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# Financial situation of the banking sector for the first quarter of 2021

During the first quarter of 2021, the National Bank of Moldova (NBM) continued the process of prudential supervision of banks in the Republic of Moldova, pursuing compliance with legal requirements, in order to prevent and limit the risks specific to banking.

As of 31.03.2021, 11 banks licensed by the National Bank of Moldova were active in the Republic of Moldova. B.C. ENERGBANK S.A. was supervised under the early intervention regime applied on 11.01.2019, following the finding of a group of persons acting in concert who acquired and possessed a qualified holding in the share capital of the bank in the amount of 52.55% without prior written approval of NBM. Subsequently, by the Decision of the Executive Committee of the NBM from 09.04.2021, the term of appointment of the temporary administrators of B.C. "ENERGBANK" S.A. was extended until 29.10.2021.

During the first quarter of 2021 there were no significant changes in the shareholding structure of licensed banks in the Republic of Moldova.

The first quarter of 2021 is characterized by increased assets, loans, deposits of individuals, slightly improving the quality of the loan portfolio. The banking sector has a high level of liquidity. At the same time, compared to the end of the previous year, the own funds, the deposits of legal entities decreased, and the profit obtained in the first quarter of 2021 registered a decrease compared to the similar period of the previous year.

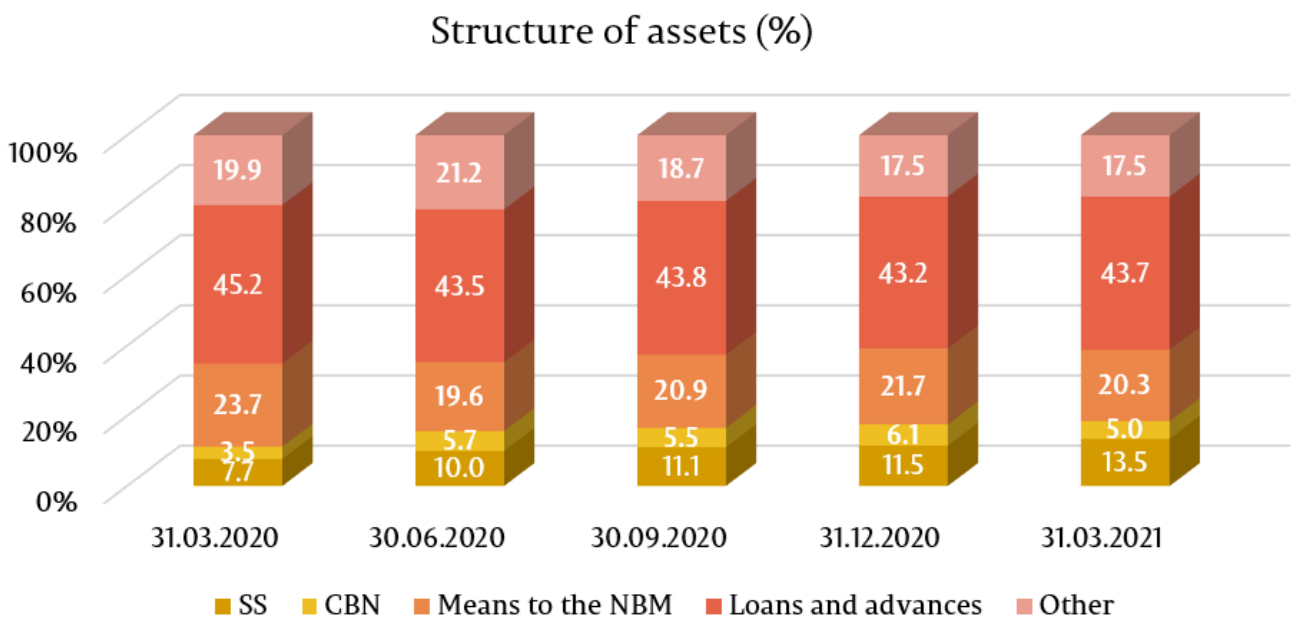
## Financial situation of the banking sector and compliance with prudential regulations

On 31.03.2021, the situation in the banking sector, reflected on the basis of reports submitted by banks, registered the following trends:

### Assets and liabilities

Total assets amounted to 104.5 billion lei, increasing during the first quarter of 2021 by 0.6% (605.2 million lei).

