange rates. China's yuan lost more than 5% against the U.S. dollar over the course of 2018 amid an ongoing trade war between the two economic giants.

In the latest ranking, company total assets were adjusted for pending mergers, acquisitions and divestitures, as well as M&A deals that closed after the end of the reporting period through March 31 on a best-efforts basis. Assets reported by non-U.S. dollar filers were converted to dollars using period-end exchange rates. Total assets were taken on an "as-reported" basis and no adjustments are made to account for differing accounting standards. The majority of the banks were ranked by total assets as of Dec. 31, 2018. In the previous ranking published April 6, 2018, most company assets were as of Dec. 31, 2017, and were adjusted for pending and completed M&A as of March 31, 2018.

In addition to China-U.S. trade relation concerns, uncertainty over negotiations for the United Kingdom's exit from the European Union and worries of a slowing global economy helped to strengthen the dollar against most major currencies in 2018, which in turn aided the majority of the U.S. banks against its international peers in the ranking.

Ranking the world's 100 largest banks

Current rank*	Previous rank**	Current vs. previous	Company (ticker-exchange)	Headquarters	Accounting principle	Total assets (US$B)
1	1	NC	Industrial & Commercial Bank of China Ltd. (1398-HKG)	China	IFRS	4,027.44
2	2	NC	China Construction Bank Corp. (939-HKG)	China	IFRS	3,376.52
3	3	NC	Agricultural Bank of China Ltd. (1288-HKG)	China	IFRS	3,287.36
4	4	NC	Bank of China Ltd. (3988-HKG)	China	IFRS	3,092.21
5	5	NC	Mitsubishi UFJ Financial Group Inc. (8306-TKS)[1]	Japan	Japanese GAAP	2,812.88
6	6	NC	JPMorgan Chase & Co. (JPM-NYSE)	U.S.	U.S. GAAP	2,622.53
7	7	NC	HSBC Holdings PLC (HSBA-LON)	U.K.	IFRS	2,558.12
8	9	▲	Bank of America Corp. (BAC-NYSE)	U.S.	U.S. GAAP	2,354.51
9	8	▼	BNP Paribas SA (BNP-PAR)	France	IFRS	2,336.66
10	10	NC	Crédit Agricole Group	France	IFRS	2,123.61
11	13	▲	Citigroup Inc. (C-NYSE)	U.S.	U.S. GAAP	1,917.38
12	12	NC	Japan Post Bank Co. Ltd. (7182-TKS)	Japan	Japanese GAAP	1,911.48
13	11	▼	Wells Fargo & Co. (WFC-NYSE)	U.S.	U.S. GAAP	1,895.88
14	14	NC	Sumitomo Mitsui Financial Group Inc. (8316-TKS)[2]	Japan	Japanese GAAP	1,848.20
15	17	▲	Mizuho Financial Group Inc. (8411-TKS)	Japan	Japanese GAAP	1,837.80
16	16	NC	Banco Santander SA (SAN-MAD)	Spain	IFRS	1,670.79
17	15	▼	Deutsche Bank AG (DBK-FRA)	Germany	IFRS	1,543.55
18	19	▲	Société Générale SA (GLE-PAR)[3]	France	IFRS	1,485.31
19	20	▲	Groupe BPCE[4]	France	IFRS	1,462.70
20	18	▼	Barclays PLC (BARC-LON)	U.K.	IFRS	1,444.39
21	21	NC	Bank of Communications Co. Ltd. (3328-HKG)	China	IFRS	1,385.81
22	22	NC	Postal Savings Bank of China Co. Ltd. (1658-HKG)	China	IFRS	1,383.63
23	24	▲	Royal Bank of Canada (RY-TSX)*	Canada	IFRS	1,039.24
24	23	▼	Lloyds Banking Group PLC (LLOY-LON)	U.K.	IFRS	1,016.55
25	26	▲	ING Groep NV (INGA-AMS)	Netherlands	IFRS	1,015.61
26	25	▼	Toronto-Dominion Bank (TD-TSX)*	Canada	IFRS	1,006.00
27	31	▲	China Merchants Bank Co. Ltd. (600036-SGSE)	China	IFRS	980.81
28	39	▲	Crédit Mutuel Group***	France	IFRS	976.46
29	27	▼	Norinchukin Bank	Japan	Japanese GAAP	961.37
30	34	▲	UBS Group AG (UBSG-SWX)	Switzerland	IFRS	958.49
31	30	▼	Industrial Bank Co. Ltd. (601166-SGSE)**	China	PRC GAAP	952.59
32	28	▼	UniCredit SpA (UCG-MIL)	Italy	IFRS	951.99
33	35	▲	Goldman Sachs Group Inc. (GS-NYSE)	U.S.	U.S. GAAP	931.80
34	33	▼	Shanghai Pudong Development Bank Co. Ltd. (600000-SGSE)	China	IFRS	914.49
35	32	▼	Intesa Sanpaolo SpA (ISP-MIL)	Italy	IFRS	901.90
36	29	▼	Royal Bank of Scotland Group PLC (RBS-LON)	U.K.	IFRS	884.82
37	37	NC	China CITIC Bank Corp. Ltd. (998-HKG)	China	IFRS	882.08
38	36	▼	China Minsheng Banking Corp. Ltd. (600016-SGSE)	China	IFRS	871.66
39	38	▼	Morgan Stanley (MS-NYSE)	U.S.	U.S. GAAP	853.53
40	42	▲	Bank of Nova Scotia (BNS-TSX)*[5]	Canada	IFRS	785.44
41	40	▼	Credit Suisse Group AG (CSGN-SWX)	Switzerland	U.S. GAAP	781.45
42	41	▼	Banco Bilbao Vizcaya Argentaria SA (BBVA-MAD)	Spain	IFRS	774.78
43	43	NC	Commonwealth Bank of Australia (CBA-ASX)	Australia	Australian GAAP	691.03
44	48	▲	Standard Chartered PLC (STAN-LON)	U.K.	IFRS	688.76
45	45	NC	Australia & New Zealand Banking Group Ltd. (ANZ-ASX)**[6]	Australia	Australian GAAP	681.30
46	44	▼	Rabobank	Netherlands	IFRS	676.02
47	46	▼	Nordea Bank Abp (NDA SE-OME)[7]	Finland	IFRS	638.02
48	47	▼	Westpac Banking Corp. (WBC-ASX)**	Australia	Australian GAAP	636.69
49	49	NC	China Everbright Bank Co. Ltd. (601818-SGSE)	China	IFRS	633.54
50	52	▲	Bank of Montreal (BMO-TSX)*	Canada	IFRS	613.56
51	51	NC	DZ BANK AG	Germany	IFRS	593.89
52	50	▼	National Australia Bank Ltd. (NAB-ASX)**	Australia	Australian GAAP	583.79
53	53	NC	Danske Bank A/S (DANSKE-CSE)	Denmark	IFRS	548.86
54	55	▲	State Bank of India (SBIN-NSE)	India	Indian GAAP	538.35
55	56	▲	Resona Holdings Inc. (8308-TKS)	Japan	Japanese GAAP	537.39
56	54	▼	Commerzbank AG (CBK-FRA)[8]	Germany	IFRS	528.84
57	60	▲	Sumitomo Mitsui Trust Holdings Inc. (8309-TKS)	Japan	Japanese GAAP	520.16
58	58	NC	Ping An Bank Co. Ltd. (000001-CNSSE)	China	PRC GAAP	497.05
59	59	NC	Canadian Imperial Bank of Commerce (CM-TSX)*	Canada	IFRS	467.55
60	63	▲	U.S. Bancorp (USB-NYSE)	U.S.	U.S. GAAP	467.37
61	64	▲	CaixaBank SA (CABK-MAD)	Spain	IFRS	442.66
62	-	▲	BB&T Corp. (BBT-NYSE) + SunTrust Banks Inc. (STI-NYSE)[9]	U.S.	U.S. GAAP	441.24
63	62	▼	ABN Amro Group NV (ABN-AMS)	Netherlands	IFRS	436.56
64	66	▲	KB Financial Group Inc. (A105560-KRX)	South Korea	Korean IFRS	430.80
65	68	▲	Shinhan Financial Group Co. Ltd. (A055550-KRX)	South Korea	Korean IFRS	412.85
66	61	▼	PAO Sberbank of Russia (SBER-ME)[10]	Russia	IFRS	412.00
67	69	▲	Nomura Holdings Inc. (8604-TKS)	Japan	U.S. GAAP	411.18
68	70	▲	DBS Group Holdings Ltd. (D05-SES)	Singapore	Singapore FRS	404.27
69	65	▼	Itaú Unibanco Holding SA (ITUB4-BSP)	Brazil	IFRS	401.10
70	71	▲	PNC Financial Services Group Inc. (PNC-NYSE)	U.S.	U.S. GAAP	382.32
71	75	▲	Hua Xia Bank Co. Ltd. (600015-SGSE)**	China	PRC GAAP	380.41
72	77	▲	NongHyup Financial Group Inc.	South Korea	Korean IFRS	374.58
73	76	▲	Capital One Financial Corp. (COF-NYSE)	U.S.	U.S. GAAP	372.54
74	79	▲	Bank of Beijing Co. Ltd. (601169-SGSE)**	China	PRC GAAP	368.72
75	73	▼	Bank of New York Mellon Corp. (BK-NYSE)	U.S.	U.S. GAAP	362.87
76	67	▼	Banco do Brasil SA (BBAS3-BSP)	Brazil	IFRS	360.73
77	82	▲	Hana Financial Group Inc. (A086790-KRX)	South Korea	Korean IFRS	345.84
78	80	▲	Oversea-Chinese Banking Corp. Ltd. (O39-SES)	Singapore	Singapore FRS	343.19
79	74	▼	Banco Bradesco SA (BBDC4-BSP)	Brazil	IFRS	337.24
80	81	▲	Svenska Handelsbanken AB (publ) (SHBA-OME)	Sweden	IFRS	335.12
81	72	▼	Caixa Econômica Federal	Brazil	BR GAAP	326.52
82	78	▼	KBC Group NV (KBC-BRU)	Belgium	IFRS	324.95
83	87	▲	China Guangfa Bank Co. Ltd.***	China	PRC GAAP	318.58
84	84	NC	Nationwide Building Society (NBS-LON)	U.K.	IFRS	306.01
85	86	▲	Woori Financial Group Inc. (A000030-KRX)	South Korea	Korean IFRS	305.81
86	83	▼	DNB ASA (DNB-OSL)	Norway	IFRS	304.03

