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Financial situation of the banking sector in the first quarter of 2020

During the first quarter of 2020, 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. At the same time, starting with March 2020, taking into account the effects of the COVID-19 pandemic, in order to maintain the stability of the banking sector and encourage banks to work with their debtors to ensure optimal loan repayment conditions, the NBM took a series of actions in accordance with the powers provided by law (link).

As of 31.03.2020, 11 banks licensed by the National Bank of Moldova were operating in the Republic of Moldova. The 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 taking concerted actions, who acquired and possessed a qualified holding in the share capital of the bank amounting to 52,55%, without prior approval in written form by the NBM.

During this period, there continued the trend of consolidating own funds and increasing assets, loan portfolio and deposits of individuals. The banking sector has a high level of liquidity. At the same time, the profit obtained in the first 3 months of 2020 registered a decrease compared to the similar period of the previous year, while decreasing the volume of deposits of legal entities.

The actions undertaken by the National Bank of Moldova regarding the licensed banks, during the first quarter of 2020

B.C. „Moldindconbank" S.A.

Starting with 11.02.2020, the Executive Board of the National Bank of Moldova decided to lift the early intervention regime of the B.C. „Moldindconbank" S.A.

The decision was approved following the restoration of the functionality of the statutory management bodies. The bank's Board became operational on 02.12.2019, and the Council of administration on 11.02.2020.

B.C. „ENERGBANK" S.A.

Regarding the exposure for sale on the regulated market of newly issued and registered shares on the bank's account, as separate shares (9.6% of the bank's share capital or 192 089 shares), during the period 02.01.2020 - 31.01.2020 they were exposed for sale at a price of 146 MDL per share, and in the period 03.02.2020 - 03.03.2020 at a price of 109.5 MDL per share. For the recent period between 04.03.2020 - 03.04.2020, the shares were exposed for sale at the price of 76.65 MDL per share. At the same time, in the context of Provision no. 4 of 24.03.2020 of the Commission for Exceptional Situations of the Republic of Moldova, the term of exposure for sale as separate shares on the regulated market was modified, from 03.04.2020

(inclusive) to 25.05.2020 (inclusive).

At the same time, on 20.12.2019, the NBM ordered the extension of the alienation term by 3 months by a shareholder of the B.C. „ENERGBANK" S.A. of shares (9.98%) held without the prior written approval of the NBM (deadline - 24.03.2020). Subsequently, considering the meeting of the necessary conditions, on 24.03.2020, the NBM extended the respective term by another 3 months (until 24.06.2020).

Regarding the findings on the concerted activity of the bank's shareholders, on 17.02.2020, the NBM extended by another 3 months the term of exposure for sale of the 3 newly issued share sets, in a cumulative amount of 39.82% of the share capital of the bank, until 19.05.2020.

On 10.04.2020, the Executive Board of the National Bank of Moldova decided to extend until 11.10.2020 the term of appointment of the temporary administrators of B.C. „ENERGBANK" S.A.

„Banca de Finanţe şi Comerţ" S.A.

Pursuant to the decision of the bank's management body from 05.03.2020, „FinComBank" S.A. announced, starting with March 6, 2020, the cessation of the process in the 4th month of exposure for sale on the regulated market of the shares of the XX issue of the bank as "separate shares", in connection with the seizure order on the sale process in the criminal case.

At the same time, during the first quarter, a bank was sanctioned in the form of a warning, following the results of the on-site inspection. The application of the warning was determined by the finding of violations and shortcomings regarding the bank's management framework, including erroneous reporting to the NBM on the implementation of the previous inspection action plan, as well as, non-compliance with information security management system requirements.

The financial situation of the banking sector and compliance with prudential regulations

