

BasisBank Research

Banking Sector Review

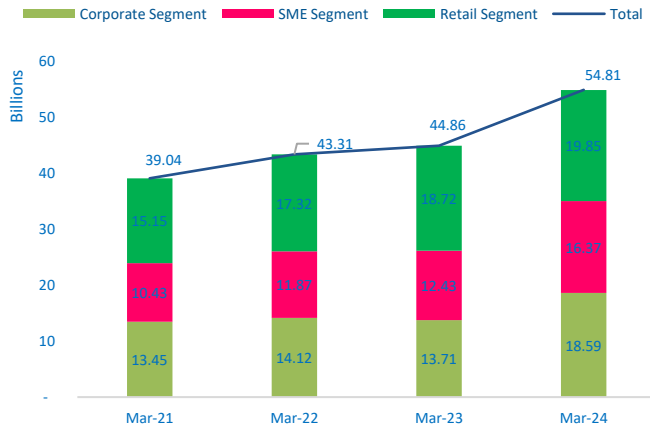
March 2024

May 27, 2024

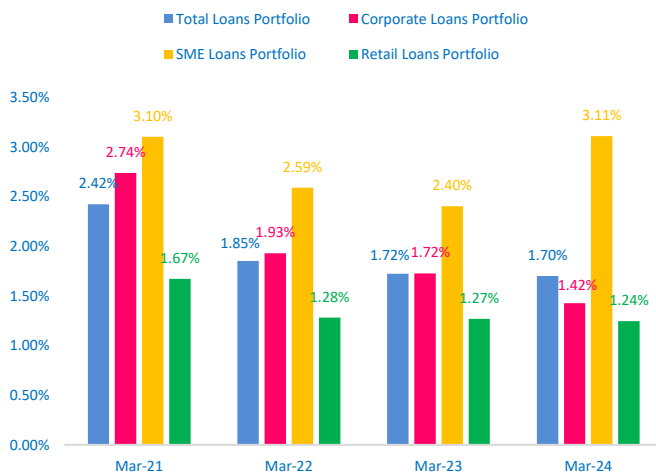
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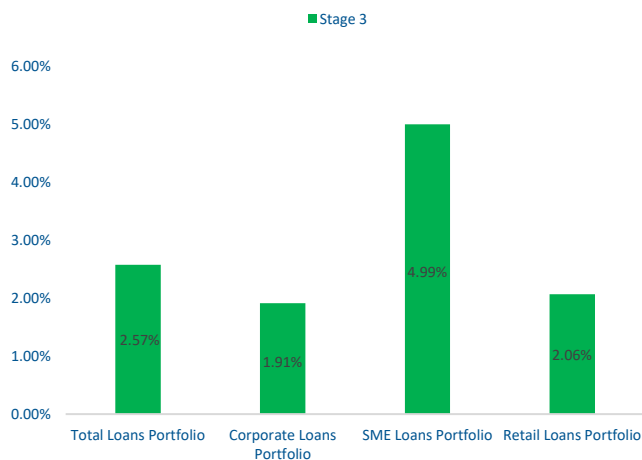
Total Loans Portfolio of the Banking System (Billion GEL)



90 and More Overdue Loans Ratio



Quality of Loans Portfolio



Financial Sector Overview

Against the backdrop of high geopolitical tensions and uncertainty in global macroeconomic tendencies, the Georgian financial system still remains resilient and maintains the stability.

In the financial sector of Georgia, the share of the banking system is 90%. The banking sector in Georgia is represented by 17 licensed commercial banks, including 15 - foreign-controlled banks. **As of March 2024, the total assets of Georgian commercial banks constituted about 81 billion GEL (up 1.2% YTD).** The banking sector's equity capital amounted to 12.1 billion GEL (+28.9% y/y), which makes up 15% of the commercial banks total assets (+1 pp).

The banking sector has enough resources to ensure that lending to the economy continues smoothly. Strong capital and liquidity buffers guaranteed the high credibility of the banking sector. Despite the reduction, dollarisation is still high and remains a significant challenge for the financial sector. However, the decreasing trend of dollarisation is expected to continue.

