

THE ANALYSIS OF THE COMMERCIAL BANKING ACTIVITY IN THE REPUBLIC OF MOLDOVA

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Abstract: *Financial analysis of banking activities, using a similar methodology, has different goals depending on the subject of the evaluator. Especially important is the financial analysis of banking activities in taking strategic decisions and the monitoring of their implementation today, when the formation of market relations in the country has passed a certain way in their development, it is however far from the concept - developed market.*

Key words: *commercial bank, assets and liabilities analysis, profit and profitability analysis, liquidity analysis.*

INTRODUCTION

Banks are an integral component of modern money economy, their activities are closely linked to the production needs. Banks form the basis of the market mechanism, through which the country's economy operates. Commercial banks are designed to regulate the movement of all cash flows, primarily credit ones, to promote the most efficient use of financial resources of the society and the movement of capital in those sectors of the economy, where the return on investment is maximum.

Bank management, financial risk management, decision making management - all these processes require banks to have information base, i.e., the framework that enables the development of the bank. This basis is created by the evaluation and monitoring system of the bank, which is based on financial analysis of banking activities.

The value of financial analysis as a tool for assessment and monitoring of banking activities is to obtain by the analyst the data on the state and the reliability of the bank, on what was planned and what was achieved, about the causes of the bank's growth or its decline. In other words, financial analysis is the information base of taking management decisions based on scientific methods and expert assessments.

MATERIALS AND METHODS

The theoretical basis and the methodology of work are legislative acts of the Republic of Moldova, the NBM's regulations, and the studies of such authors as: Grigoritsa K., Batrakova L.G., Valeyko V. and others, materials, articles from scientific periodicals, information and the reports on business activity of the banks in the Republic of Moldova, published on their websites and in the press. We used scientific methods of research, such as synthesis, grouping, comparing and others.

RESULTS AND DISCUSSIONS

Financial analysis of the bank's activities is a system of specialized knowledge related to the study of financial and economic results of operations, identifying the factors,

trends and proportions of economic processes, the rationale directions of the bank development. [4]

The object of the analysis is the commercial activity of each bank and its groupings (according to the territorial, functional or other grounds), the object of study and analysis can also be the banking system of the Republic of Moldova as a whole.

In Moldova, there is a two-tier banking system: the National Bank of Moldova and commercial banks. The number of financial institutions at the second level amounted to 11 commercial banks at the end of 2015.

The financial analysis of banking activities has four main directions:

- Bank's assets and liabilities analysis, i.e., the analysis of the sources of bank funds and the direction of their flow;
- Bank's income and expenses analysis, i.e., the assessment of income and expenditure parts of the income statement;
- Profit and profitability analysis, i.e. the study of the effectiveness of the bank's activities;
- Liquidity analysis.

Let's consider the key performance indicators of the banking sector of the Republic of Moldova for 2014-2015, and present the results in the following table.

Table 1

**The main indicators of commercial banks' activity
for 2014-2015**

Indicators	2014	2015
Tier I capital, thousand lei	7610,8	8996,4
Risk weighted capital adequacy, %	21,7	26,2
Total assets, thousand lei	59978,6	69095,6
Total loans, thousand lei	36619,4	38187,6
Total deposits, thousand lei	41834,6	50201,5
Principle II - current liquidity, %	32,9	41,5
Total profits or (-) loss for / year, thousand lei	930,9	1442,7
Return on assets (ROA), %	1,6	2,1
Return on equity (ROE), %	9,4	12,8

Source: Elaborated by the author on the basis of NBM's data

The National Bank of Moldova withdrew the license for financial activity of Banca de Economii S.A., BC „BANCA SOCIALĂ” S.A., and B.C. „UNIBANK” S.A. and initiated the process of their forced liquidation by the decisions of the Executive Board no.62, no.63, and no. 64 of the National Bank of Moldova of 16.10.2015.

In 2015, the banking sector (except BC „BANCA SOCIALĂ” S.A., Banca de Economii S.A. and BC ”UNIBANK” S.A.) recorded the following trends:

The total assets of the sector were MDL 69095, 6 million, increasing by MDL 9117,0 million (15,2 percent) compared with the end of the previous year.

