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Financial situation of the banking sector for 2019

During 2019, the National Bank of Moldova (NBM) continued its efforts to ensure sound corporate governance and make the shareholding of the banking sector transparent in order to maintain a stable banking sector and reduce the risks to which banks are exposed.

As of 31 December, 2019, 11 banks licensed by the National Bank of Moldova were operating in the Republic of Moldova. The BC "Moldindconbank" S.A. and BC ENERGBANK S.A. were supervised under the early intervention regime applied on 20 October 2016 and 11 January 2019, following the finding of groups of persons acting concertedly, acquired and possessed a qualified holding in the share capital of banks in the amount of 63.89 percent (BC „Moldindconbank" S.A.) and 52.55 percent respectively (BC „ENERGBANK" S.A.), without the prior written approval of the NBM.

During 2019, the trend of consolidating own funds and increasing assets and loan portfolio continued. It should be noted that, during the reference period, the share of non-performing loans in loan portfolios decreased. The banking sector has a high level of liquidity. The profit obtained in 2019 registered an increase compared to the similar period of the previous year. At the same time, the volume of deposits, especially deposits of individuals, also increased.

The actions of the National Bank of Moldova regarding the licensed banks, undertaken during 2019

BC „MOLDOVA-AGROINDBANK" S.A.

On 4 April 2019, the Executive Board of the National Bank of Moldova ceased the intensive supervision regime of BC "MOLDOVA-AGROINDBANK" S.A. and revoked the measures prescribed during the special supervisory period.

The decision was made after it was found that the bank ensures the transparency of the shareholding structure, following the acquisition of 41.09 percent of the bank's share capital by HEIM PARTNERS LIMITED, consisting of an international consortium of investors: EBRD, Invalda INVL, Horizon Capital. At the same time, from 21 March 2019, the Board of BC "MOLDOVA-AGROINDBANK" S.A. started enforcing its mandate, in the composition elected by the decision of the Ordinary Annual General Meeting of the bank's shareholders from 22 November 2018. On 14 June 2019, the NBM approved the 7th member of the bank's Board, its composition became complete.

BC „MOLDINDCONBANK" S.A.

During 2019, the bank was under early intervention regime.

The early intervention regime on BC „Moldindconbank" S.A. was applied in October 2016, following the finding by the NBM of the concerted activity of a group of persons who acquired and held a substantial share in the bank's share capital in the amount of 63.89 percent, without the prior written permission of the NBM.

According to the law, those actions were to be disposed of within the established deadlines. As they were not sold, in January 2018 they were cancelled, being issued by the bank new shares in the amount of 63.89 percent of the bank's share capital, which were exposed for sale for a period of three months, as a single package, at the initial price set by an international audit firm. The sale deadline was extended several times, the last extension by another three months was established by the decision of the Executive Board of the National Bank of 18 January 2019.

In January 2019, it was adopted the decision of the Executive Board of the NBM on the prior approval for the acquisition by the potential direct purchaser "Doverie – Invest" S.A. from Bulgaria, of qualified holding in a size that reaches or exceeds the level of 50 percent in the share capital of BC "Moldindconbank" S.A.

Subsequently, on 18 March 2019, during the auction held on the regulated market of the Stock Exchange, the company "Doverie-Invest" S.A. purchased 3.173.751 shares of BC „Moldindconbank" S.A., as a single package, at a total value of MDL 764.0 million, exhibited for sale by the Public Property Agency. The registration of the property rights over the respective shares was made on 22 March 2019, thus, "Doverie-Invest" S.A. becomes the majority shareholder with a qualified holding of 63.89 percent in the bank's capital. Subsequently, it acquired another 13.73 percent and 0.013 percent, currently holding 77.63 percent of the total shares issued by BC "Moldindconbank" S.A.

Starting with 11 February 2020, the Executive Board of the National Bank of Moldova decided to cease the early intervention regime of BC „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 December 2019, and the Administration Council on 11 February 2020.

