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Financial situation of the banking sector for 9 months of 2022

During the first 9 months of 2022, the National Bank of Moldova (NBM) continued the process of prudential supervision of banks in the Republic of Moldova, pursuing compliance with legal requirements, to ensure the stability and viability of the banking system.

According to data submitted by banks, the banking sector is characterized by the growth of assets, loans, own funds, the rate of own funds and bank deposits. The profit of the year as compared to the similar period of the previous year has increased, mainly due to the increase in interest income and non-interest income.

At the same time, the volume of deposits of individuals and legal entities decreased. There was also an increase in the absolute value of expired and non-performing loans and, as a result, a worsening of the quality indicators of the loan portfolio compared to the end of the previous year.

As of 30.09.2022, 11 banks licensed by the National Bank of Moldova were active in the Republic of Moldova. One bank was supervised under the early intervention regime applied on 11.01.2019. Following the changes registered in the bank's shareholding structure, the management boards were completed. Subsequently, the Executive Board of the NBM decided:

- to revoke and terminate the mandates of temporary administrators with membership powers of the Management Committee.
- to extend the appointment period of the temporary administrator with the powers of chairperson of the Board of the bank until 25.04.2023.

Financial situation of the banking sector and compliance with prudential regulations

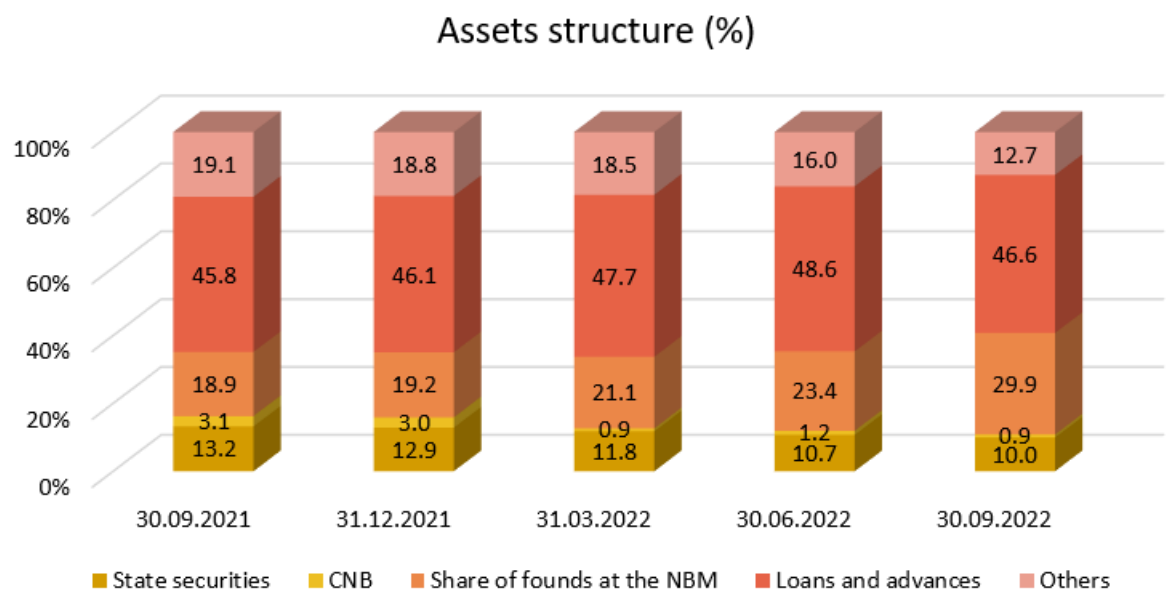
On 30.09.2022, the situation in the banking sector, reflected in the reports submitted by banks, registered the following trends:

Assets and liabilities

Total assets amounted to MDL 125,0 billion, increasing during the first 9 months of 2022 by 5.5% (MDL 6.5 billion).

In the structure of assets, according to the balance sheet, the largest share belonged to "Loans and advances at amortized cost", which constituted 46.6% (MDL 58.2 billion), increasing by 0.5 percentage points compared to the end of the previous year.