In the structure of assets, the largest share belonged to the item in the balance sheet "Loans and advances at amortized cost", which constituted 43.7% (45.7 billion lei), increasing by 0.5 percentage points (p.p.). The share of banks' investments in state securities and in the certificates of the National Bank (CBN) constituted 18.5% (19.3 billion lei), increasing by 0.9 pp. The share of funds at the NBM was 20.3% (21.2 billion lei), decreasing by 1.4 pp. The rest of the assets, which constitute 17.5% (18.3 million lei), are maintained by banks in other banks, in cash, tangible assets, intangible assets, etc. and their share has not changed since the end of the previous year.



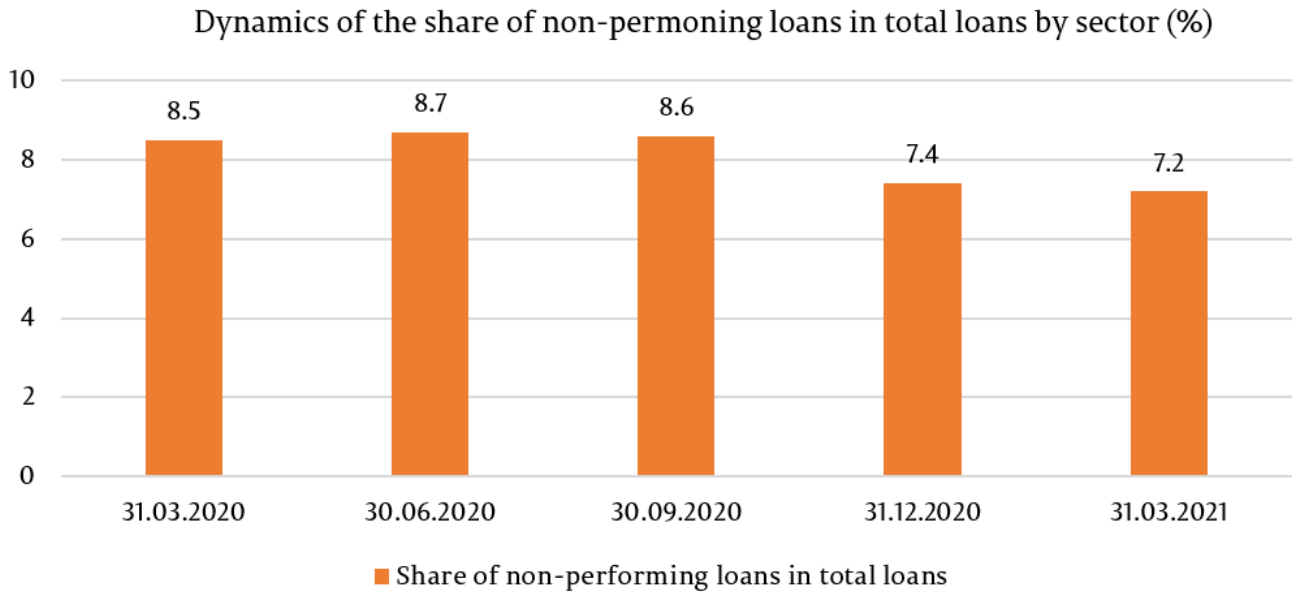

The gross (prudential) balance of loans constituted 44.6% of total assets or 46.6 billion lei, increasing during the analyzed period by 2.2% (993.9 million lei). At the same time, the volume of new loans granted during the first quarter of 2021 increased by 7.8% compared to the same period of the previous year.

The largest increases in the loan portfolio were recorded in loans granted for the purchase / construction of real estate - by 5.8% (460.7 million lei) and in consumer loans - by 5.0% (373.2 million lei).

During the reference period, the share of non-performing loans (substandard, doubtful and compromised) in total loans decreased insignificantly by 0.2 pp, constituting 7.2% on 31.03.2021, the mentioned indicator ranging from 2.5% to 15 , 0%, depending on the bank.

At the same time, non-performing loans in absolute value increased insignificantly by 0.1% (4.0 million lei), amounting to 3.4 billion lei.