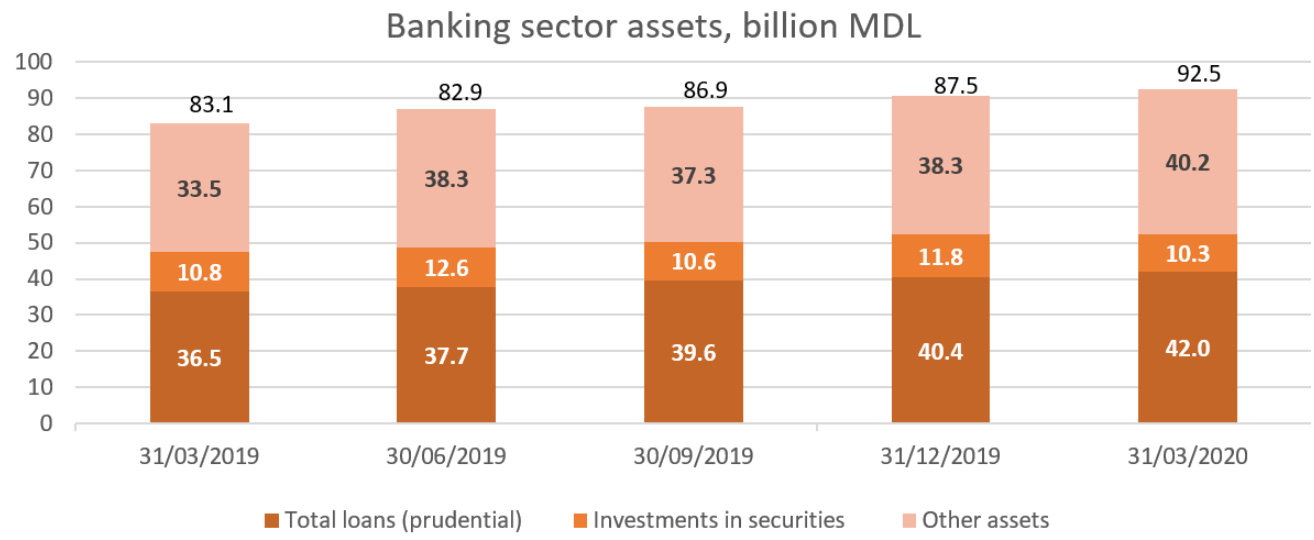
On 31.03.2020, the situation in the banking sector, reflected on the basis of the reports submitted by the banks, registered the following trends:

Assets and liabilities

Total assets amounted to 92.5 billion MDL, increasing during the first quarter of 2020 by 2.1% (1.9 billion MDL).

The gross (prudential) balance of loans constituted 45.4% of the total assets or 42.0 billion MDL, increasing during the analyzed period by 4.1% (1.7 billion MDL). At the same time, the volume of new loans granted during the first quarter of 2020 increased by 3.5% compared to the same period of the previous year.

The largest increases in the loan portfolio were recorded in loans granted to trade - by 4.6% (438.3 million MDL) and in loans granted for the purchase / construction of real estate - by 5.5% (340.9 million MDL).