Loans Portfolio

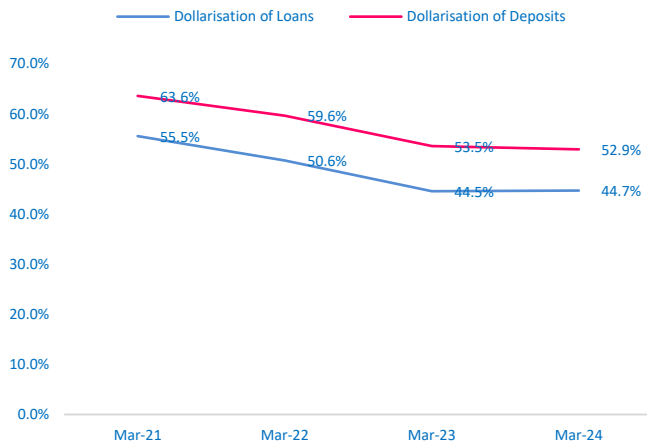
As a response to the high global inflation, after raising the policy rate by 5.25 percentage points since March 2022 (one of the Fed's fastest and biggest rate hike campaigns), the Fed has decided to keep the rate steady at 5.5% in May 2024 already for the sixth consecutive time (a 22-year high) since July 2023. The FED keeps the contractionary monetary policy as although the US inflation is decreasing, it is still (3.4% y/y in April 2024) above the target level of 2%. Meanwhile, despite the contractionary monetary policy, the US economic growth is still high, while employment is low, so there is no need for the monetary policy to be softened before the inflation is close to the target. As for the EU monetary policy, the European Central Bank has also decided to keep the interest rate unchanged in April 2024 at the level it was since September 2023 (on the main refinancing operations, on the marginal lending facility, and the deposit facility at 4.5%, 4.75%, and 4%, respectively).

As for Georgia, after hitting 13.9% annual rate at the beginning of 2022, the annual inflation gradually decreased afterwards to 0% in January but in April 2024 it already constituted 1.5%. A gradual exit from tight monetary policy has occurred in Georgia, decreasing the monetary rate from 11% set in March 2022 to 8% in May 2024.

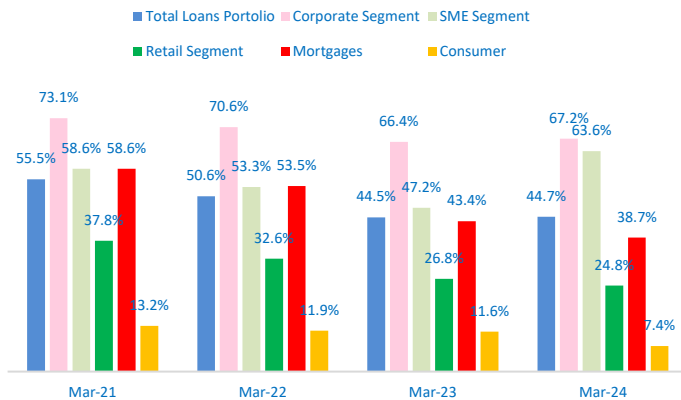
As of March 2024, the loans portfolio issued by the Georgian banking sector increased by 2% YTD (+1.9% excluding FX effect), to 54.81 bln GEL. The corporate loans portfolio increased by 35.6% y/y (+27.1% excluding FX effect) to 18.59 bln GEL, the SME loans portfolio increased by 31.6% y/y (+28.8% excluding FX effect) to 16.4 bln GEL, while the retail loans portfolio increased by 6.1% y/y (+1.6% excluding FX effect) to 19.85 bln GEL. Consumer loans decreased by 10.1% y/y (-14.7% excluding FX effect), to 8.79 bln GEL and mortgage loans increased by 23.7% y/y (+19.3% excluding FX effect), to 11.06 bln GEL.

As of March 2024, the share of 90 and more overdue loans in the total loans portfolio decreased by 0.02 pp y/y and amounted to 1.7%. The share of 90 and more overdue loans decreased by 0.3 pp y/y to 1.42% for corporate loans. Meanwhile, the share of 90 and more overdue loans for SME segment amounted to 3.1% (+0.7 pp y/y), and the share of PAR-90 for retail loans portfolio equaled 1.24% (-0.02 pp y/y).

