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Financial situation of the banking sector for the first semester of 2023

During the first semester of 2023, the banking sector successfully faced external challenges, and the National Bank of Moldova (NBM) continued the process of prudential supervision of banks, following the legal requirements, in order to ensure the stability and viability of the banking system.

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 as a result of higher interest income and income from fees and commissions. 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 and non-performing loans, therefore, the quality indicators of the loan portfolio worsened insignificantly.

As of June 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

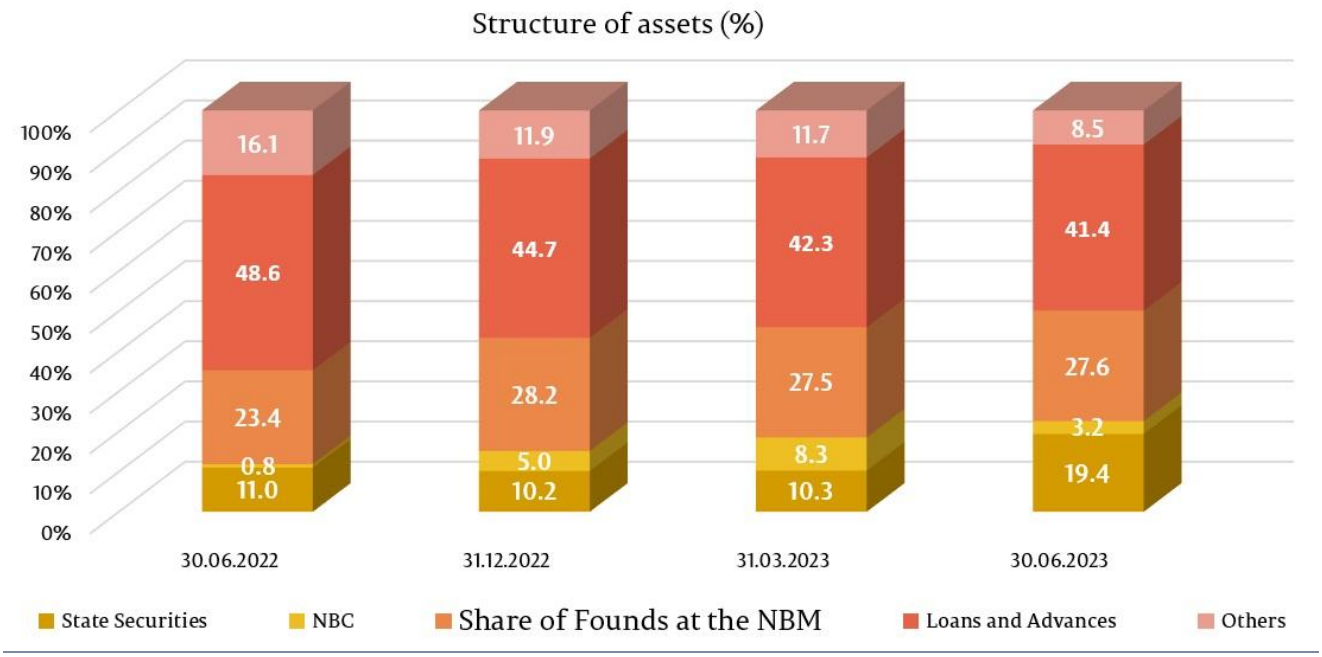
As of June 30, 2023, the situation in the banking sector, as reflected by the reports submitted by banks, registered the following trends:

Assets and liabilities

Total assets amounted to MDL 144.6 billion, increasing by 10.1% (MDL 13.2 billion) during the first semester of 2023.

The largest share of total assets went to “Loans and advances at amortized cost” which amounted to 41.4% (MDL 59.8 billion), decreasing by 3.3 percentage points (pp) compared to the end of the previous year.

