

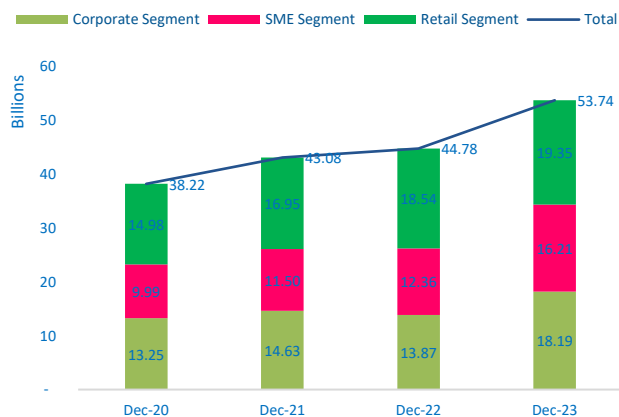
BasisBank Research

Banking Sector Review

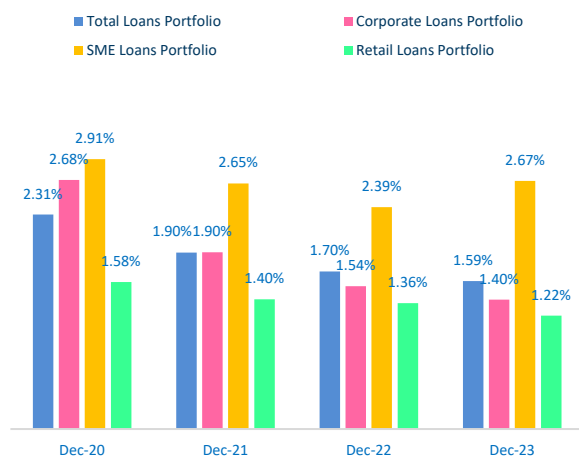
December 2023

February 20, 2024

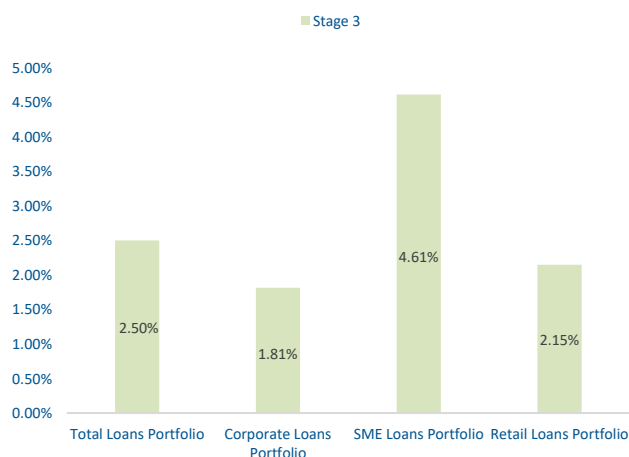
Total Loans Portfolio of the Banking System (Billion GEL)



90 and More Overdue Loans Ratio



Quality of Loans Portfolio; December 2023



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. The indicators of capital adequacy, liquidity as well as loan quality and yield on loans improved significantly during 2023.

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 December 2023, the total assets of Georgian commercial banks constituted 80 billion GEL.** The banking sector's equity capital amounted to 12.2 billion GEL, which makes up 15.3% of the commercial banks total assets.

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, dollarization is still high and remains a significant challenge for the financial sector. However, the decreasing trend of dollarization is expected to continue.

As for the financial soundness indicators for the Georgian banking system, as of December 2023, Return on Assets (ROA) amounted to 4.21%, while Return on Equity (ROE) was 26.48%. Interest margin to gross income amounted to 56.69%, while liquid assets to total assets was 20.9% and liquidity coverage ratio was 125%. As for the Tier 1 capital, it amounted to 12.43 billion GEL.

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 held the rate steady at 5.5% (a 22-year high) since July. As for the EU monetary policy, the European Central Bank kept the interest rate unchanged in January 2024 (on the main refinancing operations, on the marginal lending facility, and the deposit facility at 4.5%, 4.75%, and 4% respectively).

