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Financial Situation of the Banking Sector for the First Quarter of 2024

The financial situation of the banking sector, according to data submitted by banks, is characterized by growth in assets, loans, and deposits from both individuals and legal entities. Profit for the financial year compared to the same period of the previous year decreased, mainly due to a decrease in interest income, concurrently with an increase in non-interest income. Interest income decreased primarily due to reduced income from funds placed at the National Bank of Moldova (NBM) (required reserves), investments in debt securities (G-Sec, NBC), and lending activity income. At the same time, non-performing loans in absolute value recorded an insignificant increase, while overdue loans decreased, slightly improving the quality indicators of the loan portfolio. Simultaneously, own funds, the capital ratio, and bank deposits decreased.

As of March 31, 2024, 11 banks licensed by the National Bank of Moldova were operating in the Republic of Moldova.

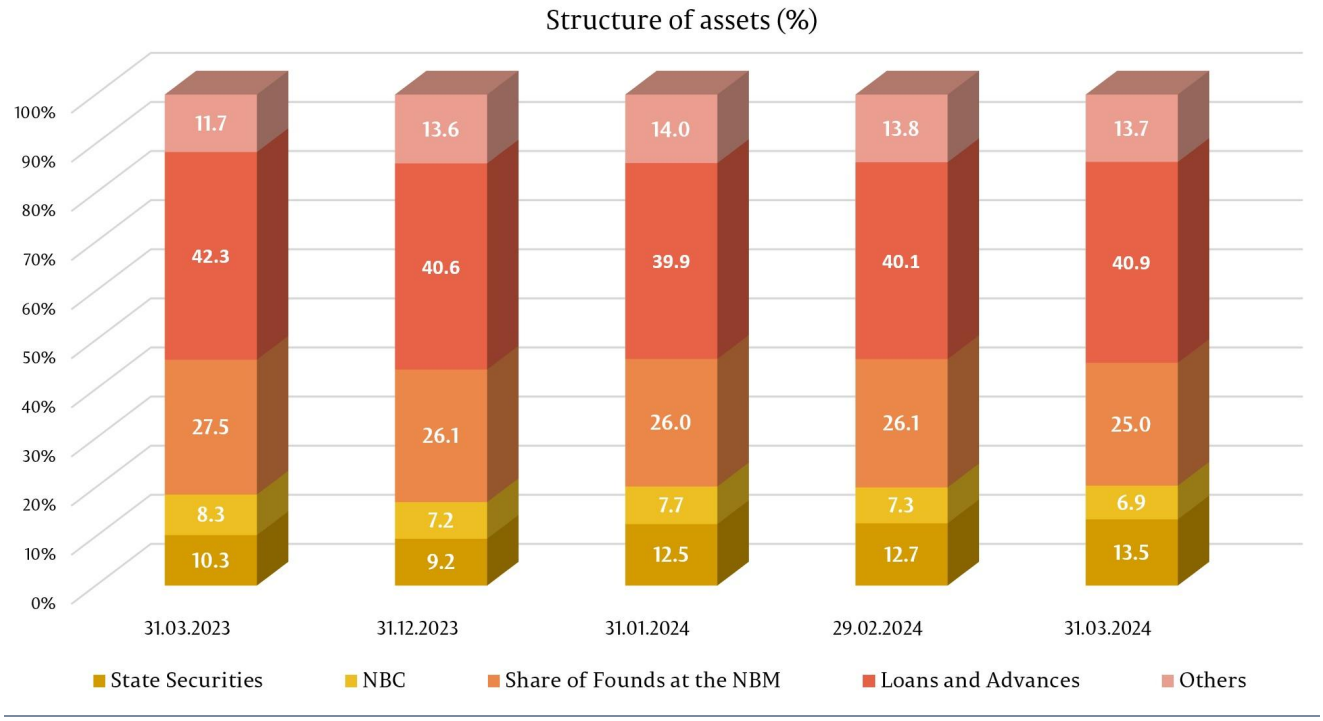
The Financial Situation of the Banking Sector and Compliance with Prudential Regulations

As of March 31, 2024, the banking sector's situation, based on reports submitted by the banks, showed the following trends:

Assets and Liabilities

Total assets amounted to MDL 157,813.6 million, increasing by 2.5% (MDL 3,884.0 million) during the first quarter of 2024.