The share of funds at the NBM was 27.6% (MDL 39.8 billion), decreasing by 0.6 pp, and the share of banks' investments in state securities and National Bank certificates accounted for 22.6% (MDL 28.0 billion), increasing by 7.4 pp. The rest of the assets, which account for 8.5% (12.3 billion), are kept by banks in other banks, in cash, tangible fixed assets, intangible fixed assets, etc. Their share decreased by 3.4 pp compared to the end of the year 2022.



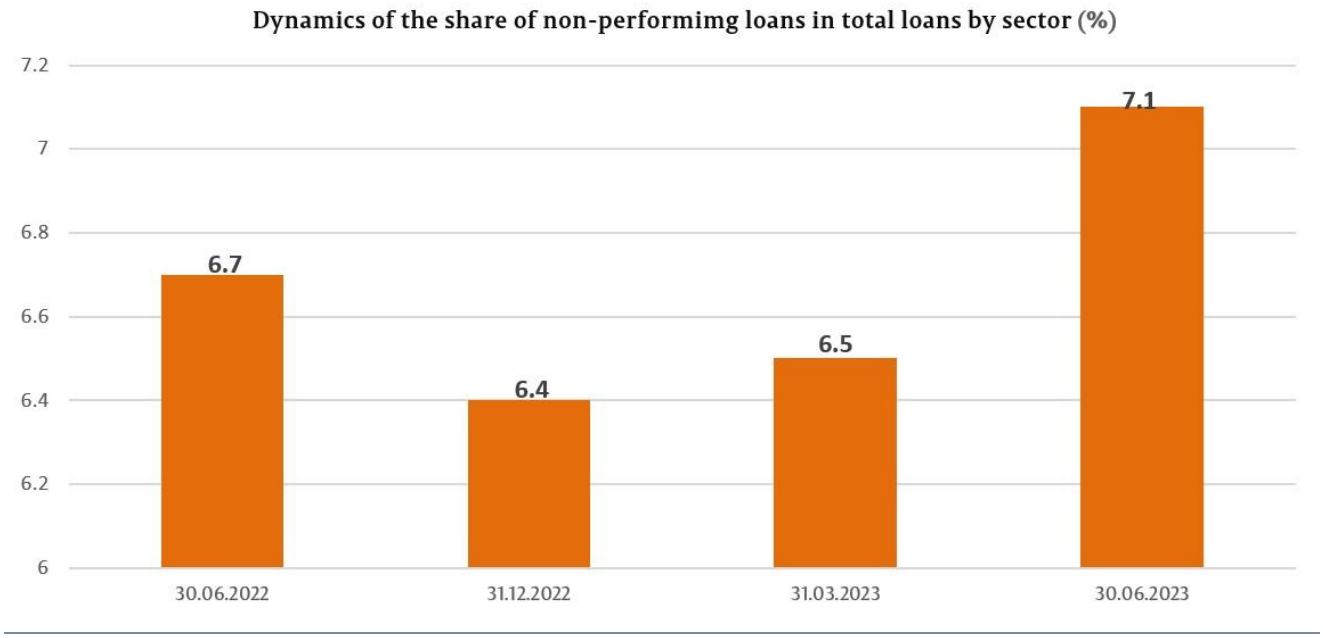
[1]

The gross (prudential) balance of loans accounted for 42.9% of total assets, or MDL 62.0 billion, increasing during the period under review by 0.6% (MDL 360.4 million).

The largest increase was recorded in loans granted to agriculture – by MDL 341.6 million (7.7%) to MDL 4.8 billion; loans granted to individuals engaged in business – by MDL 237.3 million (14.5%) to MDL 1.9 billion; loans granted to non-bank financial institutions – by MDL 217.0 million (8.8%) to MDL 2.7 billion; loans granted to consumers – by MDL 198.0 million (2.0%) to MDL 10.2 billion; and loans granted in the field of service provision – by MDL 167.3 million (7.3%) to MDL 2.5 billion.