„Banca de Finanţe şi Comerţ" S.A. and BC ''ENERGBANK'' S.A.

Following the process of transparency of the bank shareholders, the Executive Board of the NBM on 11 January 2019 adopted two decisions regarding "Banca de Finanţe şi Comerţ" S.A. and BC ''ENERGBANK'' S.A.

Thus, regarding "Banca de Finanţe şi Comerţ" S.A., the National Bank found that a group of persons acts in concert with the bank, which purchased and owns a qualified holding (substantial share) in the bank's share capital in the amount of 36.15 percent, without the prior written permission of the National Bank, thus, violating the provisions of the Law on the activity of banks. As a result, the law suspended the enforcement of certain rights of these shareholders (voting rights, convening and holding the general meeting of shareholders, to put issues on the agenda, to nominate candidates for members of the board of the company, the body executive and receive dividends). The shareholders in question were to dispose of their shares within the time limits laid down by law.

Regarding BC „ENERGBANK" S.A., the National Bank also found the concerted activity of a group of shareholders with qualified holding in the amount of 52.55 percent in the bank's capital, without the prior written permission of the NBM, becoming incidental the effects of the law on suspension of enforcement of some shareholders' rights. These shareholders were to dispose of the shares held in the share capital of BC

"ENERGBANK" S.A. within the deadlines provided by law.

Also, as a result of the assessment carried out by the National Bank, the Executive Board of the National Bank of Moldova decided on 11 January 2019 to apply measures to suspend the enforcement of rights of a direct shareholder with qualified holding in the amount of 3.98 percent in the capital social of BC „ENERGBANK" S.A., for non-compliance with the requirements regarding the adequacy and financial soundness, provided for in art. 48 of the Law on the activity of banks no. 202 of 06 October 2017. The shareholder concerned was to alienate the shares held in the share capital of BC „ENERGBANK" S.A. within the term provided by the legislation.

Thus, taking into account the size of the package of shares exceeding 50 percent of the bank's capital, the NBM ruled on the application to the BC „ENERGBANK" S.A. of early intervention measures in accordance with the Law on the recovery and resolution of banks. Some of the remaining members of the bank's management body were filled with temporary administrators appointed by the NBM, in order to ensure prudent governance of the bank's activity during the period of solving the deficiencies identified in the bank's ownership structure.

Subsequently, in April 2019, the Executive Board of the National Bank of Moldova decided to extend by three months the term of alienation by the holders of the shares of BC „ENERGBANK" S.A. and, respectively, of "Banca de Finanţe şi Comerţ" S.A.

In July 2019, the term of alienation of the shares held by some shareholders of BC „ENERGBANK" S.A. and of "Banca de Finanţe şi Comerţ" S.A. whose rights have been suspended following the decisions of the NBM's Executive Board.

Thus, the provisions of art. 521 of Law no. 202 of 06.10.2017 on the activity of banks, in the part related to the procedure of cancellation of these shares, as well as the issuance and sale of newly issued shares. By decision of the executive body of BC „ENERGBANK" S.A. and of "Banca de Finanţe şi Comerţ" S.A., the shares with suspended voting rights of "Banca de Finanţe şi Comerţ" S.A. and a part of the suspended voting rights of BC "ENERGBANK" S.A. were cancelled. So, were issued new shares in the same amounts, with the subsequent exposure to sale on the stock market for a period of three months.

For the newly issued shares that were not alienated within three months, the provisions of art. 521, paragraph (15) of Law on the activity of banks no. 202 of 06 October 2017, on the exposure for sale on the regulated market of newly issued shares and registered on the banks' account, as separate shares, for a period of up to six months.

During 2019, several banks were sanctioned with a warning, following the thematic and complex controls performed by the NBM. The warnings were applied due to non-compliance with the requirements of the legislation regarding the classification of assets, obtaining information and documents regarding debtors and indirect owners and beneficial owners of shareholders, auditing outsourced activities / operations, reporting erroneous data to the NBM, and of the deficiencies found in the internal control system, the administration framework, in the fields of preventing and combating money laundering, payment services and payment systems, the reserve requirements regime, the information security management system.