GRASS FACTCHECK

Zurab Tchiaberashvili:

STATEMENT:

BECAUSE OF THE NEW LENDING REGULATIONS, MICRO-LOANS UP TO GEL 5,000 DROPPED BY 26% IN FEBRUARY

VERDICT:

FACTCHECK CONCLUDES THAT ZURAB TCHIABERASHVILI'S STATEMENT IS TRUE.

Valeri KVARATSKHELIA
FactChek

Under the new lending regulations which have been in force since 1 January 2019, requirements for lending to individuals became stricter which resulted in a decreased volume of issued loans for individuals. In total (the sum of all types of loans), GEL 1.77 billion in loans were issued for individuals in the first two months of 2019 as a part of 1,546,000 contracts.[1] This is 30.6% and 17.6% less as compared to the same figures of 2018. In terms of loan types, consumer loans have experienced the biggest decline.

In regard to the figure in the statement, the MP compares loans in amounts under GEL 5,000 issued in February to the same figure of 2018. The amount of loans under GEL 5,000 issued in February 2019 is indeed 26.4% less as compared to the previous year whilst the volume of total loans issued in January-February 2019 decreased by 24.8% as compared to the same period of 2018.

ANALYSIS

European Georgia – Movement for Freedom MP, Zurab Tchiaberashvili, in his speech about the results of lending regulations, stated that as a result of those regulations, loans under GEL 5,000 decreased by 26% in February.

The MP speaks about the effect of the lending regulations which have been in force since 1 January 2019. The respective legislative act (an Order of the President of the National Bank of Georgia on the Approval of Regulations for Lending to Individuals) was adopted on 24 December 2018. The decree is mandatory for any institution which issues loans to an individual, including commercial banks, microfinance organisations, etc. Article 3 of the Decree defines the responsible lending principles, makes conditions for issuing/taking loans stricter and mandates the solvency analysis. Apart from the necessity of the solvency analysis, additional conditions are required which include the requirement that the difference between the debtor's net income and the loan should not be less than the subsistence minimum (currently, the subsistence minimum is GEL 176). In accordance with the same order, monthly expenses for loan service should not exceed a certain amount of the debtor's monthly income (20-60%). See **FactCheck**'s research about the essence of the aforementioned legislative changes and their potential impact.

As of February 2019, total lending[2] (stocks) equals GEL 26.5 billion and of that amount, GEL 14.5 billion (54.9%) accounts for lending to domestic households (individuals) whilst GEL 11.9 billion (45.1%) is lent to legal entities. As of February 2018, total lending was GEL 21.9 billion and of that amount, the volume of loans for individuals was GEL 12.1 billion (55.4%) and GEL 9.8 billion (44.6%) for legal entities. Therefore, in the course of one year, the total loan portfolio increased by 20.8%. There is a 22.2% annual growth in lending for legal entities whilst lending for individuals increased by 19.7% in a year. The depreciation of the GEL exchange rate had a positive impact upon the growth of the portfolio which constitutes 15.2% excluding the exchange rate effect.[3]

However, the growth of the loan portfolio (the total sum of active loans whose repayment date has not yet passed) is affected by loans issued before the aforementioned lending regulations entered into force. Therefore, in order to better show the impact of the regulation, it is relevant to analyse the flow of loans instead of analysing stocks. Loan flows include new contracts signed within a certain period of time which, in our case, is the month of february. The stocks also shows past loans whose repayment date has not yet passed. For instance, a ten-year loan issued in 2015 is seen in the stocks and not in the flows in february 2019. Therefore, only new contracts can be affected by the new regulations and so it is not relevant to take the volume of past loans into account. The new regulations could only have affected the new contracts. The MP's statement is based on an analysis of changes on loan flows and compares the amount of loans under GEL 5,000 issued in February 2019 to the same figure of the previous year. The respective figures are given in Table 1.

As illustrated by the table, the volume of loans under GEL 5,000 issued in February 2019 is indeed 26.4% less as compared to the previous year. At the same time, the total volume of loans issued in January-February of 2019 is 24.8% less as compared to the same period of the previous year. Of further note is that the analysis is based on the figures of commercial banks vis-à-vis issued loans. The activities of other credit organisations are not currently available.

1 Including overdrafts. An overdraft is a short-term, pre-approved credit which enables a consumer to receive additional funds in his credit card account in a pre-determined limit in order to cover expenses. Customers who receive their salaries through banks can use this service.

2 Loans active as of February – the total sum of all loans issued in the past whose repayment date has not yet passed.

3 The GEL exchange rate affects the GEL-denominated volume of loans issued in a foreign currency. Therefore, the total volume of the portfolio denominated in GEL shows a higher growth under the GEL depreciation as compared to an analysis based on loan currency.

Table 1: Categorisation of Loans in Terms of Volume (Flows)

		January			February			January-February		
		2018	2019	Change	2018	2019	Change	2018	2019	Change
Total GEL Issued Loans	Volume (GEL Million	1,550	1,267	-18.3%	1,423	1,428	0.3%	2,973	2,695	-9.4%
	Contracts (Thousand)	1,103	761	-31.0%	1,077	736	-31.7%	2,180	1,497	-31.3%
Loans from GEL 0.01 to GEL 5,000	Volume (GEL Million	513	394	-23.2%	504	371	-26.4%	1,017	765	-24.8%
	Contracts (Thousand)	1,082	739	-31.7%	1,053	710	-32.5%	2,135	1,449	-32.1%

Source: National Bank of Georgia

The Future of Banking: The Growth of Technology

Predictions BY SP GLOBAL
by STUART PLESSER, DEVI AURORA AND BRENDAN BROWNE

Predictions about the death of banks because of more technologically sophisticated competitors have been greatly exaggerated. But the growth of technology has been a double-edged sword for U.S. banks. On the one hand, technology has helped banks generate additional revenue, reduce expenses, and manage risk exposure in a more proficient manner. But it has also opened the door for a myriad of competitors, both large and small. These competitors are called fintech companies, an amorphous catch-all term that seeks to generalize the interplay between financial firms and technology. We believe this interaction between banks and fintechs is highly varied depending on the precise type of business that is being affected.