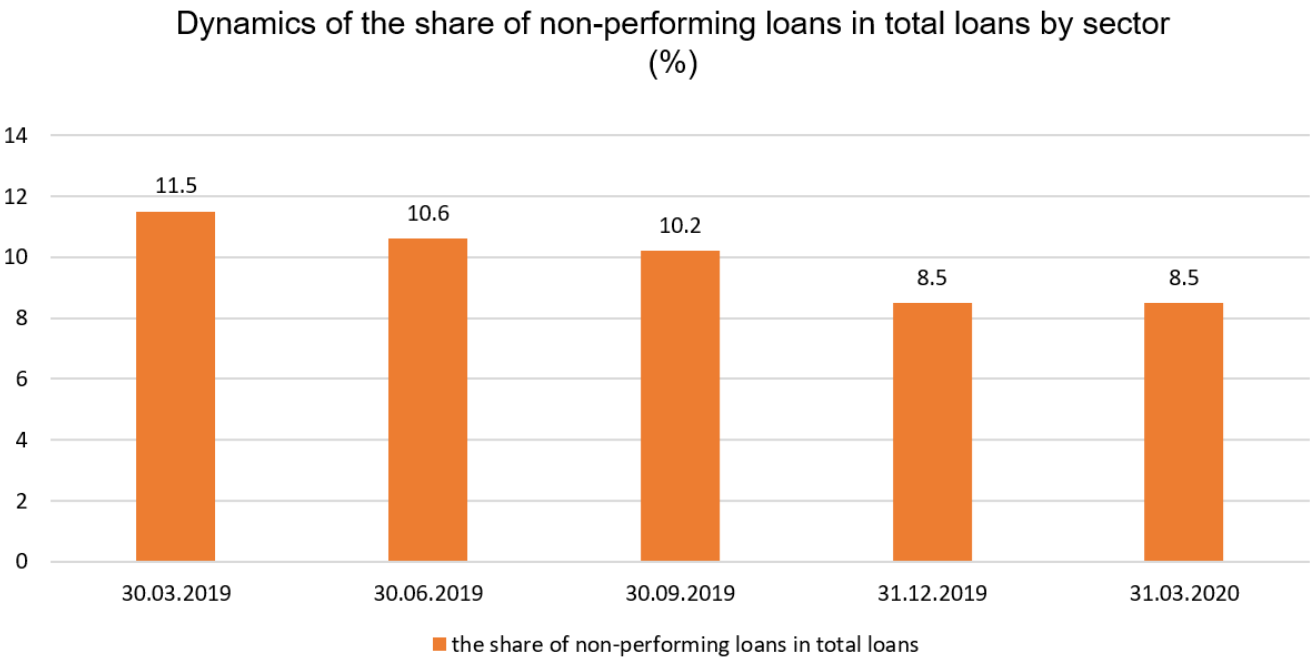


Investments in securities (National Bank certificates and state securities) had a share of 11.1% (10.3 billion MDL) of total assets, being 1.9 percentage points lower compared to the end of 2019.

The other assets, which constitute 43.5%, are maintained by banks in the accounts opened with the National Bank, in other banks and in cash.

During the reference period, the share of non-performing loans (substandard, doubtful and compromised) in total loans was at the same level compared to the end of 2019, amounting to 8.5% on 31.03.2020, the indicator ranging from 4.6% to at 19.9% depending on the bank.

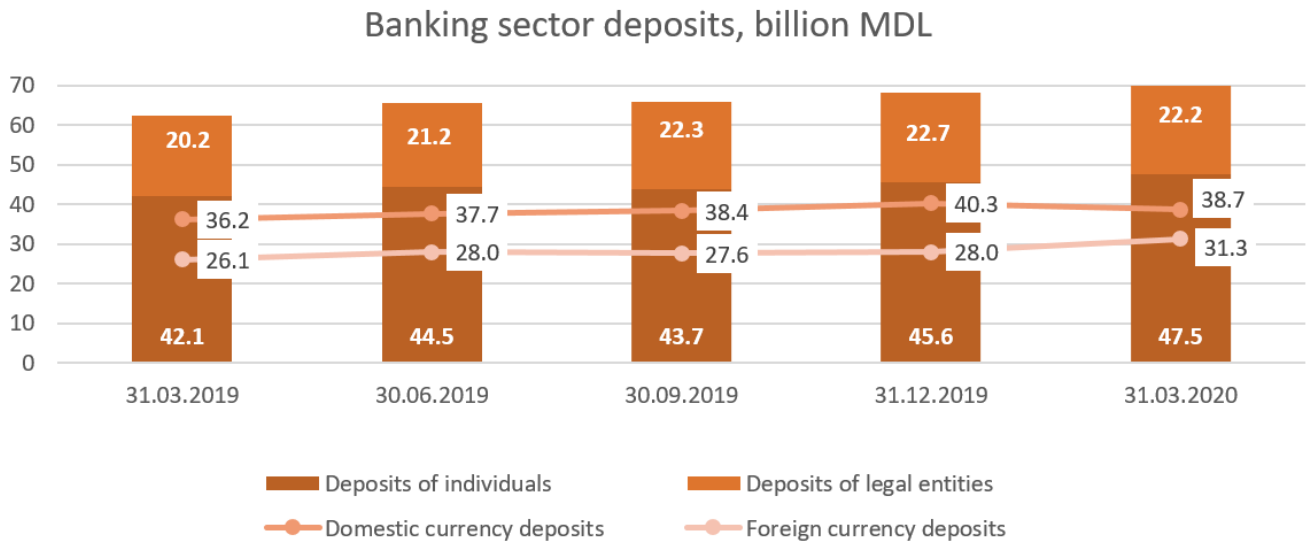
At the same time, it should be mentioned that non-performing loans in absolute value increased by 4.0% (136.8 million MDL), amounting to 3.6 billion MDL.



At the same time, there was a tendency to increase the balance of deposits. According to prudential reports, they increased by 2.5% in the reference period, amounting to 70.0 billion MDL (deposits of individuals accounted for 67.8% of total deposits, deposits of legal entities – 31.9% and bank deposits – 0.3%). The largest impact on the increase in the balance of deposits had the increase of deposits of individuals by 1.9 billion

MDL (4.2%) and bank deposits by 72.1 million MDL (74.5%) to 169.0 million MDL.

Of the total deposits, 55.3% returned to deposits in MDL, their balance decreased by 1.6 billion MDL (4.0%), amounting to 38.7 billion MDL on 31.03.2020. Foreign currency deposits accounted for 44.7% of total deposits, their balance increased during the reference period by 3.3 billion MDL (11.9%), amounting to 31.3 billion MDL. The increase was determined by the attraction of foreign currency deposits, the equivalent of 1.9 billion MDL and, at the same time, by the exchange rate difference that made up (+1.3) billion MDL.



