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

During the first semester, the banking sector recorded an increase in non-performing loans, but the high level of capital allowed banks to absorb losses generated by this increase. At the same time, the trend of reducing lending has maintained and the banking sector is still dependent on the circumstances of internal and external environment.

As at 30.06.2016, the banking sector of the Republic of Moldova included 11 banks licensed by the National Bank of Moldova (NBM), 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 over 3 banks, BC „MOLDOVA - AGROINDBANK" S.A., BC „Moldindconbank" S.A. and B.C. „VICTORIABANK" S.A., which hold together 65.6 percent of banking sector assets.

NBM prescribed to these banks a diagnostic study by an audit company specialized in this field. Following the results of diagnostic studies, the National Bank of Moldova adopted decisions on remedial measures on the activity of BC „MOLDOVA-AGROINDBANK" S.A. and B.C. „VICTORIABANK" S.A., demanding the removal of all shortcomings identified. The remedial plan on BC „Moldindconbank" S.A. is to be drawn up in August 2016. NBM continues to closely monitor the trends identified within the special supervision, which will still be maintained.

During the reporting period, the situation in the banking sector reflected based on the reports submitted by licensed banks, as required by law, recorded the following trends:

Foreign investment in banks as at 30.06.2016 remained almost at the level recorded at the end of the previous year (82.8 percent). Thus, the National Bank of Moldova will direct its efforts towards examining, monitoring and taking relevant measures to ensure the transparency of shareholders structure and shareholders compliance with the requirements set forth by the legislation in force. To this end, there was established within the NBM a new unit responsible for continuous monitoring of shareholders transparency.

In this context, during the first semester of 2016, the National Bank of Moldova has found that a group of shareholders of BC „MOLDOVA-AGROINDBANK" S.A. act in concert and have acquired a qualifying holding in the bank's capital, without having prior written permission of the NBM. In accordance with Article 15, paragraph (2) of the Law on financial institutions, the rights related to the shares held by the respective shareholders were suspended. National Bank of Moldova has informed the shareholders about the provisions of the Law and their obligations to sell within 3 months from the date of detection the qualifying holding acquired with the violation of the legislation in force. The shareholders whose activity was found to

be in concert have failed to sell their shares within the deadline. Thus, the executive body of BC „MOLDOVA-AGROINDBANK" S.A. canceled the respective shares and issued new ones, which will be put up for auction on Moldova Stock Exchange on 28 September 2016.

National Bank of Moldova imposed sanctions in the form of fines to 5 shareholders of qualifying holding of BC "EuroCreditBank" S.A. for failure to submit the information/documents required to assess the suitability of the shareholders and their compliance with the requirements stipulated by the normative acts/law in force, which creates impediments to the National Bank to identify the beneficial owners of holders of qualifying holdings.

At the same time, in order to restore the corporate governance and to complete the Board of B.C. „VICTORIABANK" S.A., National Bank called for the extraordinary general meeting of shareholders and the submission of dossiers of new appointed candidates.

During the reporting period, total assets of the sector were MDL 70,578.6 million, increasing by 2.6 percent (MDL 1,788.4 million) compared with the end of the previous year.

Gross loan portfolio amounted to only 52.8 percent as of 30.06.2016 in total assets or MDL 37,236.3 million, decreasing during the first semester of 2016 by 2.5 percent. At the same time, the volume of total new credits decreased by 15.0 percent compared to the same period of the previous year, up to MDL 10,897.0 million.

This decrease is due to the economic situation in the country, lack of demand for loans and the high average interest rate on loans. The above-mentioned factors led to redirection of bank's investment. Thus, during the analysed period, investments in securities (National Bank certificates and government securities with maturities greater than 35 days) have increased by 28.1 percent, representing 12.8 percent of total assets.

During the first semester of 2016, the share of non-performing loans (substandard, doubtful and loss) in total loans increased by 6.2 percentage points compared to the end of last year, constituting 16.1 percent per system as at 30.06.2016. The largest upward dynamics of non-performing loans were made by banks under special supervision, including as a result of the requirements issued by the National Bank of Moldova on the reclassification of loans, given the prudential approach applied by the NBM. It should be mentioned that most reclassified loans were granted previously to the established of special supervision by the NBM.

The share of net non-performing loans in total regulatory capital increased by 11.8 percentage points, amounting to 26.8 percent as at 30.06.2016. High level of risk-weighted capital adequacy ratio allowed banks to absorb losses related to deterioration of credit quality. Thus, the average risk weighted capital adequacy ratio was 27.0 percent, up by 0.7 percentage points compared to end of previous year, an indicator respected by all banks (limit per bank ≥16 percent), ranging between 20.0 percent and 145.7 percent.

Tier I capital was MDL 8,700.0 million, decreasing by MDL 3.4 percent (MDL 308.2 million) during the first semester of 2016. Tier I capital decrease was mainly due to the reclassification of loans (increased calculated amount but unreserved of the allowances for impairment losses on assets and contingent liabilities by 48.9 percent (MDL 848.6 million)). It also recorded a capital decrease of MDL 50.0 million, following the acquisition by a bank ("FinComBank" S.A.) of its shares. Simultaneously, undistributed profit and reserves formed from profit rose by MDL 584.2 million (8.7 percent), thus redirecting the profit to capital strengthening.

As of 30.06.2016, the profit of the banking sector for the period accounted for MDL 865.4 million. Compared to the same period of the previous year, the profit increased by 13.3 percent due to the increase in interest related income by 40.9 percent. Simultaneously, non-interest related income increased by 18.0 percent.

Return on assets and return on equity represented 2.4 percent and 14.4 percent as on 30.06.2016, increasing by 0.7 percentage points and 4.2 percentage points.

Compliance by banks with the liquidity indicators and their high level reveals their adequate sources of funding to cover potential needs both on short-term and on long-term.

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 45.0 percent. It should be mentioned that the highest increase in liquid assets structure in the first semester of 2016 was recorded by liquid securities by 79.3 percent.

The balance of deposits, according to prudential reports as of 30.06.2016, increased by 4.0 percent during the reporting period constituted MDL 52,216.1 million. Individuals' deposits had the biggest impact on the increase, which rose by 6.1 percent. The balance of deposits of legal entities decreased by 0.7 percent and the balance of banks' deposits by 20.2 percent.

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