In the asset structure, the largest share was held by the balance sheet item "Loans and advances at amortized cost," which accounted for 40.9% (MDL 64,559.0 million), up by 0.3 percentage points (p.p.) compared to the end of the previous year. The share of funds placed at the NBM amounted to 25.0% (MDL 39,485.5 million), decreasing by 1.1 p.p., while the share of banks' investments in government securities and National Bank certificates amounted to 20.3% (MDL 32,114.9 million), up by 0.6 p.p. The remaining assets, amounting to 13.7% (MDL 21,654.3 million), are held by banks in other banks, cash, tangible fixed assets, intangible assets, etc. Their share increased by 0.1 p.p. compared to the end of 2023.



[1]

The gross (prudential) loan balance amounted to 41.3% of total assets or MDL 65,246.2 million, increasing by 2.1% (MDL 1,350.7 million) during the analyzed period.

The highest increase was recorded in loans granted for the purchase/construction of real estate - by MDL 615.7 million (4.6%) up to MDL 13,897.9 million, consumer loans by MDL 454.3 million (4.1%) up to MDL 11,654.2 million, loans granted in services sector - by MDL 206.8 million (9.5%) up to MDL 2,375.0 million, and loans granted for trade - by MDL 153.3 million (1.1%) up to MDL 14,391.9 million.

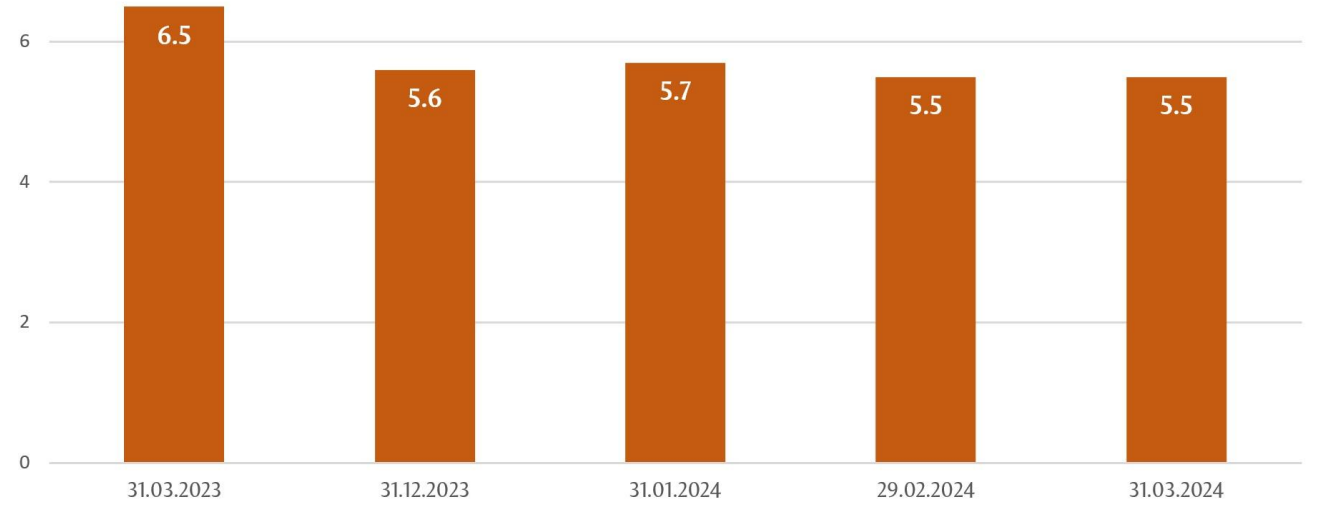
At the same time, the largest decrease during the first quarter of 2024 was recorded in other loans - by MDL 240.3 million (10.5%) up to MDL 2,049.9 million and in loans granted to the non-banking financial sector - by MDL 192.3 million (7.0%) up to MDL 2,565.2 million.

During the reference period, the share of non-performing loans (substandard, suspicious, and compromised) in total loans decreased by 0.1 p.p., constituting 5.5% as of March 31, 2024, ranging from 2.5% to 6.2%, depending on the bank.

At the same time, non-performing loans in absolute value increased by 0.8% (MDL 27.4 million) to MDL 3,574.6 million.

Additionally, overdue loans decreased by 9.5% (193.5 million MDL) to MDL 1,845.4 million. The share of overdue loans in total loans amounted to 2.8%, decreasing by 0.4 p.p. compared to 31.12.2023, ranging from 1.5% to 6.3%, depending on the bank.