At the same time, the largest decrease was recorded in loans granted to trade – by MDL 357.0 million (2.6%) to MDL 13.5 billion, to loans granted to the food industry – by MDL 244.0 million (5.5%) to MDL 4.2 billion, to loans granted to energy industry – by MDL 174.1 million (18.8%) to MDL 0.8 billion.

During the reference period, the share of non-performing loans (substandard, doubtful, and compromised) in total loans increased by 0.7 pp, accounting for 7.1% on June 30, 2023, with the indicator ranging from 0.1% to 8.9%, depending on the bank.



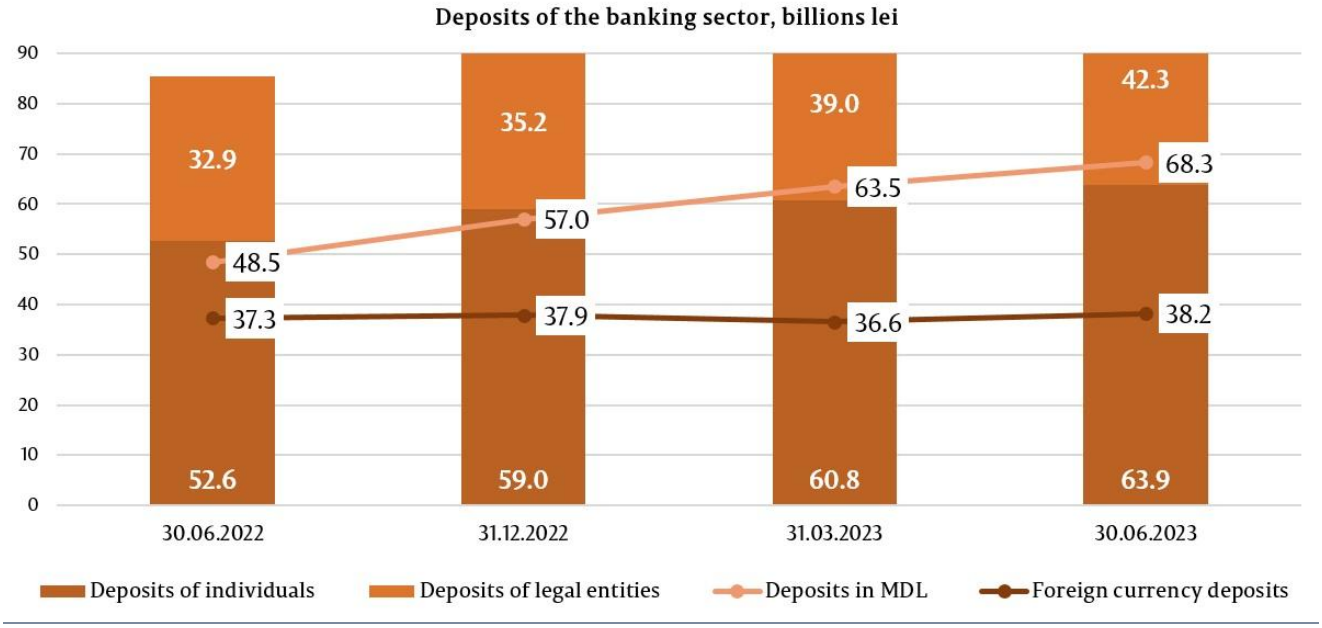
[2]

At the same time, non-performing loans in absolute value increased by 11.1% (MDL 438.9 million) to MDL 4.4% billion.

During the period under review, the share of expired loans increased by 12.2% (MDL 245.1 million) to MDL 2.3 billion. The share of expired loans in total loans was 3.6%, increasing by 0.3 pp compared to December 31, 2022, and ranging from 0.1% to 6.7%, depending on the bank.