Income and profitability

On 31.03.2020, the profit on the banking system amounted to 432.2 million MDL, decreasing by 17.9% (94.5 million MDL) compared to the similar period of the previous year.

The decrease in profit is largely determined by the increase in non-interest expenses by 26.0% (219.4 million MDL), mainly due to the increase in impairment losses on financial assets. At the same time, interest expenses increased by 7.5% (25.3 million MDL).

Interest income increased by 6.1% (64.9 million MDL), as a result of the increase in the loan portfolio. Non-interest income increased by 13.2% (85.3 million MDL).

Total income amounted to 1.8 billion MDL, of which interest income – 60.7% (1.1 billion MDL), and non-interest income – 39.3% (0.7 billion MDL). At the same time, total expenditures amounted to 1.4 billion MDL, including interest expenses – 25.5% (0.3 billion MDL) of total expenses, and non-interest expenses – 74.5% (1.1 billion MDL) of total expenditure.

On 31.03.2020, the return on assets and the return on capital constituted 1.8% and 10.4%, respectively, decreasing by 0.7 percentage points and, respectively, by 4.2 percentage points compared to the end of the previous year.

Compliance with prudential requirements

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

Thus, the value of the long-term liquidity indicator (principle I of liquidity) was 0.7 (limit ≤1), being at the same level compared to the end of 2019.

Current liquidity by sector (principle II of liquidity) decreased by 0.4 percentage points, amounting to 50.3% (limit ≥20%), more than half of the assets of the banking sector being concentrated in liquid assets. It should be mentioned that the largest shares in liquid assets are held by deposits with the NBM – 47.1%, liquid securities – 22.3% and net interbank funds – 20.9%. During 2020, the share of deposits with the NBM increased by 1.5 percentage points and net interbank funds by 3,7 percentage points. At the same time, the share of liquid securities decreased by 3,4 percentage points.

Liquidity principle III, which represents the ratio between the adjusted effective liquidity and the required liquidity on each maturity band and which must not be less than 1 on each maturity band, has been complied with by all banks.

According to the reports presented by the banks as of 31.03.2020, the rate of total own funds on the banking sector registered the value of 24.9%, decreasing by 0.3 percentage points compared to the end of the previous year. The regulated limit was observed by each bank and varied between 18.7% and 48.4%.

As of 31.03.2020, the total own funds amounted to 11.8 billion MDL and registered an increase of 2.4% (270.3 million MDL) during the mentioned period. The increase of own funds was determined, in particular, as a result of the inclusion by a bank in the calculation of own funds of the profit for the first six months of 2019 (as a result of the NBM's permission).

As of 31.03.2020, banks complied with prudential indicators regarding large exposures and exposures to their affiliates.

At the same time, in two banks, the ratio between the indicator of the aggregate value of credit exposures to customers or a group of related customers, which is the first ten credit exposures by size, and the total loan portfolio is higher than the prudential limit of 30% percent. Given that banks maintain the additional own funds requirement for that surplus, exceeding the 30% limit is not a breach.

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

During the first quarter of 2020, in order to apply the provisions of Law no. 202/2017 on the activity of banks, the National Bank of Moldova:

- Approved the Regulation on outsourcing the bank's activities and operations, which contributes to better management in the field of outsourcing and, implicitly, the associated risks, therefore, banks will apply higher stringency to the evaluation of the supplier, will adapt to the requirements of chain outsourcing and will carry out the external audit only on the outsourced activities of material importance.
- Approved the Regulation on liquidity requirements for banks, which sets out the composition of banks' liquidity reserves and the eligibility of bank assets to be considered liquid assets, the methodology for calculating net cash outflows, and the maintenance by banks of adequate levels of liquidity reserves to deal with possible imbalances between liquidity inflows and outflows in short-term crisis situations. The regulation transposes the best practices for regulating the international financial-banking markets. It should be mentioned that the liquidity coverage indicator will replace the current liquidity indicator which, until 01.01.2022, will be monitored and reported to the NBM in parallel.
- Approved amendments to the Instruction on the submission of COREP reports by the banks, for supervisory purposes, in order to regulate the reporting related to the requirements to cover the liquidity requirement.
- Alignment of the banking legislation of the Republic of Moldova with international standards by

improving the quantitative and qualitative mechanisms of bank management 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, as well as for depositors and customers, in the development of new financial products and services.

Vezi și

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