Dynamics of the share of non-performing loans in total loans by sector (%)

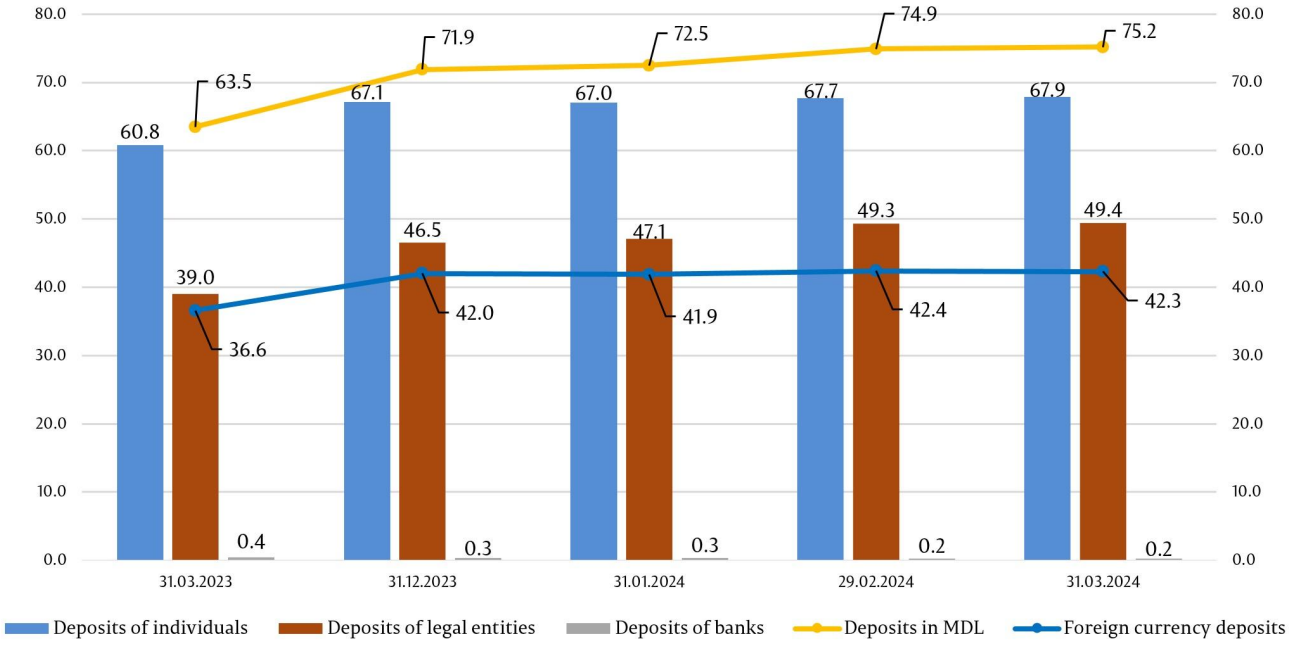


[2]

At the same time, during the reference period, the total balance of deposits increased by MDL 3,618.4 million or by 3.2%, amounting to MDL 117,479.7 million (deposits of individuals accounted for 57.8% of total deposits, deposits of legal entities - 42.0%, and bank deposits - 0.2%). This increase was due to the rise in the balance of legal entities' deposits by 2,888.5 million MDL (6.2%) up to MDL 49,394.0 million and deposits of individuals by MDL 789.3 million (1.2%) up to MDL 67,877.9 million. At the same time, the balance of bank deposits decreased by 59.3 million (22.2%) to MDL 207.8 million.

Within total deposits, 64.0% were accounted for by deposits in MDL, with the balance increasing by MDL 3,258.2 million (4.5%) compared to the end of the previous year, amounting to MDL 75,160.3 million as of March 31, 2024. Deposits in foreign currency accounted for 36.0% of total deposits, their balance increased during the reference period by MDL 360.2 million (0.9%), amounting to MDL 42,319.4 million MDL.

Deposits of the banking sector, billions lei



[3]

Revenues and Profitability

As of March 31, 2024, the profit in the banking sector amounted to MDL 814.2 million, decreasing by MDL 524.1 million MDL (39.2%) compared to the same period of the previous year.

The decrease in profit was due to the reduction in interest income. At the same time, income from exchange rate differences increased by MDL 123.5 million (34.7%) and income from fees and commissions by MDL 37.4 million (4.9%). Conversely, interest expenses decreased by MDL 502.0 million (40.8%), while non-interest expenses (expenses related to fees and commissions, administrative expenses, provisions, impairment of financial and non-financial assets, etc.) increased by MDL 14.8 million (0.7%).