The share of funds at the NBM was 29.9% (MDL 37.4 billion), increasing by 10.7 percentage points, and the share of banks' investments in state securities and in the certificates of the National Bank of Moldova constituted 10.9% (MDL 13.5 billion), decreasing by 5.0 percentage points. The rest of the assets, which constitute 12.7% (MDL 15.8 billion), are maintained by banks in other banks, in cash, tangible fixed assets, intangible fixed assets, etc. Their share decreased by 6.1 percentage points.



The gross (prudential) balance of loans constituted 48.2% of total assets or MDL 60.2 billion, increasing by 6.9% (MDL 3.9 billion) during the analysed period. At the same time, the volume of new loans granted during the first 9 months of 2022 increased by 11.5% compared to the same period of the previous year.

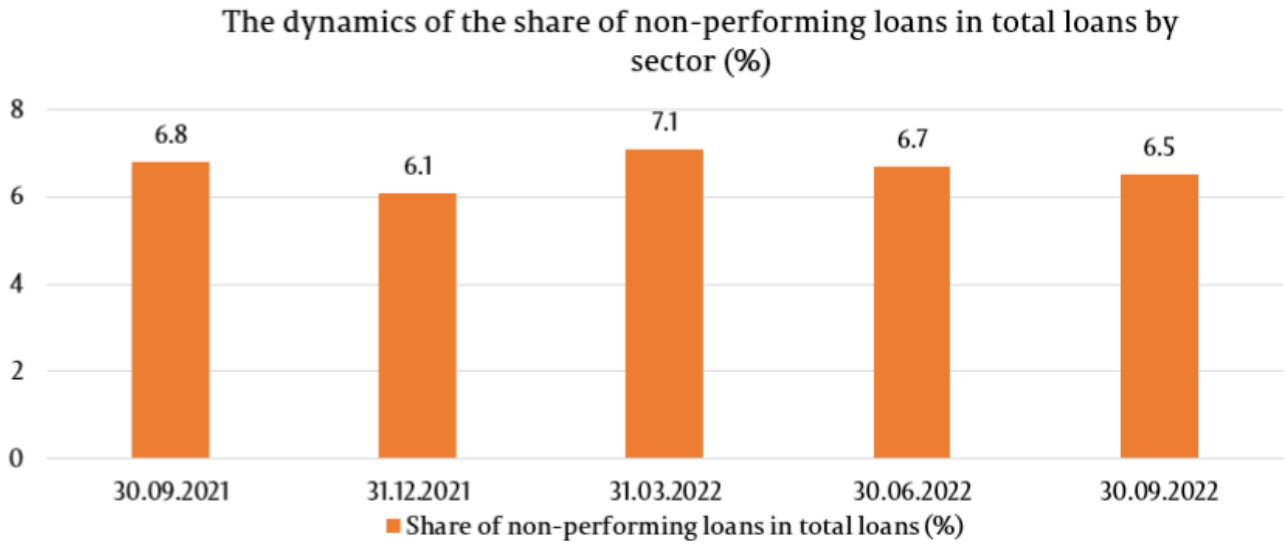
The largest increase during the first 9 months of 2022 was recorded in loans granted for the purchase/construction of real estate, which balance increased by MDL 989.8 billion (8.7%), up to MDL 12.4 billion, loans granted to the non-banking financial sector – by MDL 653.0 million (36.2%), up to MDL 2.5 billion, loans granted to food industry – by MDL 556.2 million (16.3%) up to MDL 4.0 billion, loans granted to individuals performing an activity – by MDL 549.7 million (47.9%), up to MDL 1.7 billion, loans granted to trade – by MDL 426.4 million (3.5%), up to MDL 12.6 billion, loans granted to agriculture – by MDL 398.8 million (9.6%) up to MDL 4.6 billion, and loans granted to construction – by MDL 284.2 million (26.2%), up to MDL 1.4 billion.