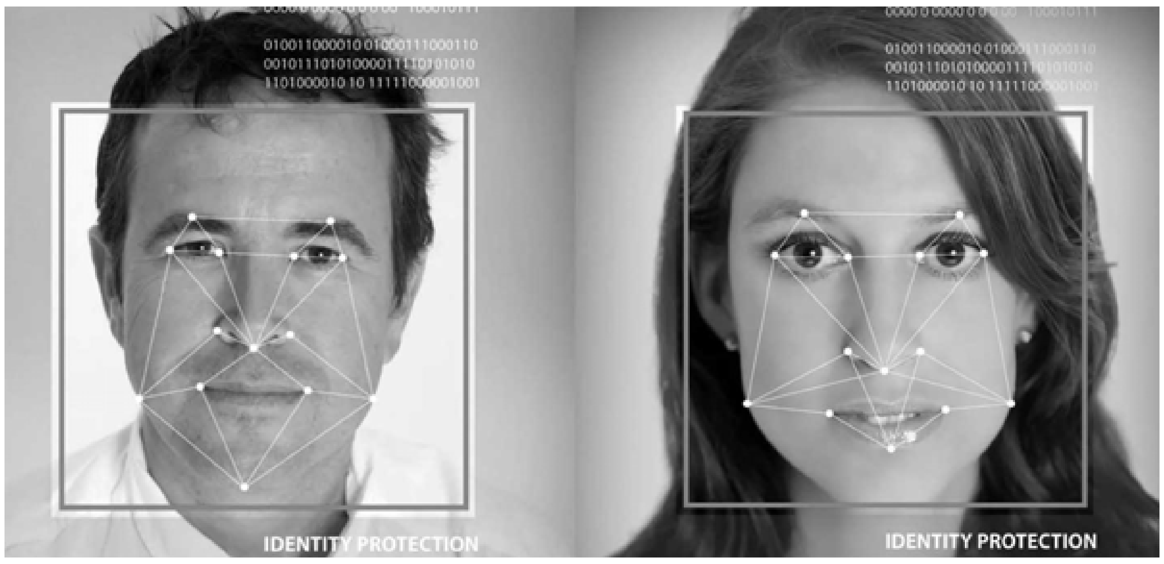
At this juncture, we don't expect larger banks to become defunct because of competition from more technologically savvy competitors. That said, even larger banks acknowledge technology is a key strategic differentiator for long-term success. However, banks' margins could be clipped as less traditional competitors move in more meaningful ways into some of their business lines.

But smaller banks, and community banks that don't have the resources of the larger banks, are at a distinct competitive disadvantage. Although recent legislation has attempted to assist smaller banks by removing some of their regulatory burden, smaller banks' inability to keep up with technological initiatives poses a serious threat to their ability to compete. Technology is allowing both larger banks and fintech players to move into more specialized areas, such as small business lending, that heretofore had been the domain of local banks. The Federal Deposit Insurance Corp. (FDIC) is cognizant of the technological threat and has recently been holding forums for small banks, focusing on emerging technologies, including new and innovative delivery channels, and how to enhance customer experiences. But it's unclear whether this will be enough to keep smaller banks competitive.

For the banks we rate, we believe most will be up for the challenge and should be able to implement an effective technology strategy to remain relevant. Some regional banks that are smaller in size may lag, and over time if threats to their business prove to systematically undermine it, we could reevaluate our ratings. For example, we could downgrade a bank if we witnessed a loss in market share, lower profits, and less-diversified business lines because of their lack of a prudent technological response, if these banks rely too heavily on one distribution channel due to technological threats in other business channels, or if a bank relies too heavily on an inorganic fintech partner to generate revenue.

Bank Business Lines Under Attack By Fintech Competitors

Fintech companies have already made some inroads into traditional banking. According to Accenture, fintechs and challengers have taken 3%-4% of market share from traditional banks in certain business segments. Some of the main areas where banks are currently facing business pressure are as follows.



Payments

Within the payment space, consumers continue to mostly initiate electronic payments with bank-issued credit and debit cards, sending funds mainly through the open-loop networks of Visa and Mastercard or the smaller closed-loop networks of American Express and Discover. Banks collect fees from merchants when consumers use the cards they issue.

We expect most consumer electronic payments to continue to flow between banks through the existing card networks' "rails" at least in the next few years (see "The Future Of Banking: Five Fintech Expectations For Business And Consumer Payments And The Ratings Implications On Banks And Nonbank Financial Institutions," Feb. 13, 2019). The ubiquity of the card networks with consumers and merchants makes disrupting the current system difficult. Many fintech advancements (e.g., mobile card readers, QR codes, and contactless cards) are also facilitating payments via banks cards rather than replacing them. Still, there are many existing and new players looking to disrupt the system, and we cannot rule out significant changes to the industry over time. PayPal is one nonbank player that has established a material market position with consumers, as well as merchants who accept PayPal payments. PayPal still relies to a degree on the card networks as well as banks, but transactions on the PayPal system can diminish the economics for banks, depriving them of fees they would have otherwise collected on a card transaction. PayPal's person-to-person (P2P) payment services, including through Venmo, also helped spur the banks to launch their own P2P system of Zelle.

Separately, large tech companies like Apple, Google, Samsung, Facebook, and Amazon probably would like to mimic the success of online payment services AliPay and WeChat in China and have also launched digital wallets, interposing themselves in consumer payments. Banks have already experienced some margin pressure, as hardware makers such as Apple and Samsung facilitate card payments and participate in the economics of the transaction.

In the event that a fintech finds a way to disrupt the dominance of the existing card networks, there would be major implications for the current players in consumer payments, including banks. Still, we don't believe this is a near term event.

Various lending segments

In terms of areas of loan growth, fintechs have been stepping into niche businesses--largely areas banks have moved away from, either because banks don't have the processes or scale to engage with the customer in a cost-effective manner.

Fintechs, for their part, are able to offer customers a better user experience and lower price because of a lack of legacy infrastructure, such as branches. According to S&P Market Intelligence, prominent digital lenders' origination volumes in 2017 were up 30.1%, to $41.1 billion, and are likely to grow at a still healthy compounded annual growth rate of 12.4% to $73.7 billion by 2022. Although the growth rate is impressive, the absolute size of loans outstanding by digital lenders is still very modest compared with the banking industry total of roughly $9 trillion.

The specific lending areas that have been most vulnerable to fintech competition are:

Mortgages,
Personal loans,
Student loans, and
Loans to small and medium enterprises (SMEs).

How Banks Have Responded To The Fintech Threat

Since fintechs are fundamentally diverse, there has not been a single game plan in regard to the banks' response to threats from technology companies. Many banks have strategically opted to increase what they are spending on technology, combine in-house teams in partnership with a fintech company, or acquire fintech companies. The below provides more detail into the banks' response so far.

Banks are upping what they spend on technology

On aggregate, total spending on technology across the banking industry is expected to increase by an average of 4% each year over the next three years, according to data from the advisory firm Celent. For the top 20 banks (when the information has been disclosed), we have compiled technology spend as a percentage of revenue and we have also looked at patent formation. Sometimes technology expenses are reported and embedded in other line items (such as software and equipment), so the full picture may not be complete. Overall, we believe the larger banks have a distinct advantage because, given their higher revenue base, their absolute technology spend is much higher than smaller regional banks.

One prime example of banks' successful spending on in-house technology is the development of mobile banking applications to help enhance the customer experience. Banks have also rolled out digital mobile applications, and small business and personal loan platforms.

