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Supervision banks

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Bank Supervision Priorities of the National Bank of Moldova for 2017

The National Bank of Moldova holds the leading role in the bank supervision field and permanently promotes high professional and ethical standards. The National Bank recommends to banks to comply with the international best practices, taking into account the new regulations and technology developments in the banking field.

Following the assessment of the main endogenous and exogenous risks related to the banking activity, taking into account the latest economic developments, the amendments to banking and supervision regulation in the context of the Association Agreement between the Republic of Moldova and the European Union, as well as the actions agreed with the International Monetary Fund, there have been established the main fields on which the supervision process will focus on in 2017.

Thereby, an increased attention during the on-site and off-site inspections will be granted to the following areas:

1. Transparency of shareholders
2. Credit risk, including non-performing loans, “large” exposures and exposures to affiliated persons
3. Operational risk
4. Internal Governance
5. Anti-money laundering and terrorist financing

Transparency of shareholders

The majority of the licensed banks of the Republic of Moldova face long-time problems on the opaque ownership structure, which may significantly affect the corporate governance and undermine the banks’ financial situation. At the same time, more attention needs to be granted to the persons affiliated with shareholders and to the exposures towards persons affiliated with banks in order to avoid negative influence over the bank’s financial situation.
In 2016, the National Bank has taken measures to ensure a transparent ownership structure of the banks. During the year, the National Bank has found, at the two largest banks of the banking sector, two groups of shareholders acting in concert and holding shareholdings without prior written permission of the National Bank.

In 2017, the National Bank will continue to make efforts to improve the transparency of the banking sector. In order to achieve this objective, the National Bank of Moldova has developed an Action Plan, which includes the identification of final beneficiaries of the banking shareholding. Thus, all the banks will carry

out the shareholders' transparency exercise by the end of June 2017 (except for foreign financial subsidiaries and groups). For this purpose, there will be required exhaustive data on the shareholders' reputation, criminal history, professional activity, financial soundness, including the origin of the financial resources used to acquire shareholding in the bank's share capital etc.

The enhancement of the banking sector transparency may be effected only by attracting certain investors of quality with impeccable local and international reputation, who demonstrate a financial soundness capable to provide financial resistance of the bank to the internal and external shocks and a corporate governance of the highest level.

Credit risk, including non-performing loans, "large" exposures and exposures to affiliated persons

Within the structure of assets, the loan portfolio held the largest share, accounting for 48 percent as of 31 December 2016. During 2016, both the non-performing loans and loan portfolio recorded a negative trend. Thus, the non-performing loans represented 16.3 percent of the loan portfolio, increasing by 49 percent, while the loan portfolio decreased by 9 percent.

In 2017, credit risk continues to be the most significant one. In this context, the National Bank of Moldova will carry out on-site inspections at licensed banks in order to assess the quality of the assets, 'large' exposures, exposures towards affiliated persons and will examine the policies and practices on credit risk.

A particular attention will be granted to non-performing loans, to their primary reimbursement modalities and to the quality of secondary reimbursement source, and in particular to the quality and value of loan-granting process. During these inspections, there will be also assessed the impact of deterioration of the quality of assets on the bank's capital, as well as the practice of restructuring/extension of loans' maturity.

At the same time, the risk control will be also subjected to examination along with the risk level analysis. Thus, the banks' procedures, policies and strategies on the management and decrease of non-performing loans will be thoroughly assessed. In order to minimize the impact over the banks' capital caused by a possible deterioration of the loan quality, the National Bank of Moldova, as the supervisory authority, has requested the revision of the policies and strategies for the purpose of efficient monitoring and management of the level of non-performing loans. During 2017, the NBM will assess the fulfilment by banks of the aforementioned request. At the same time, there are assessed, on daily basis, the loans granted by licensed banks during the off-site inspections in order to identify and supervise the loan portfolio, being also used the opportunities of the Credit Risk Register.

