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Financial situation of the banking sector for 9 months of 2023

The financial situation of the banking sector, according to data submitted by banks, is characterised by growth in assets, loans, own funds, own fund ratio, deposits of individuals, and deposits of legal entities. The profit for the year compared to the same period of the previous year increased, mainly due to higher interest and non-interest income. Interest income increased, mainly due to income from investments in debt securities (G-Sec, NBC). Income from lending activity and income from funds placed with the NBM (required reserves) also showed growth.

At the same time, there was an increase in the absolute value of expired loans, non-performing loans, therefore, the quality indicators of the loan portfolio worsened insignificantly.

As of September 30, 2023, 11 banks licensed by the National Bank of Moldova were active in the Republic of Moldova.

Financial situation of the banking sector and compliance with prudential regulations

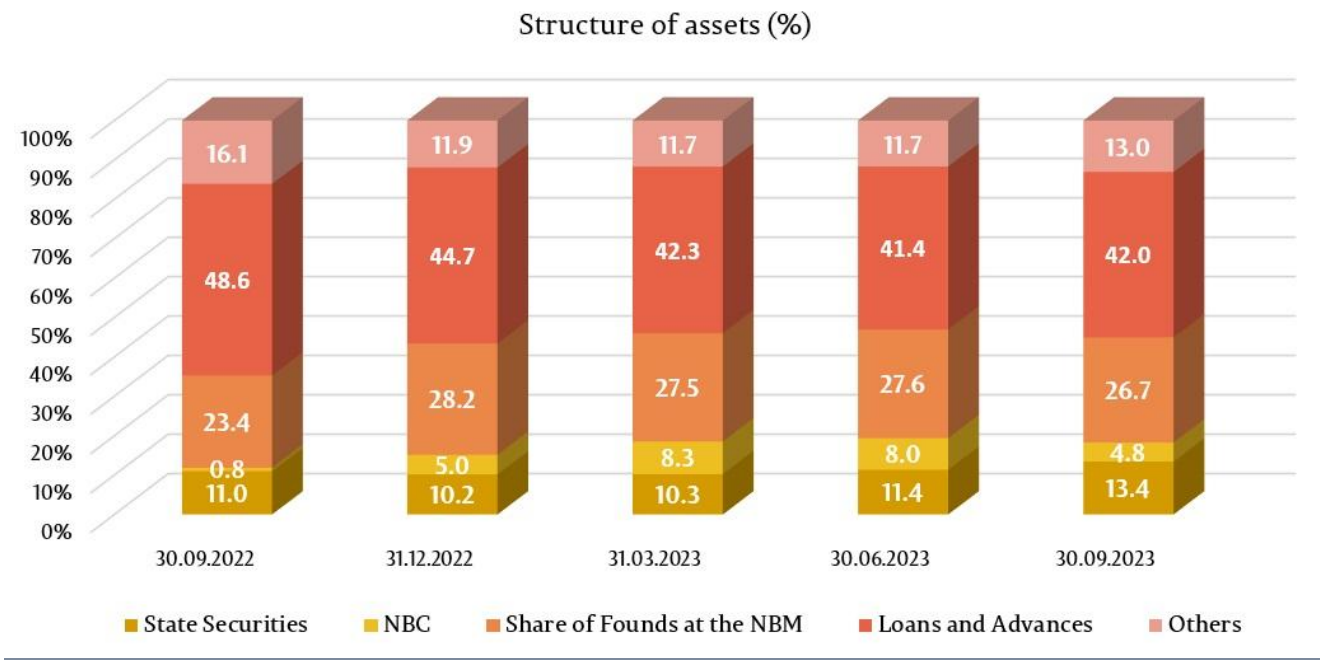
As of September 30, 2023, the situation in the banking sector, reflected by the reports submitted by banks, registered the following trends:

Assets and liabilities

Total assets amounted to MDL 144.9 billion, increasing by 10.3% (MDL 13.5 billion) during the first nine months of 2023.

The largest share of total assets went to “Loans and advances at amortized cost”, which amounted to 42.0% (MDL 60.8 billion), decreasing by 2.7 percentage points (pp) compared to the end of the previous year.

The share of funds at the NBM was 26.7% (MDL 38.7 billion), decreasing by 1.5 pp, and the share of banks' investments in state securities and National Bank certificates (NBC) accounted for 18.2% (MDL 26.5 billion), increasing by 3.0 pp. The rest of the assets, which account for 13.0% (MDL 18.9 billion), are kept by banks in other banks, in cash, tangible fixed assets, intangible fixed assets, etc. Their share increased by 1.1 pp compared to the end of 2022.