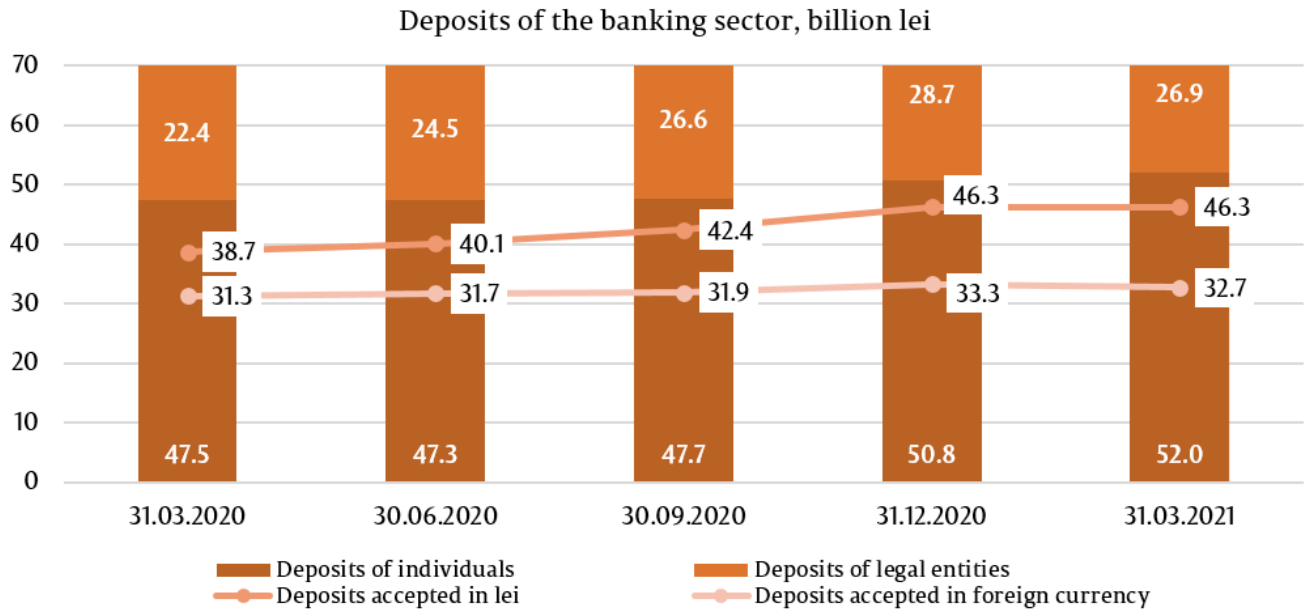
During the analyzed period, the share of expired loans in the total loans decreased insignificantly, from 4.5% to 4.4%.




At the same time, during the reference period there was a decrease in the balance of deposits. According to prudential reports, it decreased by 586.4 million lei or 0.7%, amounting to 79.1 billion lei (deposits of

individuals accounted for 65.8% of total deposits, deposits of legal entities - 34.1% and bank deposits - 0.1%). An impact on the decrease of the balance of deposits had the decrease of the volume of deposits of legal entities by 1.8 billion lei (6.2%), up to 26.9 billion lei. At the same time, the volume of deposits of individuals increased by 1.2 billion lei (2.4%), to 52.0 billion lei.

In total deposits, 58.6% returned to deposits in lei, their balance being practically at the same level as at the end of the previous year and amounted to 46.3 billion lei on 31.03.2021. Foreign currency deposits accounted for 41.4% of total deposits, their balance decreased during the reference period by 589.5 million lei (1.8%), amounting to 32.7 billion lei (withdrawal of foreign currency deposits - the equivalent of 1.0 billion lei, total revaluation of foreign currency deposits + 417.3 million lei).




**Revenues and profitability**

On 31.03.2021, the profit in the banking system amounted to 422.4 million lei, decreasing by 2.3% (9.9 million lei) compared to the similar period of the previous year.

- The decrease in profit is largely determined by the increase in non-interest expenses by 14.4% (153.3 million lei), mainly due to the increase in administrative expenses. At the same time, interest expenses decreased by 18.5% (67.2 million lei), as a result of the decrease of the average rate on deposits in national currency from 4.76% on 31.03.2020 to 3.87% at 31.03.2021 and respectively in foreign currency from 0.97% to 0.61%.
- At the same time, there was an increase in non-interest income by 11.4% (82.9 million lei), mainly as a result of the increase in fees and commissions by 17.9% (80.6 million lei). Interest income decreased by 0.6% (6.6 million lei), as a result of the decrease in the average rate on loans in national currency from 8.08% on 31.03.2020 to 7.51% on 31.03. 2021 and in foreign currency from 5.02% to 4.85%. At the same time, the average interest rate on SS decreased from 5.2% to 5.04%.