At the same time, the largest decrease in absolute value was recorded in loans granted to the productive industry, by MDL 207.9 million (7.4%) to MDL 2.6 billion, in loans granted to the energy industry – by MDL 162.4 million (16.3%) up to MDL 836.7 million.

During the reference period, the share of non-performing loans (substandard, doubtful, and compromised) in total loans increased by 0.4 percentage points, accounting for 6.5% on 30.09.2022, the mentioned indicator ranging from 1.8 % to 9.6%, depending on the bank.

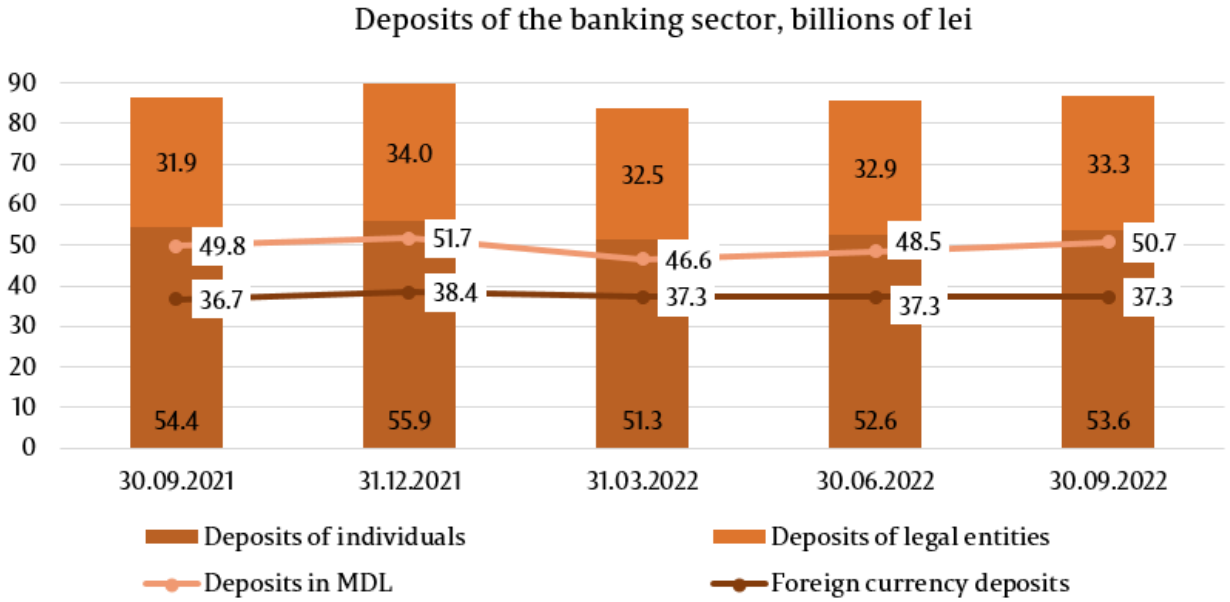
At the same time, non-performing loans in absolute value increased by 13.1% (MDL 454.4 million), amounting to MDL 3.9 billion. The amount of expired loans increased by 16.9 (MDL 294,6 million) during the examined period, reaching MDL 2.0 billion.

The share of expired loans in the total loans constituted 3.4% increasing by 0.3 percentage points as compared to 31.12.2021, ranging from 0.6% to 9.1% depending on the bank.



At the same time, during the reference period, there was a decrease in the balance of deposits, triggered mainly by external events. According to prudential reports, it decreased by MDL 2.1 billion, or by 2.3%, amounting to MDL 88.0 billion (deposits of individuals accounting for 60.9% of total deposits, deposits of legal entities – 37.8%, and bank deposits – 1.3%), as a result of the decrease of the balance of deposits of individuals by MDL 2.3 billion (4.2%), up to MDL 53.6 billion, and deposits of legal entities by MDL 744.7 million (2.2%), up to MDL 33.3 billion. At the same time, bank deposits increased by MDL 973.6 million (7.5 times), up to 1.1 million lei.