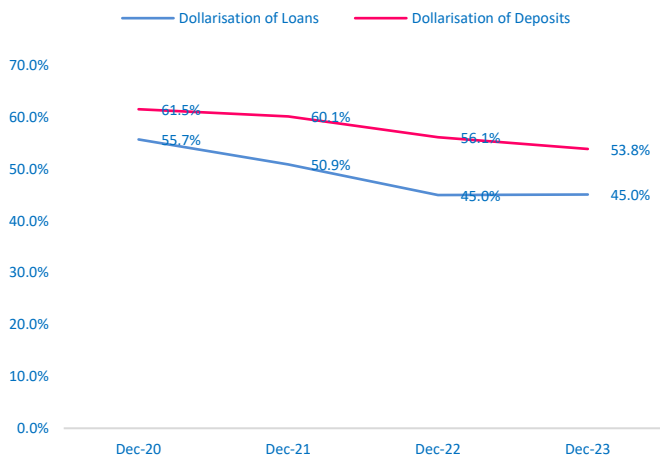
As for Georgia, after hitting 13.9% annual rate at the beginning of 2022, the annual inflation gradually decreased to 0% in January 2024, followed by a gradual exit from tight monetary policy, from 11% set in March 2022 to 9.0% at the end of January 2024. Despite these positive trends, inflationary risks are still high as the domestic demand is still strong and it can pressure the prices.

Respectively, contractionary monetary policy rates gives commercial banks incentives to raise the rate they charge for loans.

As of December 2023, the loans portfolio issued by the Georgian banking sector increased by 20% y/y (+20.3% excluding FX effect), to 53.74 bln GEL. The corporate loans portfolio increased by 31.1% y/y (+31.5% excluding FX effect) to 18.19 bln GEL, the SME loans portfolio increased by 31.1% y/y (+31.4% excluding FX effect) to 16.2 bln GEL, while the retail loans portfolio increased by 4.3% y/y (+4.5% excluding FX effect) to 19.35 bln GEL. Consumer loans decreased by 14% y/y (-13.9% excluding FX effect), to 8.35 bln GEL and mortgage loans increased by 24.5% y/y (+24.8% excluding FX effect), to 10.99 bln GEL.

As of December 2023, the share of 90 and more overdue loans in the total loans portfolio decreased by 0.1 pp y/y and amounted to 1.6%. The share of 90 and more overdue loans decreased by 0.1 pp y/y to 1.4% for corporate loans. Meanwhile, the share of 90 and more overdue loans for SME segment amounted to 2.7% (+0.3 pp y/y), and the share of PAR-90 for retail loans portfolio equaled 1.20% (-0.1 pp y/y).

Dollarization of Total Loan and Deposit Portfolios

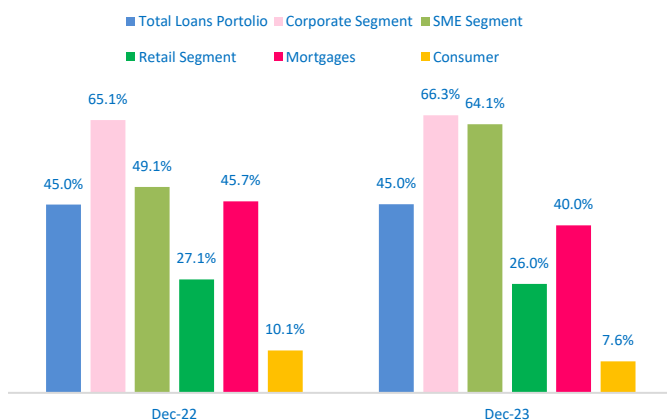


Georgian currency exchange rate to US dollar was almost the same at the end of December 2023 compared to the end of December of the previous year (appreciated by 0.47% y/y), so **the dollarization of the loans portfolio remained the same and amounted to 45%**. In the same period, the dollarization of corporate loans increased by 1.2 pp y/y to 66.3%, while the dollarization of SME loans decreased by 5.2 pp y/y to 43.9%. As for the dollarization of retail loans, it decreased by 1.1 pp y/y to 26% (consumer loans -2.6 pp y/y to 7.6% and mortgage loans -5.8 pp y/y to 40%).

The loans portfolio pricing (wair) in the local currency decreased by 0.55 pp y/y to 15.12% in December 2023. In the same period, GEL wair on the corporate loans portfolio decreased by 1.12 pp y/y to 13.29%, the wair on the SME loans portfolio increased by 0.63 pp y/y to 15.47%, while the wair on the retail loans portfolio decreased by 1.03 pp y/y to 15.39%. The wair on the mortgage loans decreased by 0.38 pp y/y to 12.28%.

The wair of loans portfolio in foreign currency increased by 1.32 pp y/y and amounted to 8.93% as of December 2023. The wair on corporate loans increased by 0.91 pp y/y to 9.85%, while the wair on SME loans increased by 0.93 pp y/y to 7.94% and the wair on the retail loans increased by 1.07 pp y/y to 7%.