Partner with a fintech company

Many banks have chosen to partner with fintech companies (see table 2). Positively, partnering enables banks to grow revenue in areas that banks lack lending expertise or scale, and post incremental income as a result. Fintechs also benefit from a partnership because it diminishes the costs of customer acquisition, helps monetize innovations in financial services, and overcomes the barriers to expand services across state borders. In addition, a fintech company benefits from gaining access to a more stable funding via a bank partnership and can use the bank's network to help grow their customer base.

Negatively though, from a bank's perspective, a fintech partnership could confuse the branding of a bank. And over time, a bank could be relegated to the role of back-end processor while the higher value, front-end business gets extracted away. In addition, by partnering with a fintech, a bank can lose the valuable direct contact with its customer, along with the personal data of its customer base.

Banks' Advantages And Disadvantages Versus Fintech Companies

We see a myriad of advantages for banks as stand-alone businesses versus fintech competitors. But fintechs as stand-alone businesses have some advantages, too (see chart 3). Basically, if bank management teams believe they don't have the expertise to develop a certain technology in-house, they will seek a suitable partnership.

Tech Titans Are Likely Banks' Biggest Threat Over The Long Term

Tech titans like Apple, Amazon, Google, and Facebook have so far dabbled into the banking space in a limited way, largely in the payments space. In the lending space, Amazon provides working capital loans to merchants operating on its platform, with a very timely decision processes, using Amazon's insight into the merchant's cash flows that enables the company to offer their clients tailor-made repayment schedules.

One of the big threats of the tech titans is their reach and visibility. Unlike smaller fintechs, they can use their already established large customer bases and digital talent to extend their corporate brands into banking. They also have strong balance sheets with enormous investment capacity. These players have already proven their ability to quickly develop and implement technical innovations. Banks could face the biggest competitive threat from activities where barriers of entry are low, such as transaction revenues, which is already underway.

But there does not appear to be any appetite right now for these large tech companies to take on a full-fledged banking license, collect deposits, or make loans to their customer base. We believe this is due to regulatory hurdles and an aversion to take on credit risk. Something that could entice these companies into furthering their banking presence is it would give them the ability to generate additional data from financial customers, which would enhance advertising and open brand new revenue streams.

Tech Will Remain Front And Center

Technology will remain one of the key focuses of the banking industry in the years to come. Changes in technology move rapidly and, to stay relevant, banks must adapt. Banks that use technology well can enhance their business models and even bring new tools to some thorny problems, such as monitoring anti-money-laundering. But circling around the healthy profits of the banking industry is a growingly ambitious group of tech companies, large and small, that already and over time, will continue to nibble away at bank margins.

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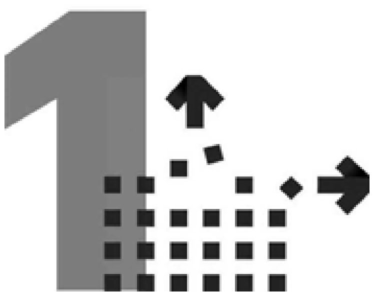
Banking in 2019: 10 key trends to watch

by ALAN MCINTYRE, SENIOR MANAGING DIRECTOR, ACCENTURE GLOBAL BANKING



Unbundling and fragmentation– the cracks are beginning to show.

Banking has traditionally been a vertically integrated business. Some sectors like wealth management do have a manufacturer/distributor structure, but core retail asset and liability gathering has remained a unified activity in most markets. That industry structure is now beginning to fragment. One driver is the export of Open Banking regulations from Europe to Hong Kong, Australia, Singapore and soon to be Canada. Although different in each market, the common denominator is an intent to create more competition. This fragmentation creates new horizontal business opportunities, ranging from account aggregation (like Yolt in the United Kingdom) to back-office enablement plays (Cross River in the United States and Clear Bank in the United Kingdom) to the more esoteric ("The Narrow Bank" which arbitrages the U.S. Federal Reserve deposit rate for corporate depositors). In response to Open Banking, the U.K. already has 62 registered third-party providers, all of whom plan to take advantage of a fragmenting value chain. And when a seven-year-old specialist payments acceptance start up, like Stripe, commands a valuation within touching distance of an industry stalwart, like Deutsche Bank, it's a sign that horizontal specialization can be very attractive. So, in 2019, we will undoubtedly see more fragmentation, but we will also see banks immediately attempting to re-bundle those components into attractive and holistic customer propositions.

The best and the rest– is this the year profit as well as value diverges?

Successful tech companies, whether they are Amazon or an "A round" startup, need to tell a compelling story about the future. Those that can build confidence in the evolution of their business model can command a "future premium" that is often more than 50 percent of their valuation. We are beginning to see a similar phenomenon emerge among traditional banks. Digital leaders, like DBS, BBVA and JPMC—banks that tell a good story about their digital transformation—are getting a future premium of around 25 percent, while the rest of the banking industry is still struggling to get their current business valued at book. Still, compelling stories of digital transformation haven't yet translated into current profitability levels that are noticeably different from the rest of the industry (although DBS claims 50 percent more profit from its digital customers1).

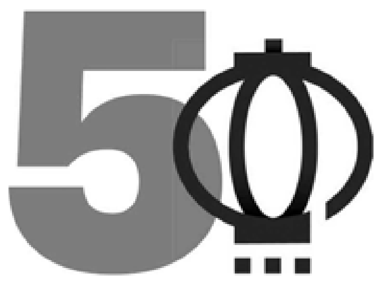
In 2019, digital leaders among traditional banks should aim to show that the investment, creativity and ambition that has created their premium valuation will also result in higher enterprise ROEs. If they can, the gap between the best and the rest will widen. If they can't, the conclusion of investors may be that for the foreseeable future, the rotation from the old to the new will be no more profitable than executing well in the old, and we may see the bursting of some digital bubbles.

The bar for advice rises from products to promises.

Asking Erica, Alexa or any other AI assistant to do some banking for you has fast become table stakes. But what passes for advice often feels a bit like parental scolding. "Did you know you spent $50 on Starbucks last week?" or "Don't buy those new sneakers or you'll go overdrawn." What is likely to emerge in 2019 is a new class of digital advice that focuses on true financial wellness. These advisory services will draw both on banking and non-banking data to provide hyper-relevant advice and suggestions. Because banks see your payments flow, they not only know what you are spending, but also what others are spending. This will allow them to identify that you are paying more for your utilities than your neighbor, or that you are paying full price for your car lease, rather than taking advantage of current refinancing offers. Of course, banks need to make sure that their own house is in order first by ensuring best advice for their own products. But beyond that, they are ideally placed to promise their customers that they, if given a chance, will make the totality of their financial lives better and more rewarding. That is where the advice bar will be set in 2019.

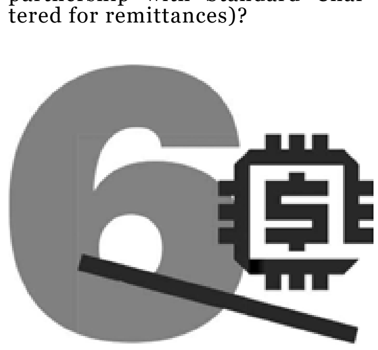
The twilight of U.S. community banking?

These should be golden days for smaller U.S. banks. The economy is booming, interest rate spreads have widened, credit losses are minimal and compliance costs are at last coming down. Profitability is certainly up, but the existential threat for these banks is now a lack of growth. Being small and local isn't the competitive edge it used to be. Instead, players with a compelling digital customer experience are winning big on both sides of the balance sheet. In deposits, the big three of Bank of America, JPMC and Wells Fargo have only 24 percent of U.S. branches, but they took nearly 50 percent of new deposit account openings last year.2 In contrast, regional and community banks have 50 percent of branches but took only 20 percent of deposit growth in the last three years.3 In credit, outside the top 25 banks, the loan assets of U.S. banks shrunk by over $30 billion in 20174, while digital-only originators, like Kabbage and On Deck (backed by institutional money), and direct credit investors, like Apollo and Blackstone, continued to boom. The traditional response of smaller U.S. banks would be higher levels of mergers and acquisitions to reduce costs, but the new challenge in 2019 is to figure out how smaller banks can offer better digital services without spending billions of dollars. If they can't, they will continue to lose customers to their bigger competitors, and 2019 may see us enter the twilight of the community banking era in the United States.