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

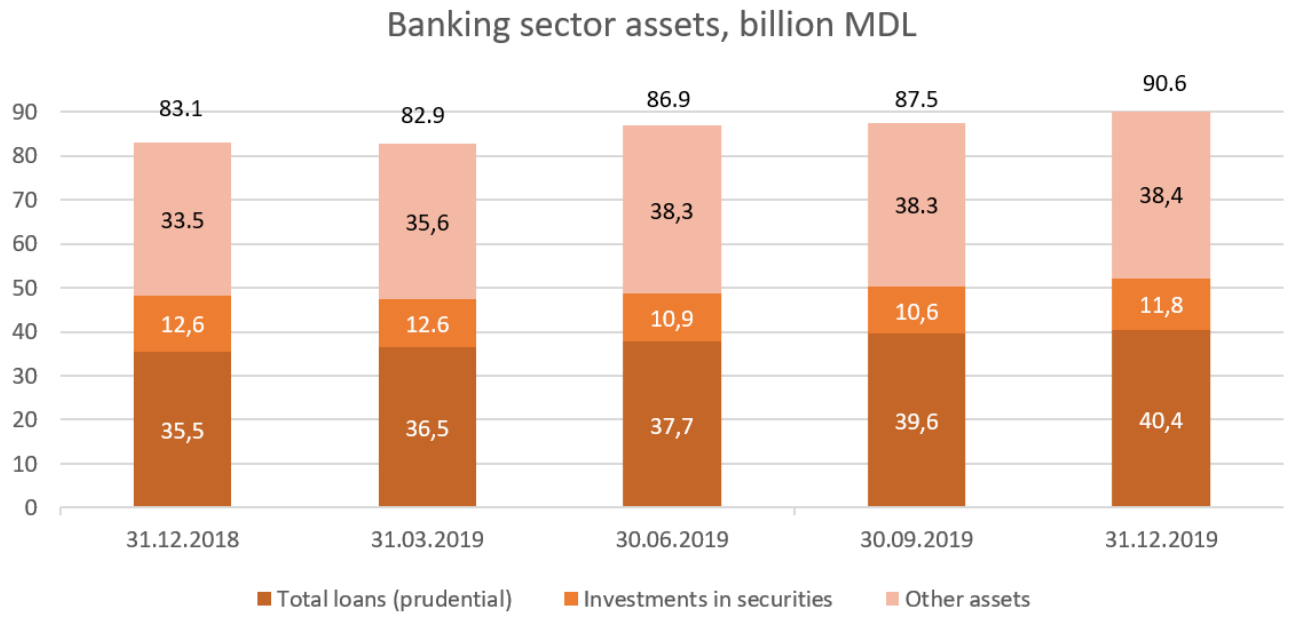
As of 31 December 2019, the situation in the banking sector, reflected on the basis of the reports submitted by the licensed banks, registered the following trends:

Assets and liabilities

The total assets amounted to MDL 90.6 billion, increasing during 2019 by 9.1 percent (MDL 7.5 billion).

The gross (prudential) balance of loans constituted 44.6 percent of total assets or MDL 40.4 billion, increasing during the analysed period by 13.9 percent (MDL 4.9 billion). At the same time, the volume of new loans granted during 2019 increased by 26.2 percent compared to the same period of the previous year.

The largest increases in the loan portfolio were recorded in loans granted for the purchase / construction of real estate - by 58.2 percent (MDL 2.3 billion) and in consumer loans - by 33.1 percent (1.7 billion). At the same time, the National Bank continues to encourage banks to focus more on financing the real economy.