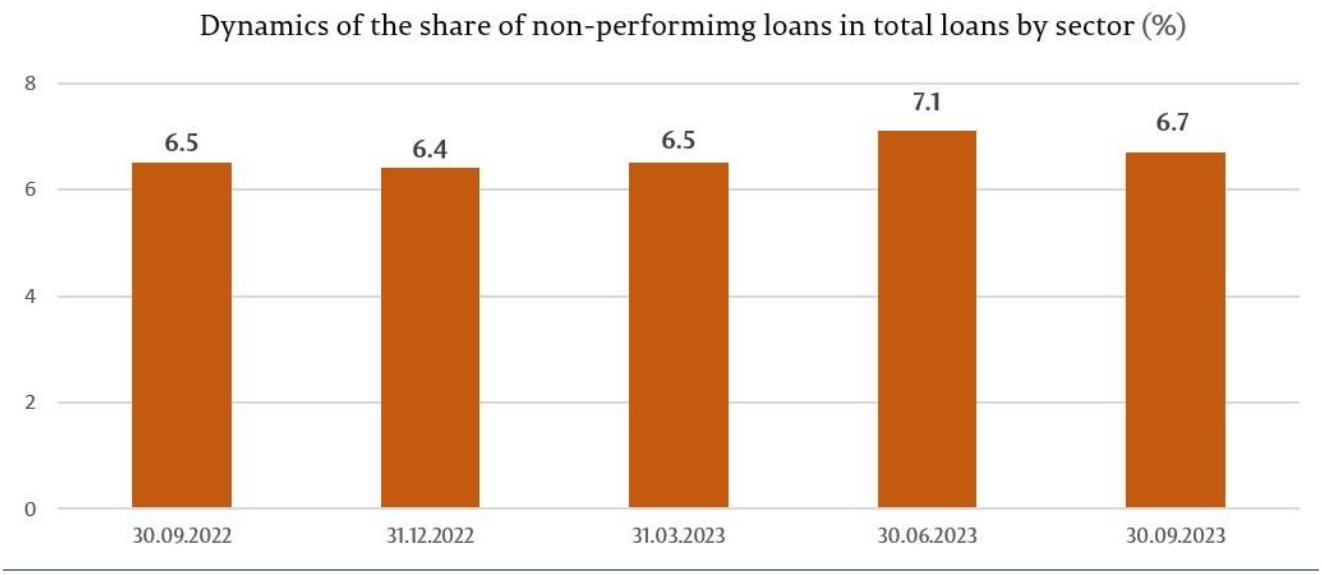
[1]

The gross (prudential) balance of loans accounted for 43.0% of total assets, or MDL 62.3 billion, increasing during the period under review by 1.1% (MDL 671.7 million).

The largest increase was recorded in loans granted to consumers: by MDL 942.8 million (9.4%) up to MDL 10.9 billion; loans granted to the purchase or construction of real estate – by MDL 394.7 million (3.2%) up to MDL 12.7 billion; loans granted to agriculture - by MDL 222.3 million (5.0%) up to MDL 4.7 billion; loans granted to individuals practicing an activity - by MDL 202.9 million (12.4%) up to MDL 1.8 billion; loans granted to the non-bank financial institutions – by MDL 141.8 million (5.7%) up to MDL 2.6 billion; and loans granted in the field of transport, telecommunication and network development – by MDL 135.6 million (6.3%) up to MDL 2.1 billion.

At the same time, the largest decrease during the 9 months of 2023 was recorded in loans granted to trade – by MDL 550.4 million (4.0%) up to MDL 13.3 billion; loans granted to food industry – by MDL 194.2 million (4.4%) to MDL 4.2 billion; loans granted to energy industry – by MDL 177.0 million (19.1%) to MDL 750.3 million; loans granted to productive industry – by MDL 162.4 million (6.1%) to MDL 2.5 billion.

During the reference period, the share of non-performing loans (substandard, doubtful, and compromised) in total loans increased by 0.3 pp, accounting for 6.7% on September 30, 2023, with the indicator ranging from 2.4% to 8.0%, depending on the bank.