The Chinese are coming.

The stunning transformation of retail financial services in China is becoming a well-known story. Between Alipay and WeChat pay, China now has well over a billion regular users of mobile payments who last year conducted two-thirds of all global mobile payment transactions, and Ping An is redefining data-driven approaches to financial services. Viewing this phenomenon from a seat in the West, it's tempting to say that what's happening in China doesn't affect us. That is what Finland would have said in 2015 when it had only half a million Chinese tourists. In 2019, Finland is likely to have five million Chinese tourists staying twice as long and spending at least three times as much, in part because thousands of merchants now accept QR code-based mobile payments. Like Finland, Chinese influence is changing Singapore (which is adopting a QR-based interoperable system for low-value payments) and shaping consumer payments in India (through Ant Financial's stake in market leader Paytm). The next targets are the rest of Southeast Asia and Africa. With Ant Financial now worth $150 billion and scaling its transaction processing system to handle 100 billion transactions per day5, it's only a matter of time before innovators from China also reshape the Western banking industry. The questions to ask now are how much of that change will be visible in 2019, and will it come from direct interventions (like Ant's aborted attempt to buy MoneyGram) or from Chinese firms working in partnership with Western institutions (like Alipay's partnership with Standard Chartered for remittances)?

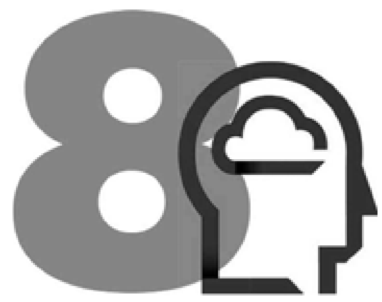


The tipping point for fintechs in the United Kingdom.

Whether or not Gandhi ever said, "First they ignore you, then they laugh at you, then they fight you, then you win", it's a sentiment that many U.K. bankers might recognize. Accenture research shows that the United Kingdom is the most disrupted traditional banking market in the world, with 15 percent of revenue and over a third of new revenue going to new entrants.6 The combination of eroded trust and a regulator keen to stimulate competition has enticed a plethora of financial institutions to enter the U.K. market, including Monzo, Starling, N26, Revolut and Marcus from Goldman Sachs. These start-ups have now signed up millions of customers. However, the vast majority of these are secondary accounts with typically less than 20 percent of start-up customers using neo-banks for their primary checking. The reaction of incumbent U.K. banks has been to launch their own digital challengers (RBS claims to have six in development) and upgrade their core digital services. The U.K. has clearly moved from the ignore and laugh phase to the fight phase of the dubious Gandhi quote. Market share data in 2019 will start to give us an indication of whether new entrants have enough momentum to win long term, or whether the antibodies of traditional banking will be strong enough to fight off this infection from digital newcomers.

The beginnings of build and migrate.

One of my 2018 predictions was that few big banks would risk ripping out their antiquated core legacy systems, but instead would look to wrap them in digital services that enabled more speed and agility. While I was right that there wasn't a lot of core replacement in 2018, we have seen plenty of interest in core alternatives, like Mambu, Thought Machine, Leveris and Finxact. In 2019, we are going to see a lot of build activity on these new systems with banks around the world experimenting with new technical architectures that are digital to the core. However, so far, these solutions are mostly targeted at relatively simple retail and SME customers. The big question for 2019 is whether we will see any traditional banks take the leap and move from a parallel digital build to a full migration of their legacy core banking systems to one of these new solutions. I think we will, and I think some smaller U.S. banks, frustrated by their current technology providers, will be first out of the gate. So, 2019 still won't be a year of rip and replace, but it could be a year of build and migrate.



Head (and brain) in the clouds.

Another prediction from 2018 was that the debate on migration to public cloud was essentially over. What's interesting for 2019 is how quickly the debate has moved on from the cost and scalability benefits of being in the cloud to data and analytics. At

the recent AWS re:Invent conference, there were still hardware announcements, like Amazon's new hybrid cloud. However, much of the focus was on what to do with your data once it's in the cloud and, specifically, the analytical tools available from cloud providers. This move from a bare-iron pitch to the allure of an intelligent brain indicates that the winners in digital banking will be defined by offering creativity and data quality, not the quality of algorithms. We are moving to a world where every banking carpenter will have the same toolbox and be able to access many of the same raw materials. Some will be capable of building beautiful furniture that customers will pay a premium for, while others will turn out shoddy, mass-produced items that lack differentiation. The chisels and saws that cloud providers will offer won't be the competitive differentiator, rather distinction will come from picking the right piece of wood and knowing how to create something of value from it that will matter in 2019 and beyond.

Time to make your move ... the chess clock is running down.

There's now a whole cottage industry devoted to what Amazon will do in banking. The speculation in 2018 that Amazon would white-label current accounts from JPMC in the United States set hearts aflutter in many bank boardrooms. There's reason to think that 2019 may be the year in which big tech will be forced to show its hand with respect to banking. In Europe, PSD2 regulations will really start to have an impact on the payments market and major retailers (including Amazon) will need to decide whether they want to offer account-to-account payments that bypass card networks. In the United States, while white-label checking is still a possibility, we are seeing Uber, Amazon and Walmart follow Starbucks' lead and focus more on prepay accounts that internalize payments by offering incentives to use proprietary apps. But, the most fascinating market to watch in 2019 may be India, where almost all the big tech players are competing—for example, Walmart and Amazon remain in a battle for digital commerce supremacy, Ant continues to fund mobile wallet Paytm and Facebook launches WhatsApp payments. 2019 will be a year in which the boundaries between banking and the rest of the digital economy continue to blur, and it may be a year in which we see some of the big tech players make some definitive moves.

Welcome "platform" police.

My last prediction for 2019 is that the word "platform" will get banned in at least one bank (you might notice it hasn't appeared in any of my previous nine predictions). Often a perfectly useful term gets abused and stretched to the point where it becomes meaningless. Unfortunately, that was the fate of "platform" in 2018. A true digital platform business is an easily accessible, two-sided marketplace that makes money by bringing buyers and sellers together, like eBay, Airbnb or Uber, and driving growth through network effects. Amazon is a semi-platform business because, as well as facilitating commerce, it also aggregates customer demand to sell its own products. Apple also mixes traditional consumer products and platform elements (the App store) while Facebook and Google are almost pure aggregation businesses that focus on capturing your attention and then selling it to advertisers. In 2019, any bank that wants to talk about being a platform business needs to be very specific about the business model it is trying to pursue and stop throwing the word around just to look cool. A pure platform business would be economic suicide for most banks, as it would involve giving up their balance sheet. But as we are seeing in the United Kingdom, hybrid platform models, like Bo or Starling, could be viable. So, if people in your bank start to talk about "platform banking", please keep asking them what they mean until you get an acceptable and clear answer. It could take a while.

Fady ASLY of ICC Georgia: "Unfortunately Georgia has lost attractiveness for foreign investors"

By CAUCASIAN JOURNAL
(TF PARTNER PUBLICATION)

Is the business climate now getting any better? Do investors get adequate protection? Is it a good time to start business in Georgia?

Caucasian Journal interviewed Fady ASLY, Chairman of International Chamber of Commerce (ICC Georgia). Since its launch in 2002, ICC has been not only a top executives' club, but often a shelter for mistreated businesspeople, where they could find an efficient support.

Caucasian Journal's readers are the first to hear Mr. Asly's answers.

Alexander KAFFKA, editor-in-chief of Caucasian Journal: Though you are not Georgian, you are widely popular in this country. Many people know you as a leader of business associations, an entrepreneur, and even an original writer. But let us imagine you are facing an unfamiliar audience. How would you explain why you care so much about Georgia?

A. When I woke up early in the morning of April 28, 1998, hours after my first ever arrival to Georgia, I opened the balcony door of my hotel room and was taken aback by the beauty of the landscape, Mtatsminda's amazing green hill with its small red-roofed mushroom houses under a clear and bright blue sky.