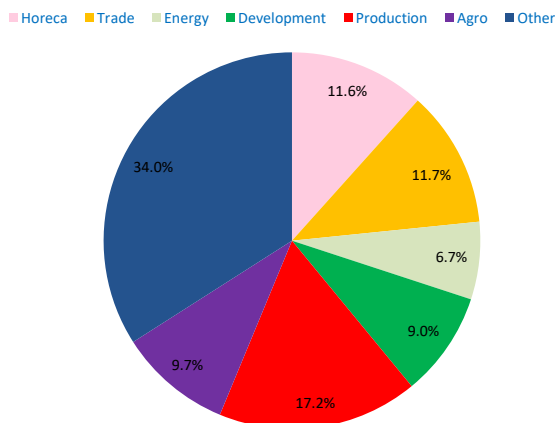
Dollarisation of Total Loan and Deposit Portfolios



Dollarisation of Loans Portfolio



Sectors (%) in Loans Portfolio; March 2024



Deposits Portfolio

The total deposits portfolio of the banking sector increased by 3% YTD (+2.9% excluding FX effect) to 53.93 bln GEL in March 2024.

Deposits of individuals increased by 20.1% y/y (+16.3% excluding FX effect) to GEL 27.85 bln, while deposits of legal entities decreased by 0.9% y/y (-2.8% excluding FX effect) to GEL 19.95 bln.

Dollarisation

Georgian currency depreciated against the USD by 5.3% at the end of March 2024 compared to the end of March 2023. Despite this, *the dollarisation of the loans portfolio remained almost the same, at 45% level (increased only by 0.2 pp from 44.5% to 44.7%)*. In the same period, the dollarisation of corporate loans increased by 0.9 pp y/y to 67.2%, while the dollarisation of SME loans decreased by 4.1 pp y/y to 43.2%. As for the dollarisation of retail loans, it decreased by 1.9 pp y/y to 24.8% (consumer loans -4.2 pp y/y to 7.4% and mortgage loans -4.7 pp y/y to 38.7%).

The dollarisation of deposits portfolio decreased by 0.6 pp y/y to 52.9% in March 2024. The dollarisation of individual deposits decreased by 5.56 pp y/y to 63.97%, while the dollarisation of legal entity deposits increased by 2.34 pp y/y to 37.44%.

Weighted Average Interest Rates

The loans portfolio pricing (total wair) decreased by 0.32 pp y/y to 11.95% in March 2024. In the same period, total wair on the corporate loans portfolio decreased by 0.59 pp y/y to 10.64%, the total wair on the SME loans portfolio increased by 0.61 pp y/y to 11.96%, while the total wair on the retail loans portfolio decreased by 0.5 pp y/y to 13.12%. The total wair on the mortgage loans increased by 0.22 pp y/y to 9.99%.

The loans portfolio pricing (wair) in the local currency decreased by 0.96 pp y/y to 14.73% in March 2024. In the same period, GEL wair on the corporate loans portfolio decreased by 2.15 pp y/y to 12.4%, the wair on the SME loans portfolio decreased by 1.93 pp y/y to 13.05%, while the wair on the retail loans portfolio decreased by 1.29 pp y/y to 15.1%. The wair on the mortgage loans decreased by 0.85 pp y/y to 11.9%.

The wair of loans portfolio in foreign currency increased by 0.91 pp y/y and amounted to 8.92% as of March 2024. The wair on corporate loans increased by 0.24 pp, y/y to 9.78%, while the wair on SME loans increased by 0.6 pp y/y to 7.91% and the wair on the retail loans increased by 1 pp y/y to 7.02%. The wair on the mortgage loans increased by 1.01 pp y/y to 6.91%.

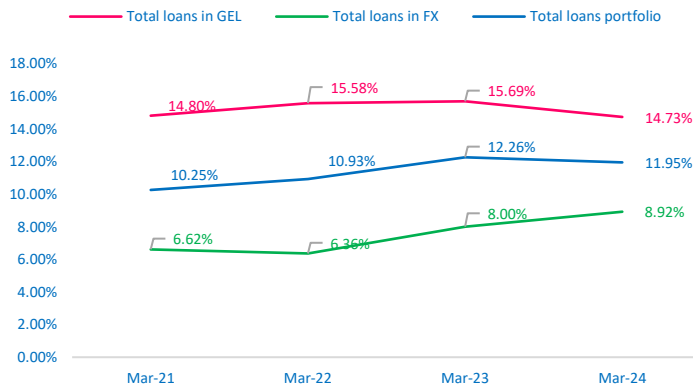
The total wair on the total term deposits attracted in March 2024 amounted to 7.25% (-0.26 pp m/m, -0.58 pp y/y). *The wair on the national currency denominated term deposits attracted in March 2024 amounted to 9.56% (-0.52 pp m/m, -2 pp y/y).* *As for the wair on the foreign currency denominated term deposits, this amounted to 1.97% (-0.02 m/m, +0.84 pp y/y).*

From the graphs, we see that over the last year, the wair on loans as well as on deposits nominated in GEL decreased, while the wair on loans as well as on deposits denominated in FX increased. Interest rate spread (the difference between the interest rate charged on loans and the interest rate paid on deposits) for GEL increased by 1.04pp y/y to 5.17% as for March 2024, while for FX, interest rate spread increased by 0.08 pp y/y to 6.95% for the same period.