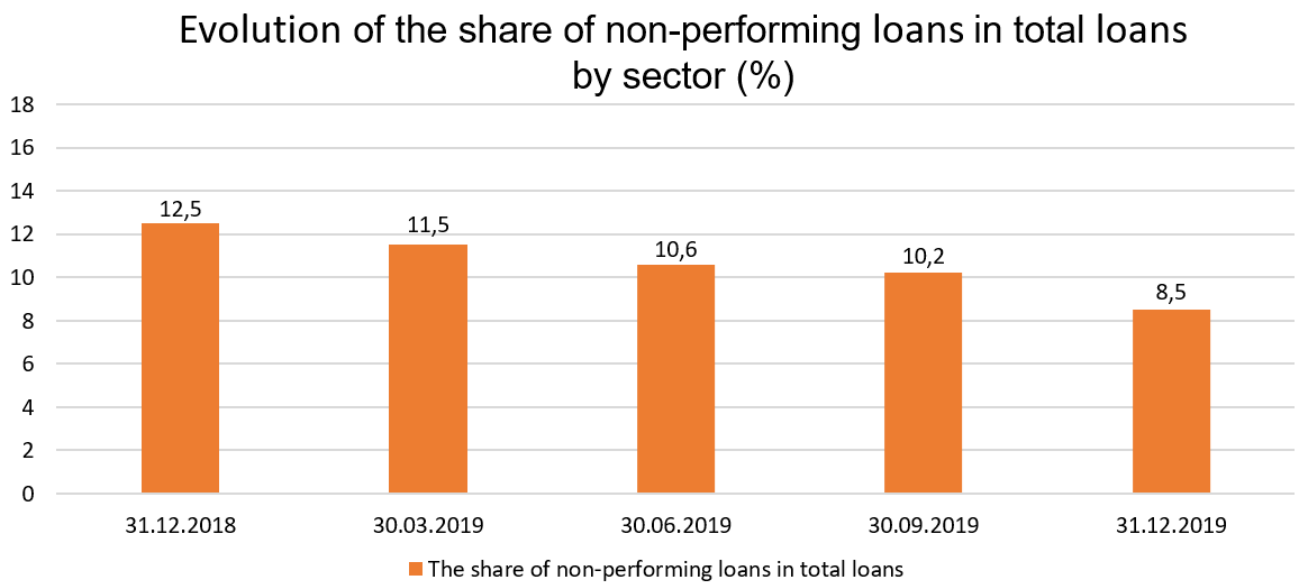


Investments in securities (National Bank certificates and state securities) had a share of 13.0 percent (MDL 11.8 billion) of total assets, being 2.3 percentage points lower compared to the end of 2018.

The rest assets, which amounted to 42.4 percent, are maintained by banks in the accounts opened with the National Bank, in other banks and in cash.