At the same time, during the reference period, the total balance of deposits increased by MDL 11.6 billion, or by 12.2%, amounting up to MDL 106.6 billion (deposits of individuals accounted for 60.0% of total deposits, deposits of legal entities – 39.7%, and deposits of banks – 0.3%), as a result of the increase in the balance of deposits of legal entities by MDL 7.1 billion (20.2%) to MDL 42.3 billion and deposits of individuals by MDL 4.9 billion (8.3%) to 63.9 billion. At the same time, the balance of bank deposits decreased by MDL 428.3 million (55.8%) to MDL 338.7 million.

In total deposits, 64.1% went to deposits in MDL, their balance increasing by MDL 11.3 billion (19.8%) compared to the end of the previous year and amounted to MDL 68.3 billion on June 30, 2023. Foreign currency deposits accounted for 35.9% of total deposits, their balance increased during the reference period by MDL 0.3 billion (0.8%), making up MDL 38.2 billion (attracting foreign currency deposits - equivalent to MDL 1.3 billion, negative revaluation of foreign currency deposits – MDL (-1,054.1) million).



[3]

Revenues and profitability

As of June 30, 2023, the profit in the banking system amounted to MDL 2.6 billion, increasing by 57.9% (MDL 939.2 million) compared to the end of the previous year.

The increase in profit was due to the increase in interest income by MDL 2.8 billion (75.7%) and incomes from fees and commissions by MDL 182.0 million (13.2%). At the same time, interest expenditure increased by MDL 1.7 billion (195.6%) and non-interest expenses (expenses related to fees and commissions, administrative expenses, provisions, impairment of financial and non-financial assets, etc.) by MDL 326.0 million (9.3%).

Total revenues amounted to MDL 8.9 billion, increasing compared to the end of the previous year by MDL 2.9 billion (48.9%), of which interest income amounted to MDL 6.6 billion (73.6% of total revenues), and non-interest income – MDL 2.4 billion (26.4% of total revenues).

At the same time, total expenditure amounted to MDL 6.4 billion, increasing compared to the similar period of the previous year by MDL 2.0 billion (45.6%), of which interest expenditure was MDL 2.5 billion (39.6% of total expenditure), and non-interest expenditure – MDL 3.8 billion (60.4% of total expenditure).

As of June 30, 2023, return on assets accounted for 3.6%, increasing by 0.7 pp, and return on capital accounted for 20.7%, increasing by 3.7 pp compared to the end of the previous year.

Compliance with prudential requirements

During the first semester 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 0.64 (limit ≤1), ranging from 0.31 to 0.76, depending on the bank, decreasing by 0.04 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 1.43 on the maturity band up to one month inclusive up to 106.33 on the maturity band between one month and three months inclusive.

The liquidity coverage ratio by sector amounted to 277.5% (limit ≥ 100% - from January 1, 2023), ranging from 199.2% to 628.1%, increasing by 5.7 pp compared to the end of 2022.

According to the reports presented by the banks as of June 30, 2023, the total own funds ratio in the banking sector registered a value of 31.7%, increasing by 2.6 pp compared to the end of the previous year, ranging from 23.7% to 65.7%. 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 June 30, 2023, total own funds amounted to MDL 20.6 billion and registered an increase of 12.0% (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 June 30, 2023, the banks complied with the prudential indicators regarding large exposures and exposures to their affiliates, with the exception of one bank, which exceeded the limit of 30% on the aggregate amount of credit exposure to a client or to a group of connected clients, constituting by size the top ten loan exposure in the total loan portfolio, accounting for 43.4%. In accordance with Chapter IV, paragraph 26 of the Regulation on Large Exposures No. 109 of April 5, 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, with the exception of 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 first semester of 2023, in order to implement the provisions of Law No 202/2017 on the activity of banks, by the Decision of the Executive Board of the NBM No 125/2023, the National Bank of Moldova made amendments to 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 liquidation process, which includes provisions on the obligation for the National Bank of Moldova to interview the persons nominated to the positions of head of the branch of the bank in another state, chief accountant, financial director of the bank/branch of the bank in another state, as well as the head of the control function of the bank.

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.

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