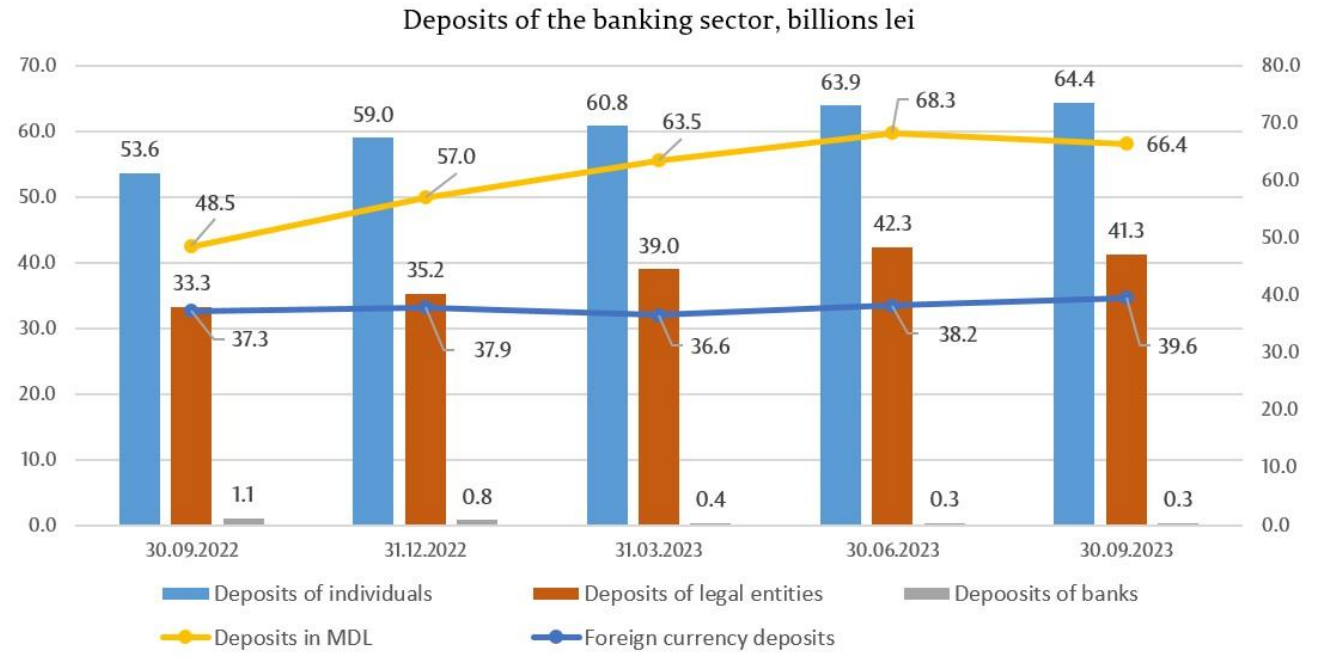
[2]

At the same time, non-performing loans in absolute value increased by 5.7% (MDL 226.4 million) to MDL 4.2 billion.

During the period under review, the share of expired loans increased by 8.4% (MDL 167.9 million) to MDL 2.2 billion. The share of expired loans in total loans was 3.5%, increasing by 0.2 pp compared to December 31, 2022, ranging from 0.1% to 5.8%, depending on the bank.

At the same time, during the reference period, the total balance of deposits increased by MDL 11.0 billion, or by 11.6%, amounting to MDL 106.0 billion (deposits of individuals accounted for 60.8% of total deposits, deposits of legal entities – 38.9%, and deposits of banks – 0.3%), as a result of the increase in the balance of deposits of legal entities by MDL 6.1 billion (17.2%) up to MDL 41.3 billion and deposits of individuals by MDL 5.4 billion (9.2%) up to 64.4 billion. At the same time, the balance of bank deposits decreased by MDL 477.6 million (62.3%) to MDL 289.3 million.

In total deposits, 62.6% were deposits in MDL, their balance increasing by MDL 9.4 billion (16.4%) compared to the end of the previous year and amounted to MDL 66.4 billion on September 30, 2023. Foreign currency deposits accounted for 37.4% of total deposits, their balance increased during the reference period by MDL 1.7 billion (4.4%), making up MDL 39.6 billion (new foreign currency deposits - equivalent to MDL 3.8 billion, negative revaluation of foreign currency deposits – MDL (-2.2) billion).



[3]

Revenues and profitability

As of September 30, 2023, the profit in the banking system amounted to MDL 3.4 billion, increasing by MDL 508.7 million (17.9%) compared to the similar period of the previous year.