During this inspection, there will be also identified the groups of persons acting in concert in order to determine the 'large' exposures and to prevent the exceeding of the established limits, taking into account that the excessive concentration may lead to losses registration by the bank and as a result, this may significantly influence the bank's capital in the context of the amendments made to the Law on financial institutions.

At the same time, following the amendments made to the "Regulation on bank transactions with its affiliated persons" in force as of November 2016, the inspections will be carried out taking into account the new provisions on loans granted to affiliated persons. Thus, during 2017, the NBM will assess the nature of relationships and transactions with the bank, using the new features for identifying the individuals who have relations or conduct transactions with the bank and/or with its affiliates, which will facilitate the

monitoring of the compliance by the bank with the legal provisions on the transactions with its affiliated persons, including the exposure limits thereof.

Operational risk

The operational risk is increasing during the recent period and its materialization may lead to capital losses. The potential losses may be caused by various operational risks: the human factor, including scams, the IT systems security, the wrong organization of the bank's internal processes, external environment etc.

Starting with the analysis of certain operational risks in 2016, which may subsequently negatively affect the capital, in 2017, the NBM will focus on the assessment of the banks' policies and practices for identifying and preventing the materialization of these risks. Thus, the policies and practices will be assessed in terms of minimizing the impact over the capital as a result of the damage caused, of the allocation of funds by banks to ensure data security, prevent cyber-attacks etc. During on-site inspections, there will be also assessed the compliance by banks with the internal policies on operational risk management. There was initiated the procedure to change the profile of employees of the On-site Supervision Unit, and in particular, their specialization on certain areas of risk (credit, liquidity, market, operational) by their participating in trainings within the Twinning project or in other seminars.

Internal governance

The problems faced in the latest period by Moldovan banks, namely the imperfect regulations, non-transparent shareholding, lack of high level professional management, indicate the need of an efficient internal governance, which is fundamental for maintaining the banks' financial stability.
In 2016, following the results of diagnostic studies conducted at two banks, the National Bank of Moldova has obliged these banks to improve their internal governance, to eliminate all shortcomings identified within the studies. The NBM also started to optimize the procedures for assessing the shareholders, who hold qualifying holdings in the banks' share capital.

The National Bank of Moldova will require the banks to own a rigorous governance framework, which will include a clear organizational structure with clearly defined, transparent and consistent lines of responsibility; effective identification, managerial, monitoring and reporting risks processes to which it is or could be exposed; a process of assessing the capital adequacy to risks; a process of assessing the adequacy of liquidity, the appropriate internal control mechanisms, including rigorous administrative and accounting procedures. A special attention should be granted to the banks' management decisions, which may have a negative impact on the banks' financial situation.
National Bank will examine the degree of compliance of the banks with their new internal governance practices and policies.

Anti-money laundering and terrorist financing

Taking into account that the banking system of the Republic of Moldova is exposed to the risk of money laundering and terrorist financing, the National Bank of Moldova, in accordance with its responsibilities, will continue the implementation of the international standards and best practices, so as to ensure the non-involvement of banks in the activities and transactions that imply such risks. The new Law on preventing

and combating money laundering and terrorist financing, to be adopted in 2017, will create the necessary normative framework to achieve this goal.

In 2017, the NBM established a separate unit to supervise the entities in the field of prevention and combating money laundering. In these circumstances, the NBM will verify whether the banks dispose of adequate policies and procedures in this filed, properly apply their policies on know your customer (KYC) and his/her transactions and will inform in due time the authority responsible for the prevention and combating money laundering and terrorist financing.

At the same time, the National Bank will optimize the system of banks' internal control by strengthening their capacities to assess the risks of money laundering and by training on the application of the latest practices for the identification of the existing typologies. The NBM will continue to focus on strengthening the secondary normative framework of the field, will improve the remote supervision by implementing an IT tool and will intensify on-site inspections in order to define the degree of banks' compliance with the rules on prevention and combating money laundering and terrorist financing.

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