A cool breeze caressed my body and I was filled with internal peace and beatitude. As insane as it might sound, this is the moment I fell in love with Georgia! It was love at first sight and the start of a deep passion for this country, which has never left me for a single second despite all the adventures I had to go through over the years.

As a matter of fact, the happiest day of my life was the day in August 2007 when I was granted Georgian citizenship; I was overwhelmed with gratitude and pride and I cannot recall any other single moment in my life that made me happier.

"The happiest day of my life was the day in August 2007 when I was granted Georgian citizenship"

I always felt that I was a Georgian at heart from my first days in the country! Being Georgian is not a legal status, it is a state of mind and a way of life! We do not choose the country or the family into which we are born, this is down to fate. But we do choose the partner whom we love and with whom we want to spend the rest of our life, and it goes the same when we adopt a country, especially when this country is Georgia.

Q: For how many years have you been in Georgia? How many presidents and prime ministers do you personally know?

A: I have been in Georgia for 21 years now since that famous day of April 28, 1998 and for my 20 years heading a major business organization in the country. I can recall 4 presidents, but I cannot keep track of all the prime ministers and ministers with whom I had a working relation; I always jokingly say that I am the longest serving official in the country.

Q: You have survived the toughest periods in Georgia, and have been in the epicenter of business and politics during all the ups and downs of two recent decades. I understand that each cabinet gave you some reasons for criticism. None of them was perfect. But looking back, is there a period that you now may call "favourite"?

A: Well, we had different challenges with the various administrations; during the Shevardnadze's Administration our main worries were security concerns, corruption and securing a leveled playing field for foreign investors; during the Saakashvili's Administration our concern was to stop harassment of businesses and attacks on businesspeople perceived to be close to Shevardnadze or to the opposition; now under the Ivanishvili's Administration we have to deal unfortunately with the compounded challenges of both the Shevardnadze and the Saakashvili's Administrations!

My favorite periods are the years 2006 and 2007 when the Saakashvili's Administration had already gone through its learning curve and when businesses were left to develop their activities totally unhampered. This honeymoon period lasted till the August 2008 war with Russia.

Q: I guess after these answers our readers get a better idea of your experience and competence, and are looking forward to our opinion on the current situation in Georgia. Can you name, for instance, 3 main factors that characterize it today?

A: The 3 main factors that characterize Georgia today from the business perspective are the following:

1 - A dichotomy in power, a hydra with two heads, where there are two sides running the country, on one hand an official but powerless side represented by the prime Minister and some of the government' ministers and their teams, who understand how a country should be run and who work around the clock to promote Georgia, encourage foreign investment, fight poverty and improve the business environment, and on the other hand, an unofficial side that is the real power in the country, represented by Bidzina Ivanishvili and his entourage, who is pushing for his own and non-declared agenda, that consists of keeping foreign investors out of the country, spreading his tentacles over major businesses, getting rid of business people he dislikes using criminal methods reminiscent of the 1990's, relying for that on all state structures that he totally controls, and in particular the Prosecutor's office, the Judiciary, and the law enforcers.

2 - A total lethargy of the authorities regarding the implementation of rule of law. Bidzina Ivanishvili came to power thanks to all the voters who were dissatisfied with the dictatorship governance style of Saakashvili; Ivanishvili understood the power of people, and he based his rule on the principle "Don't upset anyone under any circumstances"! This means closing eyes on injustice and on the implementation of the rule of law in order not to upset potential voters. The problem with this approach is that when you want to please everyone you end up upsetting everyone, and this is what is happening now.

3 - Collapse of the Judiciary, increase in corruption, nepotism and criminality; of course those factors are not conducive to a proper business environment.

Q: I think everybody agrees that Georgia needs foreign investment to grow. How attractive is it in the investors' eyes?

A: Unfortunately, foreign direct investment [FDI] is stalling; the stories of many investors who were defrauded, harassed and prohibited from completing their investments are circulating all over the world now.

It takes one failure to destroy one hundred success stories; but when you have hundred failures and no success stories the problem becomes huge and unsolvable.

Unfortunately Georgia has lost its attractiveness for foreign investors; we have to keep in mind that Georgia has to compete for foreign investment with more than 120 emerging countries! Why would anyone come to Georgia and deal with harassment, pressure, lethargy of the authorities, and corruption in the judiciary, when they can go to more attractive destinations with better terms and investment conditions?

To add insult to injury we are witnessing a very serious xenophobic attitude of government against investors coming from certain countries such as the GCC [Gulf countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE], India, Pakistan, Iran and even Turkey.

Based on all that no one should be surprised why FDI is plummeting!

Q: Following up to my previous question. Georgia's rating in World Bank's Doing Business index has gone up, jumping 3 positions to 6th place in the world. This is of course an outstanding achievement for a small post-Soviet country. According to index, doing business in Georgia must be similar to Norway and South Korea. If investors are hearing to it, they should be stranding in line to start a business here, but is that happening in reality? What else should be done to stimulate investing to Georgia?

A: Without real political will to encourage FDI, without firm measures implemented by government to protect foreign investors and their businesses, FDI will not increase. We don't feel this political will nor do we see actions on the ground to protect foreign investors.

As a matter of fact those past five years are the worst that I have seen when it comes to protection of foreign investors; honestly I don't remember in the past 20 years - and this includes the Shevardnadze's times - a period when so many foreign investors were under attack simultaneously; it is simply appalling and scary!

"I don't remember in the past 20 years - including Shevardnadze's times - a period when so many foreign investors were under attack simultaneously; it is simply appalling and scary!"

As for the World Bank Doing Business Report, we have stated our position already many times. This report benchmarks countries on the basis of ease of legislation, but the Report does not reflect at all the reality of doing business in a country; as a matter of fact it is a greatly misleading document, and we have officially informed the World Bank of our views regarding this matter.

A Report that doesn't account for corruption, harassment, pressure, and the efficiency of the Judiciary cannot be a reliable document for any serious investor.

Q: Speaking about foreign investors, they always get many investment proposals, and have plenty of options to choose from. You run a consultancy firm, which probably works with potential investors, so you must have lots of insight in that field, too. How does Georgia perform in comparison to other countries, or at least in comparison to neighboring countries?

A: On paper Georgia ranks very well and everything looks perfect, but reality is totally different. Let's agree on one thing, foreign investors are looking to make money, they are looking for clear rules of the game, no hidden agendas.

If a country claims to be corruption free, then the investor expects a corruption free activity, and will not understand if at one stage, and once they are engaged in country, a government official asks for a share of their business to solve an artificially created problem.

If in another country you cannot operate without a local partner, this is just fine for the investor as long as everything is clear and settled before starting the operation. Therefore if the rules of the game are clear to an investor they will not mind those rules as long as they are predictable and stable.

If you compare Georgia to Azerbaijan or Armenia, on paper in Georgia you can do business without a partner, in Azerbaijan and Armenia you will need to partner with an influential government figure that will solve all possible problems when they arise.

In Georgia theoretically you don't need a partner, however from experience I know that no investor can start a large project in the country if someone from government is not on board "unofficially" via a screen representative.

"From experience I know that no investor can start a large project in Georgia if someone from government is not on board unofficially"

If the investors start their business without a local partner they will be harassed by various state structures, their business will never move smoothly and they will have to shut down their operation; this is a fact and a reality that I face everyday with investors, who come to us to complain; as a matter of fact ICC offices have turned into the Weeping Wall of Jerusalem with businesspeople coming by the score requesting our assistance.

Of course this is something that you will never read in the World Bank "Doing Business" report.

As far as our consultancy firm Channel Georgia Consulting, we have totally frozen our operation for Georgia since summer 2018, and we are diverting our investors to Eastern Europe and Central Asia. We don't feel confident luring investors from the Middle East into Georgia at a time the government policies are simply xenophobic against investors from this part of the world.

So many investors from the GCC countries invested in Georgia and couldn't even get a one-year residency!

Even worse, several of those investors were refused entry to Georgia after completing their investment, they were returned back on the same plane and prohibited from ever coming back, many of them had to leave their investments behind them. The message that government is sending out is: "We want your money but we don't want you!"

At a time so many countries are luring investors with incredible packages, Georgia surely cannot afford such policies.