Total revenues amounted to MDL 3,603.5 million, down by MDL 1,011.2 million (21.9%) compared to the same period of the previous year, of which interest income accounted for 63.3% (MDL 2,280.2 million) and non-interest income - 36.7% (MDL 1,323.3 million).

At the same time, total expenses amounted to MDL 2,789.2 million, decreasing by MDL 487.1 million (14.9%) compared to the same period of the previous year, of which interest expenses amounted to MDL 728.7 million (26.1% of total expenses), while non-interest expenses - MDL 2,060.5 million (73.9% of total expenses).

As of March 31, 2024, the return on assets amounted to 2.1%, decreasing by 0.7 p.p. compared to the end of the previous year, and the return on capital amounted to 12.1%, down by 4.1 p.p. year-on-year.

Compliance with Prudential Requirements

During the first quarter of 2024, banks continued to maintain liquidity ratios at a high level, above the regulated limits.

Therefore, the value of the long-term liquidity ratio (liquidity principle I) amounted to 0.70 (limit ≤1), ranging from 0.30 to 0.89 depending on the bank, increasing by 0.01 compared to the end of 2023.

Liquidity Principle III, which is the ratio of adjusted actual liquidity to required liquidity in each maturity band which should not be less than 1, was also respected by all banks, ranging from 1.34 in the maturity band up to one month to 176.62 in the maturity band between one month and 3 months.

The liquidity coverage ratio by sector amounted to 276.1% (limit ≥100%), ranging from 156.9% to 636.3%, decreasing by 6.2 p.p.

According to the reports submitted by banks as of March 31, 2024, the total capital ratio in the banking sector recorded the value of 28.2%, down by 1.7 p.p. compared to the end of the previous year, ranging between 22.4% and 50.3%. All banks complied with the "Capital ratio of total own funds (≥10%)".

All banks also complied with the requirement of the "Total capital ratio" indicator, considering capital buffers.

As of March 31, 2024, total own funds amounted to MDL 20,323.6 million, recording a decrease of 2.8% (MDL 574.9 million). The decrease in own funds was mainly determined by the increase in the positive difference between the allowances for assets and conditional liabilities and the size of the allowances for impairment losses on assets and provisions for losses, as well as the distribution of profit (dividends) by some banks.

As of March 31, 2024, the banks complied with the prudential indicators on large exposures and exposures to affiliated persons, except for one bank, which exceeded the 30% limit on the aggregate amount of credit

exposures to customers or a group of connected customers, which constitute the top ten largest loan exposures in the total loan portfolio, representing 46.4%. In accordance with Chapter IV, point 26 of the Regulation on Large Exposures No. 109 of April 5, 2019, exceeding the limit of the aforementioned indicator shall not be considered a breach if the bank maintains additional own funds on that excess and meets these requirements.

All banks also complied with the banking market dominance limit, being below the 35% threshold for this indicator by the size of retail deposits and assets, except for one bank. This bank exceeded the 35% limit of the banking market dominance by asset size, reaching 36.0%, and the dominance in the banking market by the size of retail deposits amounted to 35.0%, being at the established limit (≤ 35%).

Developing the National Legislative Framework and Harmonizing it with EU Legislation

During the first quarter of 2024, the National Bank of Moldova (NBM) continued activities related to the development and updating of secondary regulatory acts for the implementation of Law No. 202/2017 on the activity of banks and the promotion of Basel III requirements.

In this context, by HCE of the NBM No. 03/2024, amendments were made to Regulation No. 292/2018 regarding the requirements for members of the management body of the bank, financial company holding or mixed holding company, managers of the branch of a bank from another state, persons holding key functions, and the liquidator of a bank under liquidation, including differentiated requirements for the quality of persons who are appointed as the head of the executive body of the bank.

Amendments were also made to the Chart of Accounts of the bookkeeping in banks in the Republic of Moldova, aimed at updating and improving the accounting within banks, including in the context of the implementation of instant payments in the field of financial technologies. Additionally, the amendments to the Chart of Accounts concerned adjustments based on changes in regulatory acts and requests received from banks.

Furthermore, amendments were made to Regulation No. 41/1997 on the open foreign exchange position of the bank, namely by adding new accounts to Annex No. 2 "The procedure of compiling the report on the Open Foreign Exchange Position of the Bank" related to the heading including the equivalent in MDL of balances of current accounts in foreign currency of resident legal entities, resident individuals performing entrepreneurial or other types of activities, and resident individuals.

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