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Bank Supervision Priorities of the National Bank of Moldova for 2018

The National Bank of Moldova is responsible for licensing, supervision and regulation of banks' activities. When carrying out its duties, the National Bank of Moldova is guided by highest standards of integrity, professionalism and impartiality. As from 2018, the banking activity will be carried out in compliance with Basel III requirements, which will be implemented by stages till 2020. The normative framework changes will ensure the development of the banking sector by strengthening the internal governance, the reporting by banks of all risks along with the maintenance of an adequate capital, both qualitatively and quantitatively, and will foster the supply of safer and more qualitative financial services.

The reforms in banking supervision are aimed at strengthening and consolidating the banking sector as a whole, as well of each bank – preconditions for resumption of real sector financing and for ensuring the sustainable economic growth in the country.

Following the assessment of the main risks and challenges related to banking activity, taking into account the latest economic developments, of the amendments to banking regulation and supervision in the context of the Association Agreement between the Republic of Moldova and the European Union, as well of the actions agreed with the International Monetary Fund, there have been established the main fields and risks on which the banking supervision process will focus on in 2018.

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

1. **Transparency of shareholders**
2. **Implementation of BASEL III requirements by focusing on the bank's internal governance and risk management.**
3. **Credit risk**
4. **Exposures to affiliated persons**
5. **Risk associated with information and communication technologies (ICT)**
6. **Anti-money laundering and terrorist financing**

I. Transparency of shareholders

Transparency of shareholders is one of the basic element for establishing a sound corporate governance in the banking sector and for attracting investors that meet high quality requirements.

During 2017, the National Bank, in exercising its duty of monitoring the shareholders' transparency, imposed sanctions in the form of fines to certain holders of qualifying holdings in the share capital of two

licensed banks.

In 2018, the National Bank will continue the previously initiated transparency exercise and will cooperate with the State competent institutions and foreign supervisory authorities to finalize the control of all ultimate owners of the Moldovan banks. In particular, the National Bank will continue to make consolidated effort in order to ensure that the shares of the largest banks to be held by the investors who meet the quality and transparency criteria.

II. Implementation of BASEL III requirements by focusing on the bank's internal governance and risk management.

a) Verification of the banks' activity compliance with the new prudential standards (Pillar I)

Another priority is the verification during on-site inspections and from the available off-site information on the banks' activity compliance with the legal provisions in the context of BASEL III standards implementation. Thus, the reports submitted by banks according to the COREP/FINREP reporting framework and the compliance of the internal regulations developed in the context of the new legislative framework will be verified.

b) Supervision and evaluation process (Pillar II)

The National Bank of Moldova will ensure the verification of the management framework of the activity, strategies, processes and mechanisms implemented by each bank in order to comply with the provisions of the new Law and of the normative acts issued for its application and will carry out its own assessment of the risks to which the banks are exposed.

At the same time, the NBM will require the banks to have a rigorous activity management framework that includes a clear organizational structure with well-defined, transparent and coherent lines of responsibility, effective processes for identification, management, monitoring and reporting of risks to which it is or may be exposed, a risk capital adequacy assessment (ICAAP) process, stress tests, adequate internal control mechanisms, including rigorous administrative and accounting procedures. An increased attention will be granted to the banks' management decisions, to the existence of banks' specialized committees, to the collective and individual compliance of knowledge and skills of the governing members, persons with key positions, etc. At the first stage, the NBM required all banks to carry out a self-assessment of the corporate governance and to take all necessary measures to comply with the legal framework.

III. Credit Risk

Within the assets' structure, the loans portfolio held the largest share, accounting for 42.3 percent as of 31 December 2017. The year 2017 was characterized by problems related to high share of non-performing loans in total loans (18.5 percent).

Thus, as in the previous year, in 2018, the credit risk continues to be the most significant and important field of supervision priorities. A particular attention will be granted to the creation in time of discounts for losses of assets and contingent liabilities, decrease in non-performing loans level, to the management and collateral assessment practices, and to the renegotiation policies of existing loans.

The National Bank of Moldova will also assess the credit risk management framework analysing

thoroughly the procedures, policies, strategies and practices of banks in the context of its identification, quantification, monitoring and diminishing in time.

