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Bank Supervision Priorities of the National Bank of Moldova for 2019

The National Bank of Moldova is the competent authority for the licensed banks of the Republic of Moldova and holds the major role in banking supervision and regulation activities, promoting constantly high standards of independence, professionalism and ethics. The National Bank of Moldova expects that banks properly implement the new regulations (Basel III), invest in the development of the information technology sector and focus more on financing the real economy.

As during the previous year, in 2019, the National Bank of Moldova will continue to reform the domestic regulatory and banking supervision framework. The reforms in banking supervision (Basel III) are aimed at consolidating the banking sector as a whole, as well as of each bank – preconditions for resumption of real sector financing and for ensuring the sustainable economic growth in the country. These reforms are aimed mainly at ensuring a sound corporate governance, transparency of the domestic banking sector in order to attract potential investors and creditors, as well as maintaining a solid banking sector.

Following the assessment of the main risks and challenges related to banking activities, taking into account the amendments to banking regulation and supervision in the context of the Association Agreement between the Republic of Moldova and the European Union, the most recent economic evolution as well as actions agreed with the International Monetary Fund, there have been established the main fields on which the banking supervision process will focus on in 2019:

- **I. Quality and transparency of shareholders;**
- **II. Bank's internal governance, risk management and the internal process of assessing capital adequacy to risks (ICAAP)**
- **III. Crediting activity, credit risk and exposures to affiliated persons;**
- **IV. Risk associated with information and communication technologies (ICT);**
- **V. Anti-money laundering and terrorist financing.**

I. Quality and transparency of shareholders

A priority in exerting banking supervision by the National Bank remains the assessment of shareholders' quality and transparency to ensure the development of a sound corporate governance in the banking sector and to attract investors that meet high quality requirements.

Following the measures taken by the National Bank of Moldova for non-transparent shareholders that do not meet the quality criteria, currently more than 70% of banking assets are managed by internationally reputable financial groups.

Thus, during the year 2018, new strategic shareholders came to the domestic banking market:

- Banca Transilvania S.A. of Romania, with the support of the European Bank for Reconstruction and Development (EBRD), has become an indirect shareholder in B.C. "VICTORIABANK" S.A.;
- Intesa Sanpaolo of Italy – single shareholder in B.C. "EXIMBANK" S.A., the bank becoming part of Intesa Sanpaolo Group.
- Also, the single share package of 41.09% of BC "MOLDOVA-AGROINBANK" S.A. was purchased by a consortium of investors formed by the EBRD, Invalda INVL and Horizon Capital.

At the same time, in order to permanently ensure a transparent banking sector, during 2018, the National Bank applied sanctions and other sanctioning measures to small bank shareholders, due to the non-compliance with the appropriate fit and proper quality criteria established by the legislation and to the failure to provide the necessary information for their evaluation.

In 2019, the National Bank will continue the process of transparency and follow the compliance with the quality criteria of shareholders in the banking sector in order to comply with the best practices of corporate governance, including the fulfillment of the commitments undertaken by the Republic of Moldova towards the development partners and will take the necessary measures of the breaches found in the bank's shareholding.

II. Bank's internal governance, risk management and ICAAP

a) Verification the compliance of banks' activity with prudential requirements and ensuring a qualitative error-free reporting

On 30 July 2018, the new regulations under Basel III came into force, according to which banks calculate their capital ratio by correlating it with credit risk exposures, market risk and operational risk. The new regulations also set the size of capital buffers that will mitigate the impact on own funds in the event of macroeconomic shocks.

At the same time, the National Bank of Moldova will continue to develop normative acts for the exhaustive implementation of the provisions of Law on banks' activity no.202 / 2017, during 2019 regulations on some prudential requirements related to large exposures, affiliated persons, liquidity, etc. will be approved or improved. In this context, within the framework of on-site and off-site inspections, the NBM will check compliance of banks' activities with the existing prudential requirements and those that will enter into force in 2019.

In addition, the National Bank, as a supervisory authority, will always carry out an activity to ensure accurate and timely financial and prudential reporting by banks. In order to ensure qualitative and error-free reporting, the National Bank will check whether the reports submitted by the banks are true, complete and correct in accordance with the normative acts;

b) Assessment of the bank's internal governance and risk management

In 2019, at the request of the National Bank, the banks will continue to provide information on the activity of their governing bodies, the internal audit, the subdivisions related to the risk management functions, the compliance, the results of the stress tests carried out and the measures taken by the management, etc. In performing on-site and off-site supervision, the National Bank will verify the internal governance framework, strategies, processes and mechanisms implemented by each bank to comply with current legislation and ensure adequate risk management.

The National Bank of Moldova will also monitor the work of the specialized committees of the banks in view of transparency and independence of the members of these committees as well as the impact on the bank's internal governance;

c) Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process is a component of the bank's management process and its decision-making culture that enables the management body to continually assess the bank's risk profile and the adequacy of internal capital in the report with it.