Dollarization of Loans Portfolio



Deposits Portfolio

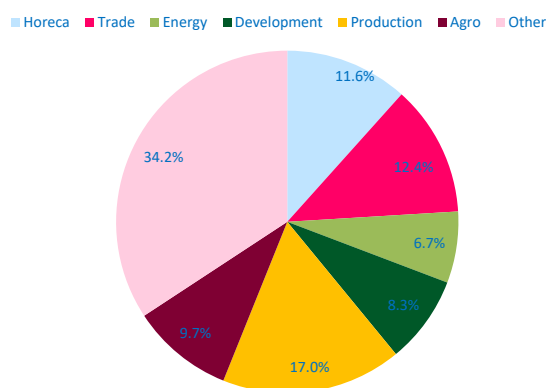
The total deposits portfolio of the banking sector increased by 13.8% y/y (+14.1% excluding FX effect) to 52.37 bln GEL in December 2023.

Deposits of individuals increased by 15.1% y/y (+15.5% excluding FX effect) to GEL 27.53 bln, while deposits of legal entities decreased by 5.1% y/y (-5% excluding FX effect) to GEL 19.31 bln.

The dollarization of deposits portfolio decreased by 2.3 pp y/y to 53.8% in December 2023. The dollarization of individual deposits decreased by 6.57 pp y/y to 65.03%, while the dollarization of legal entity deposits decreased by 0.04 pp y/y to 37.89%.

The total wair on the total term deposits attracted in December 2023 amounted to 7.55% (-0.42 pp m/m, -0.17 pp y/y). **The wair on the national currency denominated term deposits attracted in December 2023 amounted to 10.79% (+0.31 pp m/m, -1.27 pp y/y).** As for the wair on the foreign currency denominated term deposits, this amounted to 2.18% (-0.22 m/m; +0.96 pp y/y).

Sectors (%) in Loans Portfolio; December 2023

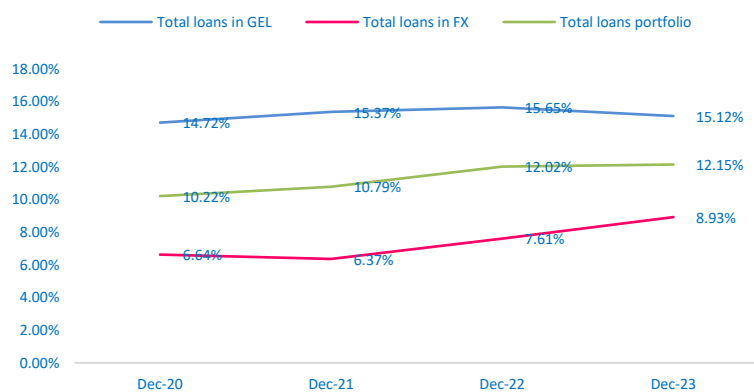


Coefficients

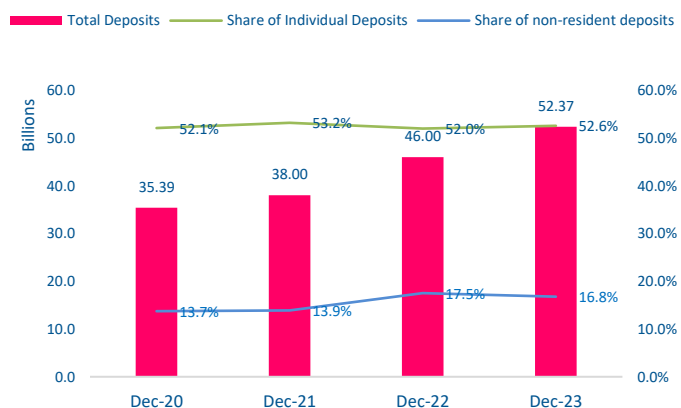
As for the banking sector annualized coefficients, as of December 2023, Cost of Deposits amounted to -4.61%, while Cost of Borrowing was -8.11% and Cost of Funds was -5.57%.

Meanwhile, Net Interest Margin amounted to 5.52% as of December 2023. Loan Yield was 12.04% in the same period. Moreover, Cost to Income ratio amounted to -44.98% and Cost of Credit Risk was -1.02%.

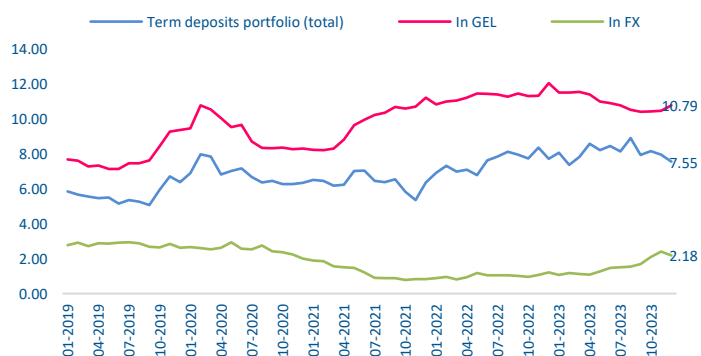
Weighted Average Interest Rate (WAIR) on loans



Deposits Statistics (billion GEL)



WAIR (%) on term deposits





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