Q: Among ICC Georgia's members there are both Georgian companies and international corporations. So you must hear many opinions about their day-to-day experiences and practices. Do you have an impression that foreign companies are receiving preferential treatment, or, in contrast, the national investors are given preference vis-à-vis the foreigners? What are the most typical complaints?

A: During the Saakashvili's Administration, foreign investors were very protected and given a preferential treatment, under the current Administration, as I have mentioned earlier, scores of foreign investors are facing problems; it is the same situation as well with many Georgian businesses, excluding of course the "privileged" ones that are close to Mr. Ivanishvili.

One fact though, we have noticed that the Georgian courts have a tendency to favor domestic companies at the expense of foreign ones, and this is very worrying.

Q: You spare no time and effort to protect the Georgian companies when they are in trouble. You do not hesitate to report about wrongdoings directly to the top authorities. But what about the business community itself? Are companies prepared to defend collectively, or prefer to "wait and see" unless affected directly?

A: Yes, we are very vocal when it comes to protecting and defending companies attacked by the authorities; as a matter of fact, we are the only "fearless" business organization in Georgia. We have learned over long years and from experience that the only times we were able to improve the business environment was when we had a bad relation with the government and never when we had a good relation - as paradoxical as this might sound.

Unfortunately this is a reality, government doesn't trigger positive changes unless pressured or embarrassed publicly; we hate to do that, and we try to use all possible rational means with the authorities, however when everything fails then we go public.

Georgian businessmen are used to solve their problems silently and under the table, and this is the real problem that is feeding the corrupt system.

We believe that attacks on businesses have to be denounced publicly and put under the projectors, for under the lights the attackers loose their margin of maneuver and are paralyzed. This strategy worked every time we used it.

AK: Thank you for extremely valuable insights, Fady.

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Fitch Affirms 4 Georgian Banks, Revises Outlooks on TBC and BOG to Stable

Continued from p. 4

Vrs

The VRs of all four banks reflect their exposure to the still relatively high-risk Georgian operating environment. The VRs of TBC, BOG and PCBG also consider their high FC lending and, in the cases of TBC and BOG, their rapid growth in what Fitch considers to be potentially high-risk FC mortgage lending in 2H18.

The four banks' VRs also reflect the relatively good near-term growth prospects for the Georgian economy, which should help support lenders' generally sound financial profiles. Regulatory constraints on retail lending from 2019, including more stringent affordability criteria and an increased minimum limit for FC lending (GEL200,000 vs. GEL100,000 in 2018) also somewhat reduce the potential for further high-risk credit growth.

The VRs of TBC and BOG further reflect their dominant positions in the local banking sector (38% and 35% of total sector assets at end-2018, respectively) and significant pricing power, which has underpinned their healthy profitability through the recent economic cycle.

LB's and PCBG's VRs reflect their only moderate market shares (5% and 4% of total sector assets, respectively) and focus on specific groups of customers (unsecured retail lending at LB and niche SME lending at PCBG). Recent changes in LB's strategy and its growing corporate franchise are yet to be tested and may pressure the bank's margins, as the share of good-quality borrowers is limited and competition is high.

TBC

Impaired loans (Stage 3 under IFRS 9) represented a moderate 3.4% of loans at end-2018, based on preliminary financial statements. Loan loss reserves covered a comfortable 94% of impaired loans and unreserved impaired loans represented a low 1% of Fitch Core Capital (FCC).

Borrower concentrations are moderate compared with some regional peers, with the 25 largest borrowers accounting for 19% of gross loans, or 101% of FCC at end-2018. Dollarisation of the loan book remained high at 60% at end-2018, about 36% of which were FC mortgages issued mostly to unhedged borrowers (equal to 112% of TBC's FCC). Unsecured retail lending amounted to a further 93% of the bank's FCC.

Profitability is a rating strength. The operating profit to risk-weighted assets (RWA) ratio reached 4.9% in 2018 (2017: 4.6%) and the net interest margin is high at approximately 7%, supported by 21% loan growth. Declining operating expenses relative to gross revenues (37%) and moderate impairment charges (1.6% of average loans) supported a strong return on average equity (ROAE) of 22% in 2018.

TBC's FCC/RWA ratio was high at 19% at end-2018. This is higher than prudential regulatory capital ratios (Tier 1: 12.8% and total 17.9%) due to the more conservative regulatory risk-weighting of assets. Management's target is to maintain a minimum 1% buffer over the minimum requirements (11.8% and 16.7%, respectively, including buffers) which we view as reasonable.

Funding is mainly sourced from stable customer accounts (62% of total liabilities at end-2018, excluding government deposits). Concentrations are moderate, as the 20 largest depositors accounted for 22% of total customer accounts at end-2018. Funding from international financial institutions (IFIs) was a notable 16% of total liabilities, but the maturity schedule is comfortable, and TBC has a track record of refinancing maturing debt. A further 14% of liabilities were short-term repo funding from the NBG (5%) and government deposits (9%). Our estimate is that the buffer of liquid assets (cash, interbank assets and unpledged securities net of wholesale debt repayments and maturing government deposits in the upcoming 12 months) was sufficient to withstand an outflow of a moderate 7% of customer accounts at end-2018.

BOG – Bank of Georgia

Impaired loans (Stage 3 under IFRS 9) stood at 6.6% of loans at end-2018, with only moderate coverage by total loan loss allowances of 50%. Unreserved impaired loans accounted for a notable 19% of FCC. Concentration of loans remained moderate compared with some regional peers, with the 25 largest borrowers accounting for 18% of gross loans at end-2018, or 104% of FCC.

Dollarisation of loans is stable at a high 57% at end-2018. FC mortgages contributed a notable 35% of total FC loans (117% of BOG's FCC) and are issued mostly to unhedged borrowers. Unsecured retail lending accounted for a further 116% of FCC.

Profitability was strong at BOG, driven by continued rapid lending growth (2018: 23%), with the ratio of operating profit to RWAs equal to 4% in 2018, supported by a relatively stable net interest margin (7%). Operating expenses were broadly stable at 38% of gross revenues and impairment charges were a moderate 1.7% of average loans, resulting in a strong ROAE of 22% in 2018 (25% in 2017).

The FCC/RWA ratio was moderate at 13.5% at end-2018. Regulatory capitalisation was weaker, with the Tier 1 and Total capital ratios equal to 12.2% and 16.6%, respectively (prudential minimums are 11.4% and 15.9%, respectively, including buffers). In March 2019, BOG issued perpetual Additional Tier 1 notes equal to about 2% of end-2018 RWAs, to boost regulatory capitalisation. BOG plans to maintain a buffer of 2% over its minimum prudential capital requirements.

Stable customer deposits represent BOG's core source of funding, accounting for 64% of total liabilities at end-2018. Concentrations are moderate, with the 20 largest depositors accounting for 16% of total customer accounts. Bonds accounted for a further 13% of total funding, including USD350 million Eurobonds maturing in 2023. Our assessment is that liquid assets were sufficient to withstand an outflow of a low 5% of total customer accounts.

Liberty Bank

LB's loan portfolio growth of 22% in 2018 was mainly driven by the corporate and SME segments. Retail loans continue to dominate the portfolio (81% of end-2018 loans) but growth is constrained by regulations on unsecured lending. The quality of the retail portfolio is stable and preliminary financial statements indicate that impaired loans (Stage 3 loans under IFRS 9) stood at a high 10% of gross retail loans, comfortably reserved at 115%.

Risks in unsecured lending (62% of total loans or 2.4x FCC) are partly mitigated because a large share of borrowers have regular inflows into their accounts held at the bank and these can be debited to meet loan repayments at the bank's discretion.

The share of FC lending, at 22% of loans at end-2018, is significantly below the market average (57%), which we view positively.

Corporate and SME lending is an area for expansion under the bank's new ownership. These segments represented 19% of gross loans at end-2018, which brings moderate diversification to the loan portfolio. However, rapid growth in this segment may put pressure on asset quality as the portfolio seasons.

LB's profitability is strong, underpinned by still wide margins (15%). Profitability was supported by improved operating efficiency (cost-to-income ratio of 56% in 2018) and stable loan impairment charges on retail loans. As a result, operating profit remained a solid 5% of RWAs and ROAE was 23%.