The increase in profit was due to the increase in interest income by MDL 2.6 billion (41.0%) and incomes from fees and commissions by MDL 217.6 million (10.0%). At the same time, interest expenditure increased by MDL 2.0 billion (131.7%) and non-interest expenses (expenses related to fees and commissions, administrative expenses, provisions, impairment of financial and non-financial assets, etc.) by MDL 369.8 million (6.6%).

Total revenues amounted to MDL 12.9 billion, increasing compared to the similar period of the previous year by MDL 2.9 billion (29.3%), of which interest income amounted to MDL 9.1 billion (70.4% of total revenues) and non-interest income – MDL 3.8 billion (29.6% of total revenues).

At the same time, total expenditure amounted to MDL 9.5 billion, increasing compared to the similar period of the previous year by MDL 2.4 billion (33.8%), of which interest expenditure was MDL 3.6 billion (37.7% of total expenditure) and non-interest expenditure – MDL 5.9 billion (62.3% of total expenditure).

As of September 30, 2023, return on assets accounted for 3.1%, increasing by 0.2 pp, and return on capital accounted for 17.9%, increasing by 0.9 pp compared to the end of the previous year.

Compliance with prudential requirements

Within 9 months of 2023, banks continued to maintain liquidity indicators at a high level, above regulated limits.

Thus, the value of the long-term liquidity indicator (liquidity principle I) was 0.66 (limit ≤1), ranging from 0.29 to 0.77, depending on the bank, decreasing by 0.01 as compared to the end of 2022.

Liquidity Principle III, which is the ratio of adjusted effective liquidity to required liquidity on each maturity

band and which should not be less than 1 on each maturity band, has also been complied with by all banks, ranging from 1.71 on the maturity band up to one month inclusive up to 117.02 on the maturity band between one month and three months inclusive.

The liquidity coverage ratio by sector amounted to 256.1% (limit ≥ 100% - starting with January 1, 2023), ranging from 167.8% to 587.2%, increasing by 20.6 pp compared to the end of 2022.

According to the reports submitted by the banks as of September 30, 2023, the total own funds ratio in the banking sector recorded a value of 31.4%, increasing by 2.2 pp compared to the end of the previous year, ranging from 23.0% to 62.6%. All banks met the indicator "Total own funds ratio" (≥10%).

All banks also complied with the "Total Own Funds Ratio" indicator requirement, considering capital buffers.

As of September 30, 2023, total own funds amounted to MDL 20.5 billion, an increase of 11.8% (MDL 2.2 billion). The increase in own funds was mainly determined by the reflection by some banks of eligible profits after the general meetings of shareholders and the narrowing at some banks of the positive difference between allowances for losses on assets and contingent liabilities and the size of allowances for impairment losses and loss provisions.

As of September 30, 2023, the banks complied with the prudential indicators regarding large exposures and exposures to their affiliates, except for one bank, which exceeded the limit of 30% on the aggregate amount of credit exposure to clients or to a group of connected clients, constituting by size the top ten loan exposure in the total loan portfolio, accounting for 46.9%. In accordance with Chapter IV, paragraph 26 of the Regulation on Large Exposures No. 109 of 5 April 2019, exceeding the limit of the said indicator shall not be considered a breach if the bank maintains an additional own funds requirement on the relevant surplus and the bank meets these requirements.

All banks also complied with the limit of dominance in the banking market, except for one bank, which exceeded the 35% limit of this indicator according to the size of individuals' deposits, which was 35.1%.

Development of the national legislative framework and its alignment with the EU legislation.

During the third quarter of 2023, the draft Decision of the Executive Board of the NBM "On amending the Regulation No. 292/2018 on requirements regarding the members of the governing body of the bank, the financial holding company or mixed holding, the heads of a branch of a bank in another state, the persons holding key positions, and the liquidator of the bank in the liquidation process", approved by the Decision of the Executive Board of the National Bank of Moldova, was published for decision-making transparency. The elaboration of the draft decision is conditioned by the need to introduce differentiated requirements on the quality of persons who are appointed to the position of the head of the bank's executive body in order to improve the procedure for assessing the suitability of persons falling under Regulation No. 292/2018.

At the same time, the National Bank continues the activities related to the preparation and submission of updated drafts of secondary legislation for the implementation of Law No. 202/2017 and the promotion of Basel III requirements.

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