In total deposits, 57.7% returned to deposits in MDL, their balance decreasing by MDL 941.0 million (1.8%) compared to the end of the previous year and amounted to MDL 50.8 billion on 30.09.2022. Foreign currency deposits accounted for 42.3% of total deposits, their balance decreased during the reference period by MDL 1.2 billion (3.0%), amounting to MDL 37.2 billion (withdrawal of foreign currency deposits – the equivalent of MDL 649.7 million, and positive revaluation of foreign currency deposits – MDL 546.9 million).



Revenues and profitability

On 30.09.2022, the profit in the banking system amounted to MDL 2.8 billion, increasing by 71.6% (MDL 1.2

billion) compared to the similar period of the previous year.

The increase in profit was determined by the increase in interest income by MDL 2.8 billion (77.0%) (mainly from lending activity), income from fees and commissions by MDL 366.7 million (20.2%), income from exchange rate differences – by MDL 355.0 million (41.5%). At the same time, non-interest expenses (expenses related to fees and commissions, administrative expenses, provisions, impairment of financial and non-financial assets, etc.) increased by MDL 1.7 billion (44.7%) and interest expenses – by MDL 645.7 million (71.2%).

Total revenues amounted to MDL 10.0 billion, increasing by MDL 3.6 billion (55.4%) compared to the similar period of the previous year, of which interest income accounted to MDL 6.4 billion (64.5%) and non-interest income – MDL 3.5 billion (35.5%).

At the same time, total expenditures amounted to MDL 7.1 billion, increasing by MDL 2.4 billion (49.7%) compared to the same period of the previous year, of which interest expenses constituted MDL 1.6 billion (21.8%) of the total expenses, and non-interest expenses – MDL 5.6 billion (78.2%) of the total expenses.

On 30.09.2022, assets rentability accounted for 3.1% increasing by 1.1 percentage points as compared to the end of the previous year.

Compliance with prudential requirements

During the first 9 months of 2022, banks continued to maintain their liquidity indicators at a high level, beyond the regulated limits.

Thus, the value of the long-term liquidity indicator (liquidity principle I) constituted 0.74 (≤1 limit), ranging from 0.33 to 0.86, depending on the bank, being at the same level as at the end of 2021.

Liquidity principle III, which represents the ratio between the adjusted actual liquidity and the required liquidity on each maturity band and which must not be less than 1 on each maturity band, has also been respected by all banks, ranging from 1.36, on the maturity band up to one month inclusive, to 134.39 on the maturity band between 1 and 3 months inclusive.

The liquidity coverage indicator by sector amounted to 174.4% (limit ≥80% - as of January 1 2022), ranging from 117.2% to 508.4%, decreasing by 183.9 percentage points compared to the end of the previous year.

According to the reports submitted by the banks as of 30.09.2022, the ratio of total own funds in the banking sector recorded the value of 29.8%, increasing by 3.9 percentage points compared to the end of the previous year, ranging from 22.0% to 63.4%. All banks complied with the indicator "Total equity rate" (≥10%).

Also, all banks complied with the requirement of the "Total equity rate" indicator, taking into account the capital buffers.

As of 30.09.2022, total own funds accounted for MDL 17.8 billion and registered an increase of 17.5% (MDL 2.7 billion). The increase in own funds was mainly influenced by the banks' reflection of eligible profits after holding general meetings of shareholders and after obtaining the NBM's permission regarding the inclusion in own funds of the profits made in 2022.

As of 30.09.2022, the banks complied with the prudential indicators regarding large exposures and exposures to their related parties.

Development of the national legal framework and its harmonization with EU legislation

During the third quarter of 2022, the activities related to the promotion of Basel III requirements continued, by updating, developing, and finalizing the drafts of the secondary normative acts (requirements for the bank's recovery plan, requirements to cover the liquidity requirement, regarding the leverage effect, capital buffers, the net stable funding ratio (NSFR), and the requirements for independent thinking of the management board), which shall complete the secondary normative framework for the application of the provisions of Law No. 202/2017 on the activity of banks.

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