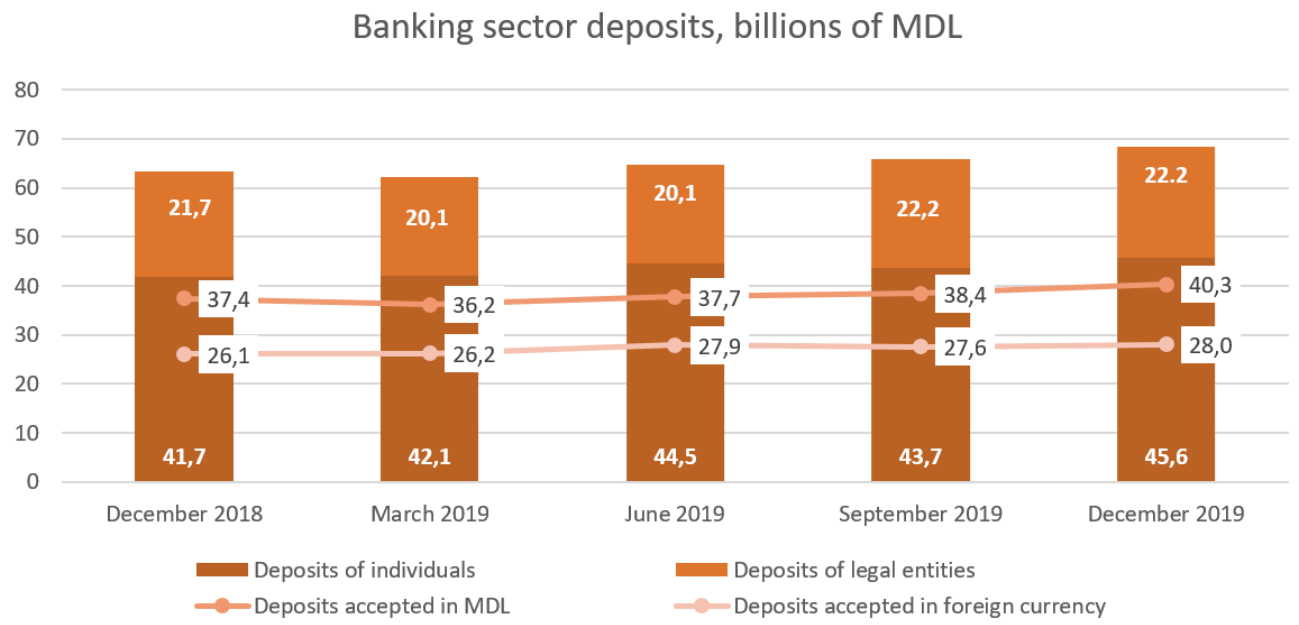
During the reference period, the share of non-performing loans (substandard, doubtful and compromised) in total loans decreased by 4.0 percentage points compared to the end of 2018, constituting 8.5 percent on 31 December 2019. This share decreased in most banks, the indicator ranging from 4.6 percent to 17.9 percent. To a great extent, banks have maintained their tendency to reduce the share of non-performing loans in total loans.

The decrease of the share of non-performing loans in total loans was mainly due to the decrease of the balance of non-performing loans by 22.9 percent (MDL 1.017.0 million), simultaneously with the increase of the gross balance of loans by 13.9 percent (MDL 4.9 billion).



At the same time, there was a tendency to increase the balance of deposits. According to prudential reports, they increased by 7.7 percent in the reference period, amounting to MDL 68.4 billion (deposits of individuals accounted for 66.7 percent of total deposits, deposits of legal entities - 33.2 percent and bank deposits – 0.1 percent). The largest impact on the increase in the balance of deposits had the increase of deposits of individuals by MDL 3.9 billion (9.4 percent) and deposits of legal entities by MDL 0.9 billion (4.5 percent).

Of the total deposits, 59.0 percent returned to deposits in MDL, their balance increased by MDL 3.0 billion (8.0 percent), amounting to MDL 40.3 billion on 31 December 2019. Foreign currency deposits accounted for 41.0 percent of total deposits, their balance increased during the reference period by MDL 1.9 billion (7.3 percent), amounting to MDL 28.0 billion. Thus, foreign currency deposits were attracted, the equivalent of MDL 2.1 billion, at the same time, the exchange rate difference amounted to MDL (-205.0) million.



Income and rentability

On 31 December 2019, the profit on the banking system amounted to MDL 2.3 billion, increasing by 55.5 percent (MDL 805.9 million) compared to the similar period of the previous year.

Total revenues amounted to MDL 7.5 billion, of which interest income - 60.4 percent (MDL 4.5 billion), and non-interest income - 39.6 percent (MDL 2.9 billion). At the same time, total expenditures amounted to MDL 5.2 billion, including interest expenses - 26.8 percent of total expenses (MDL 1.4 billion), and non-interest expenses - 73.2 percent of total expenses (MDL 3.8 billion).

The increase in profit is largely determined by the increase in non-interest income by 12.6 percent or MDL 330.4 million. At the same time, interest income increased by 4.7 percent or MDL 204.4 million as a result of the increase in the credit portfolio.

Interest expenses decreased by 4.3 percent or by MDL 62.2 million. Non-interest expenses decreased by 5.2 percent or MDL 208.9 million as a result of the decrease in depreciation of financial assets and non-financial assets, while increasing depreciation on property, plant and equipment, fees and commissions and administrative expenses.