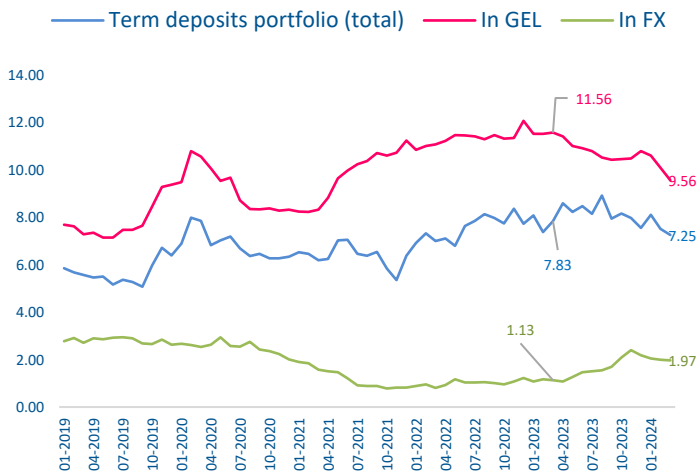
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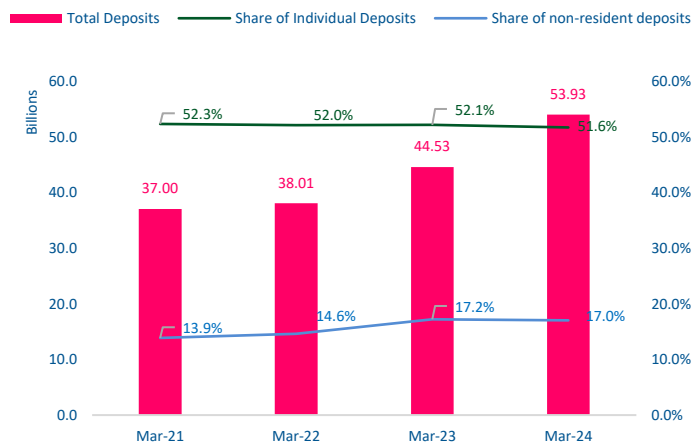
Weighted Average Interest Rate (WAIR) on loans



WAIR (%) on term deposits



Deposits Statistics (billion GEL)



Financial Soundness Indicators

As for the financial soundness indicators for the Georgian banking system, regulatory capital to risk-weighted assets amounted to 21.82% as of March 2024 which is 1.03 pp annual improvement. As for the Tier 1 capital to risk-weighted assets, it amounted to 19.09%, up 1.57 pp y/y.

As for the non-performing loans to total gross loans, for the same period, it amounted to 1.58%, which is a 0.01 pp annual decrease.

Interest margin to gross income amounted to 61.7% (+3.5 pp y/y), while liquid assets to total assets was 20.52% (-2.63 pp y/y) and liquidity coverage ratio was 123.78% (-11.41 pp y/y).

As of March 2024, Return on Assets (ROA) amounted to 4.18% (+0.26 pp y/y), while Return on Equity (ROE) was 24.85% (-0.08 pp y/y).

As of March 2024, Cost of Deposits amounted to 4.81% (increased by 0.19 pp YTD), while Cost of Borrowing amounted to 8.43% (increased by 0.32 pp YTD) and Cost of Funds amounted to 5.76% (increased by 0.19 pp YTD). Meanwhile, Loan Yield increased by 0.24 pp YTD and amounted to 12.28%, the effect of which overweighed the increase of costs and thus lead to increased interest margin (+0.1% y/y) which amounted to 5.62% in March 2024.

Cost to income ratio decreased by 3.75 pp YTD and amounted to 29.41%, which means that operational efficiency improved.

As for the Cost of Credit Risk, the indicator changed from -1.02% in December 2023 to -0.62% in March 2024, which means that the risk decreased by 0.4 pp, thus the quality of credit portfolio was improved in the first three months of 2024.



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