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Financial situation of the banking system in the first quarter of 2016

During the first quarter I of 2016, the capital increased due to recording a higher profit in the analysed period. At the same time, lending activity recorded a slowdown, while the banking sector remained to be vulnerable and dependant on the internal and external environment.

As at 31.03.2016, the banking sector of the Republic of Moldova included 11 banks licensed by the National Bank of Moldova, of which 4 are branches of foreign banks and financial groups.

Following the detection of some issues related to non-transparent shareholder structure, involvement in high risk lending operations, the National Bank of Moldova, in accordance with the Law on Financial Institutions established special supervision on 11.06.2015 for a period of 3 months over 3 banks (BC „Moldindconbank" S.A., B.C. „VICTORIABANK" S.A. and BC „MOLDOVA - AGROINDBANK" S.A., which hold together 66.2 percent of banking sector assets). Subsequently, on 12.09.2015, 14.12.2015, and 09.03.2016 respectively, the National Bank established special supervision for another 3 months, following the persistence of previously identified issues related to the transparency of shareholders' structure and involvement in high risk transactions.

During the first quarter of 2016, the situation of the banking sector reflected in the reports submitted by licensed banks according to the legislation in force recorded the following trends.

As of 31.03.2016, Tier I capital was MDL 9,369.1 million, increasing by MDL 382.5 million (4.3 percent) during the first quarter of 2016. Tier I capital increase was driven by the profit i obtained in the first quarter of 2016. Simultaneously, the calculated amount but unreserved of the allowances for impairment losses on assets and conditional commitments decreased by MDL 98.1 million and net intangible assets by MDL 5.5 million. As of 31.03.2016, the Tier I capital of all banks complied with the minimum level of required capital (minimum required level is ≥ MDL 200 million).

Average risk-weighted capital adequacy on the system was 27.8 percent, increasing by 1.6 percentage points compared to the end of the previous year.

It should be mentioned that as of 31.03.2016 all banks complied with the average risk-weighted capital adequacy indicator (the limit for each bank is ≥16 percent), ranging between 19.5 percent and 168.9 percent.

Taking into account the current difficult economic and financial conditions, banks are to adopt a capitalisation policy, including with respect to the distribution of dividends based on conservative and prudent assumptions, so that after their distribution, banks can continue to meet all capital requirements if economic and financial conditions worsen and in a short period of time to prepare to comply with the new regulatory framework, based on international capital standards of Basel III that are more demanding and require extra effort from the institution and its shareholders.

As of 31.03.2016, the share of foreign investments in the capital of banks was 83.2 percent, almost at the level of the end of last year. Although the share of foreign investment is significant, the lack of transparency in shareholders' structure is a red-line issue for Moldovan banks. Thus, the National Bank of Moldova examines, monitors and takes relevant measures to ensure the transparency of shareholders' structure, while monitoring shareholders' compliance with the requirements set forth by the legislation in force.

Thus, the National Bank found in the first quarter of 2016 that a group of shareholders of one of the banks act in concert in relation to the respective bank and purchased a qualifying holding in the share capital of the bank without a prior written permission of the National Bank.

As a result, the National Bank of Moldova has suspended the rights related to the shares held by the respective shareholders and informed them about the obligation to sell within 3 months from the date of detection, the qualifying holding acquired with the violation of the legislation in force.

The total assets of the sector were MDL 69,662.1 million in the first quarter of 2016, increasing by MDL 567.7 million (0.8 percent) compared with the end of the previous year.

As of 31.03.2016, gross credit portfolio was MDL 37,851.2 million, decreasing by MDL 335.4 million (0.9 percent) in the first quarter of 2016 and the total volume of new granted credits in the first quarter of 2016 decreased by 14.0 percent compared to the same period of the previous year of MDL 5,152.5 million.

This decrease is determined by the economic difficulties, lack of demand for credits and their high average interest rate. the above-mentioned factors led to redirection of bank's investment. Thus, investment in securities increased by 22.1 percent up to MDL 4,595.9 million in the analysed period.

The balance of non-performing loans (substandard, doubtful and loss) increased in absolute value by MDL 401.2 million (10.6 percent), representing MDL 4,199.8 million, while the share of non-performing loans in total loans increased by 1.1 percentage points compared to the end of the previous year, amounting to 11.1 percent on 31.03.2016. The share of net non-performing loans in total regulatory capital increased by 0.6 percentage points, amounting to 15.7 percent as at 31.03.2016. The increase in non-performing loans is determined by both the situation of the real economy and the requirements imposed by the NBM with regard to the adequate reflection of asset-related risks in bank's balance sheet.

As of 31.03.2016, the profit of the banking sector for the period accounted for MDL 473.1 million. Compared to the same period of the previous year, the profit increased by 4.4 percent due to the increase in interest related income by 52.3 percent. Simultaneously, the interest related income decreased by 27.0 percent, while the interest related expenses increased by 58.4 percent and non-interest related expenses by 9.5 percent.

Return on assets and return on equity represented 2.6 percent and 15.8 percent as on 31.03.2016, increasing by 0.5 percentage points and 3.1 percentage points compared to 31.12.2015.

Long-term liquidity (principle I of liquidity) accounted for 0.7, remaining at the same level compared to the end of the previous year.

Current liquidity on the sector (principle II of liquidity) increased by 0.8 percentage points, amounting to 42.3 percent. It should be mentioned that the highest increase in liquid assets structure in the first quarter of 2016 was recorded by liquid securities by 32.9 percent.

The balance of deposits, according to prudential reports as of 31.03.2016, decreased by 0.3 percent in the first

quarter of 2016 up to MDL 50,072.0 million, as a result of the decrease in deposits of legal entities by 5.7 percent up to MDL 14,168.4 million and deposits of banks by 37.2 percent up to MDL 102.2 million. The balance of deposits of individuals increased by 2.2 percent up to MDL 35,801.3 million. At the same time, the volume of total new term deposits decreased by 10.7 percent compared to the same period of the previous year up to MDL 11,306.9 million.

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