In 2019, banks shall submit the first reports on the Internal Capital Adequacy Assessment Process (ICAAP). The National Bank will check the way in which banks: a) identify, measure, diminish and report the risks to which they are or may be exposed, assess and calculate the needs for internal capital; b) plan and maintain the sources of internal capital necessary to achieve capital adequacy in the bank's risk profile. Checking the quality of the Internal Capital Adequacy Assessment Process (ICAAP) will become a core component of the Supervisory Review and Evaluation Process (SREP);

d) Supervisory Review and Evaluation Process (SREP)

In 2019, the NBM will perform for the first time the supervisory review and evaluation process (SREP) for each bank, in order to determine the extent to which the bank's management framework, strategies, processes and mechanisms, own funds, and its liquidity ensures prudent management and adequate risk coverage in rapport with the bank's risk profile.

At the same time, the National Bank will: assess all significant risks of the bank; review and evaluate ICAAPs and stress tests; review and evaluate compliance with the prudential requirements provided by Law no. 202/2017 and the provisions of normative acts issued by the National Bank; identify the current and potential problems, bank vulnerabilities and shortcomings in the bank’s activity management and risk management framework. Following the outcome of the SREP general assessment, as the case may be, the National Bank of Moldova will apply supervisory measures provided by the legislation.

III. Crediting activity, credit risk and exposures to affiliated persons

Within the assets’ structure, the largest share belongs to the loan portfolio, which as at 31 December 2017 constituted 42.6%. The relatively small share of the loan portfolio in the banking sector's assets denotes that banks have excessive liquidity, which reduces their profitability. A larger focus of banks on the financing of the real economy will allow them to obtain higher incomes.

During 2018, both non-performing loans and the loan portfolio had a positive trend. Thus, the balance of non-performing loans decreased by 27.7%, accounting for 12.5% of the loan portfolio, and the loan portfolio increased by 5.9%. Nevertheless, the share of non-performing loans in total loans remains high, credit risk, as during previous years, will continue to be a priority area of the supervisory function in 2019. In this respect, increased attention will be given to the decrease the level of non-performing loans, the modalities for their repayment, as well as the quality of the secondary loan repayment source and the value of credit insurance. At the same time, banks will intensify their efforts to reduce the non-performing loans rate by implementing reduction strategies for non-performing loans, the sale of pledges, the assignment of loans to the third parties etc.

The NBM will also continue to monitor groups of persons/affiliated persons, for real reporting of exposures

and their compliance with the prudential limits set.

IV. Risk associated with information and communication technologies (ICT)

In the field of ICT risks, in 2018 the Regulation on Minimum Requirements for Information and Communication Systems of Banks was approved, being initiated the assessment of licensed banks during the on-site inspections, under the newly approved regulation, prescribing the measures to be taken by banks to remedy the identified risks.

In 2019, the National Bank of Moldova will continue to assess the banks in accordance with the above-mentioned regulation. At the same time, the Risk Assessment Guide for the ICT sector, which will be public for banks, will be developed to keep them abreast of the methodologies applied by the National Bank of Moldova's inspectors in assessing the risks associated with ICT during on-site inspections. Also, the National Bank will transpose into the legislation of the Republic of Moldova the normative acts issued by the European Central Bank related to the assessment and management of ICT risks (e.g. ICT outsourcing risks, cloud services).

V. Anti-money laundering and terrorist financing

Significant efforts were made in 2018 to strengthen the area of prevention and combating money laundering and terrorist financing (PCSBFT) through: a) improving the regulatory framework for the area in the activity of reporting entities supervised by NBM; b) ensuring that a complex external audit in the field of PCSBFT is carried out at all licensed banks, which will allow to assess the adequacy of banks' compliance with the rules in the field and to determine the additional measures that need to be taken to comply with the PCSBFT requirements; c) the initiation by banks of a new process of identifying and assessing the risks of money laundering and terrorist financing and approving action plans to minimize the vulnerabilities and identified threats.

The National Bank of Moldova will continue to take measures aimed to prevent and limit the risk associated with preventing and combating money laundering and terrorist financing by supervising the reporting entities in the planned inspections and will contribute to the improvement of the internal procedures and the off-site supervisory mechanism, by implementing an IT solution, to determine and ensure the capability of supervised entities to adequately identify and assess the risks of money laundering and terrorist financing.

At the same time, the National Bank of Moldova will combine its efforts and prepare the necessary materials to support the MONEYVAL Evaluation Report and the efficient subsequent implementation of the recommendations in the report. It will also undertake appropriate measures to supervise the proper implementation of the requirements for the prevention and combating of money laundering and terrorist financing in the context of the voluntary declaration and tax incentive process.

Thanks to the support provided by the European Union through the TWINNING project in the field of combating money laundering and terrorist financing, the National Bank will strengthen and develop the supervision mechanism of the reporting entities, taking into account the new requirements of the normative acts, including the implementation of robust internal procedures, assessing the risks to which entities are exposed, through continuous training and information on new trends and typologies in the area.

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2018

- Bank Supervision Priorities of the National Bank of Moldova for 2018 [1]

2017

- Bank Supervision Priorities of the National Bank of Moldova for 2017 [2]

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