Total revenues amounted to 1.9 billion lei, increasing compared to the same period of the previous year by 76.2 million lei (4.1%), of which interest income amounted to 58.0% (1.1 billion lei) ), and non-interest income - 42.0% (812.2 million lei). At the same time, total expenditures amounted to 1.5 billion lei, increasing compared to the same period of the previous year by 86.1 million lei (6.0%). Interest expenses accounted for 19.6% (RON 295.8 million) of total expenses, and non-interest expenses - 80.4% (RON 1.2 billion) of total

expenses.

On 31.03.2021, the return on assets and the return on capital constituted 1.6% and 9.3%, respectively, decreasing by 0.1 p.p. and 0.3 p.p., respectively. compared to the end of the previous year.

**Compliance with prudential requirements**

During the first quarter of 2021 banks continued to maintain liquidity indicators at a high level.

Thus, the value of the long-term liquidity indicator (liquidity principle I) was 0.7 (limit ≤1), being at the same level compared to the end of 2020.

Current liquidity by sector (liquidity principle II) accounted for 50.4% (limit ≥20%), with more than half of the banking sector's assets concentrated in liquid assets. The largest shares in liquid assets are held by NBM deposits - 40.7%, liquid securities - 33.5% and net interbank funds - 15.4%. During the first quarter of 2021, the share of deposits with the NBM decreased by 2.2 pp, and the share of cash - by 1.0 pp. At the same time, the share of liquid securities increased by 2.0 pp. and the share of net interbank funds - by 1.3 p.p.

Principle III of liquidity, 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 been respected by all banks.

The liquidity coverage indicator by sector amounted to 294.3% (limit ≥ 70% - as of January 1, 2021) and ranged from 151.0% to 1,237.0%. Currently, all banks comply with the respective provisions.

According to the reports presented by the banks as of 31.03.2021, the rate of total own funds on the banking sector registered the value of 26.6%, decreasing by 0.5 p.p. compared to the end of the previous year and varied between 19.1% and 46.9%. 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, except for one bank, where the total capital ratio was lower than the requirement imposed by the monitoring and evaluation process combined with the capital buffers. In accordance with the Decision of the Executive Committee of the NBM no. 91 of 03.04.2020 the temporary use of the capital conservation buffer is not considered to be a violation.

As of 31.03.2021, the total own funds amounted to 13.5 billion lei and registered a decrease of 0.6% (74.6 million lei), mainly as a result of the redemption by a bank of its shares with the approval of the National Bank and the increase in some banks of the positive difference between the reductions for asset losses and conditional liabilities and the size of the reductions for losses from impairment of assets and provisions for losses.

As of 31.03.2021, banks complied with prudential indicators regarding large exposures and exposures to their affiliates.

At the same time, in a bank, the ratio between the indicator related to the aggregate value of credit exposures to customers or a group of related customers, which is by size the first ten credit exposures, and the total loan portfolio is higher than the prudential limit of 30%. Given that the bank complies with the additional own funds requirement for that surplus, exceeding the 30% limit does not constitute an infringement.

## Development of the national legislative framework and its harmonization with EU legislation

During the first quarter of 2021, in order to apply the provisions of Law no. 202/2017 on the activity of banks, the National Bank of Moldova made amendments to Regulation no. 127/2013 on holdings in the share capital of the bank and to Regulation no. 292/2018 regarding the requirements towards the members of the management body of the bank, of the financial holding company or mixed holding company, the managers of the branch of a bank from another state, the persons holding key positions and towards the liquidator of the bank in liquidation.

These amendments concern the manner in which the approval of the NBM is obtained for the acquisition of a bank's shares or for the appointment by the bank of the members of the bank's management body, of the managers of the bank branch of another state and of persons holding key positions. Thus, the respective approvals can be obtained not only on paper, but also in electronic form, through the WEB portal of the NBM Information System.

Aligning the banking legislation of the Republic of Moldova with international standards by improving the quantitative and qualitative mechanisms of bank administration contributes to promoting a secure and stable banking sector, increasing transparency, trust and attractiveness of the domestic banking sector for potential investors and creditors of banks' customers, including depositors, also to the development of new financial products and services.

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