The FCC/RWA ratio remained strong (17%) and stable. Capitalisation and leverage is a relative rating strength for LB. Regulatory capital ratios are lower (Tier 1 and Total capital ratios at 14.1% and 17.7%, respectively, at end-2018). LB does not operate with ratios significantly above minimum capital requirements (including buffers) but the bank plans to attract subordinated debt in 1H19 to support its regulatory capitalisation.

The bank's funding and liquidity profile is a rating strength, in our view. Customer deposits represented 94% of LB's liabilities at end-2018. Concentrations are rising with the 20 largest depositors representing 20% of total liabilities at end-2018 (end-2017: 12%). The bank's liquidity was sufficient to cover a high 38% of customer deposits.

ProcreditBank Georgia

PCBG's asset quality benefits from a well-controlled risk appetite supervised by the parent group. According to preliminary end-2018 financial statements, impaired loans (IFRS 9 Stage 3 loans) represented 2.7% of gross loans, reserved at 92%. Loans in FC constitute a high 77% of total loans and the share of naturally hedged borrowers is limited. The loan book was moderately concentrated: exposure to the 25 largest clients was equal to 101% of the bank's FCC at end-2018.

Net interest margins are declining (4.9% in 2018, down from 5.5% in 2017) reflecting a shift towards larger SMEs and intensified competition on the market. Pre-impairment profitability remained stable at 3% of gross loans in 2018, supported by improved operating efficiency (cost/income ratio of 53% in 2018 compared to 58% in 2017). Profitability benefited from (unsustainable) zero loan impairment charges, resulting in operating profit equal to 3% of RWAs in 2018 (2017: 2%) and a ROAE of 14%.

The FCC/RWA ratio declined to 17% at end-2018 from 19% at end-2017 due to the transition to IFRS 9, which consumed a moderate 4% of end-2017 equity, and dividend payouts. The bank maintains a 2% buffer above minimum prudential capital ratios and its Tier 1 and total capital ratios reached 13.4% and 17.8%, respectively, at end-2018. The bank's capitalisation benefits from ordinary support from PCH, as possible capital pressures, if any, would likely be offset by equity injections from the parent.

Compared to peers, PCBG's funding profile is more reliant on wholesale markets. Customer deposits represented 53% of total liabilities at end-2018. Loans from IFIs stood at 20% of liabilities, while funds from PCH and sister banks added 24%. PCBG's liquidity cushion (cash, unpledged securities eligible for repo and short-term bank placements) was sufficient to cover all expected outflows of wholesale debt in 2019.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES (BOG)

The affirmation of BOG's perpetual additional Tier 1 notes at 'B-' reflects their higher loss severity in light of their deep subordination, and additional non-performance risk relative to the VR. Non-performance risk reflects the write-down trigger (core equity Tier 1 ratio falling below 5.125% or intervention by the NBG) and fully discretionary coupon omission. The rating is three notches below BOG's VR. According to our criteria, this is the highest possible rating that can be assigned to deeply subordinated notes issued by banks with a VR anchor of 'bb-'.

RATING SENSITIVITIES

IDRs, VRs, SUPPORT RATINGS, SUPPORT RATING FLOORS, SENIOR DEBT RATINGS

We do not anticipate changes to TBC's, BOG's and LB's VRs in the near term and consequently the Outlooks on the banks' IDRs are Stable. Upside potential could arise from improvements in the operating environment, for example driven by further diversification and growth of Georgia's economy. A notable decrease in loan dollarisation rates at the banks could be positive for TBC and BOG, while LB's ratings are also sensitive to a positive track record of the bank's performance under the new strategy.

Downgrades of the IDRs and VRs of BOG, TBC and LB, and of PCBG's VR, could result from a material increase in risk appetite or a marked deterioration in asset quality, leading to a substantial weakening of capitalisation.

Upside for PCBG's VR is currently limited, given its moderate franchise and profitability and higher share of FC lending. PCBG's support-driven IDRs are sensitive to Fitch's assessment of support from PCH and country risk considerations associated with Georgia.

The Support Ratings and SRFs of TBC, BOG and LB are sensitive to changes in the overall probability of sovereign support. A change in the sovereign rating could affect this, although this is considered unlikely in the foreseeable future given the Stable Outlook on Georgia's sovereign rating. If legislation is adopted which provides a credible framework for the bail-in of senior creditors of failed banks, then Fitch would likely downgrade the Support Ratings of TBC, BOG and LB to '5' and revise their SRFs to 'No Floor'.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES (BOG)

Fitch may widen the rating notching between the notes and BOG's VR if non-performance risk increases. The rating of the notes would also be downgraded if the instrument becomes non-performing, i.e. if the bank cancels any coupon payment or at least partially writes off the principal. Upside for the notes is limited, as per Fitch's criteria the minimum notching of deeply subordinated instruments would increase to four notches, should BOG's VR be upgraded to 'bb'.

Source: Fitch Ratings

Visa cardholders of Bank of Georgia can now tap to pay with Garmin smart watches

For the first time in Caucasus region, Visa cardholders of Bank of Georgia can pay contactless with any Garmin watch that supports Garmin PayTM

The FINANCIAL

Bank of Georgia continues to introduce innovative products and offer customers an exclusive method of payment for the first time in the Caucasus region. Visa cardholders of Bank of Georgia can now tap to pay with any payment-enabled Garmin smart watch. Georgia is the first country in the Caucasus region where this innovation is being offered.

Garmin PayTM is available on different smart watch models allowing people to make contactless payments without the burden of carrying cash. This feature is especially useful for active customers who may not want to carry too many items on-the-go. In addition to the contactless payment function, these watches monitor pulse, help track location, plan and analyze workouts, receive messages, play music and much more, depending on the model.

To better understand the relationship between fitness and payments, Visa conducted the "Sweaty Money1" survey, which found that people who regularly engage in fitness, experience significant inconvenience when they need to make a purchase before or after their workout:

57% of respondents do not carry any form of payment while exercising because they are worried about losing it or have no place to put it.

49% of respondents have at least once wanted to make a purchase immediately before or after working out but could not because they did not have any form of payment with them.

Garmin customers can shop contactless with a piece of mind as Garmin Pay uses Visa Token Service technology to replace the 16-digit account number and expiration date with a unique digital identifier that can be used to process payments without exposing actual account details.

Every Visa cardholder of Bank of Georgia can purchase Garmin watches exclusively in SOLO lounges across the country.

"We are pleased to offer another innovative product exclusively to our Visa cardholders and for the first time in the Caucasus region. Time management is very important in the present reality. Consequently, we are constantly striving to save our customers time by offering them customized, and innovative products. It's important that customers of International brand- Garmin have an opportunity to enjoy more features," said CEO of Bank of Georgia Archil Gachechiladze.

"We believe that the future belongs to the Internet of Things. Soon, we will no longer need to always carry wallets - their function will be performed by wearables," said Vira Platonova, senior vice president and group country manager for Visa CIS-SEE. "Garmin Pay brings this future closer in Georgia. Now, with Bank of Georgia enabling their Visa cardholders to use this solution, even more Georgians have an opportunity to securely and easily pay by simply waving their Garmin device at a contactless payment terminal."

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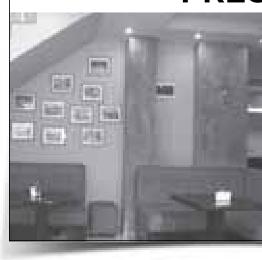

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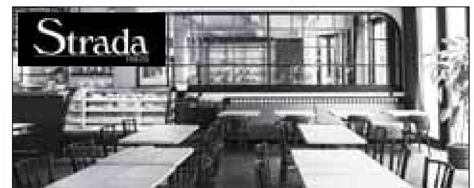

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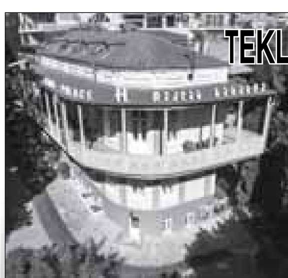

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