At the same time, the NBM will make on daily basis off-site controls of each bank's loan portfolio based on the Credit Risk Register to supervise and identify the imprudent practices.

Also, the identification of the groups of persons acting in concert will be continuously conducted in order to report the actual "large" exposures and their compliance with the established prudential limits.

IV. Exposures to affiliated persons

During 2017, the National Bank of Moldova intensified its efforts to identify the affiliated persons to banks. In this context, the implementation of amendments to the Regulation on transactions of a bank with its affiliated persons contributed to the banks' efforts to identify accurately their affiliated persons and their transactions. At the same time, the NBM was given the right to presume the affiliated persons to banks. Additionally, the Credit Risk Register has been adjusted, which made possible the collection of the presumption features in a single database during on-site inspections. \

During 2017, the analysis of the exposures to affiliated persons at three largest banks was conducted with the assistance of an international audit company, while the analyses of exposures in non-systemic banks are carried out by NBM experts during the complex on-site inspections.

In 2018, the National Bank will continue the process of affiliated persons' identification and the examination of bank's transactions with them (including with those that have certain features indicating a possible affiliation), which will facilitate the pursuit of compliance by banks of the legal provisions related to these transactions, including the prudential limits related to exposures to them. The National Bank of Moldova will also develop a guide on related party risk management in order to help the banks in strengthening their internal processes. Additionally, the NBM will adopt the internal methodology and procedures for the situations in which the bank's exposure to affiliated parties is presumed. Based on these measures and the results of the related parties' assessment performed, the banks will be required to submit action plans with concreate implementation deadlines to ensure full compliance with the decisions adopted by the Executive Board of the NBM aiming to improve the situation related to affiliated parties.

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

The risk associated with information and communication technologies (ICT), especially the cyber risk, remains one of the basic priorities of supervision for 2018, as its materialization may lead to interruption of banking activity, to compromising of information confidentiality and integrity. These risks may generate significant expenditures and influence negatively the bank's image.

In connection with the continuous development of the above, in order to ensure the information safety, clients/bank protection -from possible frauds, cyber-attacks prevention of, the National Bank of Moldova required the licensed banks to perform a complex external audit in the ICT field in 2017 and submit the results by 31 March 2018. In order to ensure an uniform conduct of this exercise for all banks, the National Bank of Moldova developed a set of minimum requirements for the areas to be evaluated and the main processes on which their views will be presented.

The complex external audit in the ICT field will allow to assess the adequacy of information systems and continuity of activity and will determine whether a bank has an information security management system (SMS) in compliance with the legal and regulatory acts (including the NBM recommendations) in the field of information technologies and information security in force. In the future, the NBM will continue to undertake measures to prevent and limit the risk associated with information and communication technologies (ICT).

VI. Anti-money laundering and terrorist financing

During 2018, the NBM will focus on implementing the requirements of the new Law on prevention and combating money laundering and terrorist financing, approved on 22 December 2017 and will ensure the amendment of the secondary regulatory framework, in particular, of the regulations and recommendations related to this field. At the same time, the NBM will implement its actions under the Plan of Measures approved by the Government Decision in 2017 to reduce the risks identified in the field of anti-money laundering and terrorist financing.

The NBM will also verify the compliance of banks and other monitored entities with the legislation in the field, the proper application of customer awareness policies and of enhanced safeguards measurers, the transactions monitoring etc. and will inform in due time the authority responsible for prevention and combating money laundering and terrorist financing about the identified risks.

At the same time, the National Bank will undertake supervision measures so that the monitored banks and entities strengthen their internal control system in order to ensure their capacity to identify and assess adequately the risks of money laundering and terrorist financing. In this context, appropriate trainings will be organized and necessary materials and information will be provided to help the identification of the money laundering and terrorist financing typologies. Additionally, the NBM will continue its efforts to improve remote supervision by implementing an IT tool and will intensify on-site inspections in order to determine the compliance degree of monitored banks and entities with the rules on prevention and combating money laundering and terrorist financing.

It should be mentioned that the priority areas and the risks listed above, on which the NBM supervision will focus, do not represent an exhaustive list. The National Bank of Moldova is permanently carrying out current supervision activities in order to detect the risks at an early stage. The control and supervision activities are systematically personalized depending on the inherent risks of each bank.

2017

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