On 31 December 2019, the return on assets and the return on capital constituted 2.5 percent and 14.6 percent, respectively, being increased by 0.8 percentage points and, respectively, by 4.3 percentage points compared to the end of the previous year.

Compliance with prudential requirements

Banks continue 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 as at the end of 2018.

Current liquidity by sector (principle II of liquidity) decreased by 4.0 percentage points, amounting to 50.6 percent (limit ≥20.0 percent), 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 - 45.6 percent, liquid securities - 25.7 percent and net interbank funds - 17.2 percent. During 2019, the share of deposits with the NBM increased by 2.3 percentage points and cash by 0.3 percentage points At the same time, the share of liquid securities decreased by 2.2 percentage points and the share of net interbank funds by 0.4 percentage points.

Principle III of liquidity, which represents the ratio between the adjusted actual liquidity and the required liquidity on each maturity band, and must not be less than 1 on each maturity band, has been observed by all banks.

According to the reports submitted by the banks as of 31 December 2019, the rate of total own funds on the banking sector registered the value of 25.3 percent, decreasing by 1.2 percentage points compared to the end of the previous year. The regulated limit was observed by each bank and varied between 19.2 percent and 52.0 percent.

As of 31 December 2019, the total own funds amounted to MDL 11.5 billion and registered an increase of 5.6 percent (MDL 612.2 million) during the mentioned period. The increase in equity was mainly due to the reflection by banks of the eligible profit after the general meetings of shareholders.

As of 31 December 2019, banks complied with prudential indicators regarding large exposures and exposures to its affiliates.

At the same time, at a bank, 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. As the bank maintains the additional own funds requirement for that surplus, exceeding the 30 percent limit does not reflect an infringement.

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

During 2019, in order to apply the provisions of Law No. 202/2017 on the activity of banks, the National Bank of Moldova performed the following:

- Approved the Regulation on large exposures, which helps to restrict the concentration of credit risk and therefore to minimize the maximum losses that a bank could incur if the counterparty or group of connected customers who face difficulties in fulfilling the obligations as a debtor.
- Amended the Regulation on the bank's transactions with its affiliates, in order to bring the terms in line with the context of the Regulation on high exposures and to improve the process of presuming certain persons as affiliated to the bank.
- Approved the amendments to the Instruction on the submission of COREP reports by the banks, for supervision purposes and to the Regulation on the open foreign exchange position, in order to adjust the reporting on large exposures and the open foreign exchange position, according to the requirements set out in the regulatory framework and best practices for regulating international financial-banking markets.
- Approved the amendments to the Bank's Liquidity Regulation, in order to adjust the method of calculating the maturity band liquidity indicator (Principle III).
- Approved the Regulation on branches and secondary offices of banks, which establishes the subsequent notification of the opening of branches and secondary offices of banks in the Republic of Moldova and the prior approval of the opening of branches in other countries.
- Approved the amendments to the list of jurisdictions that do not implement international standards of transparency, approved by the Decision of the Board of Directors of the NBM no. 91 from 02.05.2013. The list was completed with 16 jurisdictions. The purpose of the amendments is the non-admission of direct or indirect purchase / acquisition of holdings in a bank in the Republic of Moldova by persons resident in jurisdictions, that do not implement international transparency standards, as well as the non-admission of the establishment on the territory of the Republic of Moldova of the subsidiaries of the banks from the respective jurisdictions.
- Approved the Regulation on the licensing of the bank and its bank subsidiary in another state (new wording), which imposes licensing requirements and procedures for the activities allowed to the bank, a legal entity in the Republic of Moldova, the bank which is a subsidiary of the bank in another state, the bank's subsidiary in another state, as well as the permission to carry out other activities or services, allowed by the National Bank of Moldova, insofar as they are circumscribed to the financial field.

The National Bank of Moldova continues the elaboration of normative acts for the enforcement of Law No. 202/2017 on the activity of banks.

Aligning 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, depositors and customers, in the development of new financial products and services.

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