On 31.12.2015, Tier I capital was MDL 8996, 4 million, increasing by MDL 1385,6 million (18,2 percent) in 2015. The increase of Tier I capital was determined by the profit obtained in 2015 in the amount of MDL 1442,7 million and the reduction in the calculated amount, but unreserved of the allowances for impairment losses on assets and conditional commitments by MDL 51, 7 million. Simultaneously, net intangible assets increased by MDL 20,8 million. Ordinary shares increased by MDL 2, 4 million and capital surplus by MDL 53,9 million. In 2015, three banks distributed dividends in the total amount of MDL 159,1 million. On 31.12.2015, the Tier I capital of all banks complied with the minimum level of required capital (minimum required level is \geq MDL 200 million).

Average risk-weighted capital adequacy on the system was 26, 2 percent, increasing by 4,5 percentage points compared to the end of the previous year.

On 31.12.2015, the share of foreign investments in the capital of banks was 82,9 percent, almost at the level of the end of last year.

Gross loan portfolio amounted to MDL 38187, 6 million on 31.12.2015, increasing by MDL 1568,2 million (4, 3 percent) in 2015.

The balance of non-performing loans (substandard, doubtful and loss) decreased in absolute value by MDL 719,0 million (23,4 percent), representing MDL 3794,4 million, while the share of non-performing loans in total loans increased by 1,5 percentage points compared to the end of the previous year, amounting to 9,9 percent on 31.12.2015. The share of net non-performing loans in total regulatory capital increased by 3,4 percentage points, amounting to 15,1 percent as on 31.12.2015.

Total volume of new loans dropped by 51,5 percent in 2015 as compared to the same period of the previous year and totaled to MDL 25424,3 million. Concomitantly, the total volume of new term deposits accounted to MDL 44838,9 million or by 13, 2 percent more.

On 31.12.2015, the profit of the banking sector for the period accounted to MDL 1442,7 million. Compared to the same period of the previous year, the profit increased by MDL 511,8 million (55,0 percent), as a result of the increase of interest related expenses by MDL 1340,3 million (32,5 percent) and non-interest related income by MDL 944, 4 million (58,9 percent).

Return on assets and return on equity represented 2,1 percent and 12,8 percent on 31.12.2015, increasing by 0,5 percentage points and 3,4 percentage points compared to 31.12.2014.

Long-term liquidity (assets with the reimbursement term over 2 years/financial resources with the potential withdrawal term of over 2 years) accounted to 0,7, which decreased by 0,1 percentage points compared to 31.12.2014.

Current liquidity on the system (liquid assets, expressed in cash, deposits with the NBM, liquid securities, and net interbank credits with maturity up to one month / total assets $\times 100\%$) accounted to 41,5 percent, increasing by 8,6 percentage points.

The balance of deposits, according to prudential reports of 31.12.2015, increased by 20,0 percent in 2015 up to MDL 50201,5 million, as a result of the increase in deposits of individuals by 22,9 percent up to MDL 35017,5 million and deposits of legal entities by 14,6 percent up to MDL 15021,1 million. The balance of deposits of banks decreased by 35,3 percent up to MDL 162,9 million.

As a result of the carried out financial analysis we can conclude that the banking system of the Republic of Moldova shows a steady annual growth and continuous development, as it is evidenced by both the absolute figures: the growth of banks' assets, net profit growth of banks, an increase in loans and deposits, and the relative figures: improving the regulatory liquidity ratios, ROE and ROA. However, it should be noted that despite of the steady growth of the banking sector indicators, the banking system of the Republic of Moldova is still far from being perfect and is in the process of development.

CONCLUSIONS

Banking opportunities are scarce, which prompts most banks to avoid specialization. Corporate banking is the main source of revenues, whereas retail banking plays primarily a funding role. The involvement of banks in financial service such as capital markets, leasing, factoring, or insurance is low. Weak IT systems act as a constraint for developing the range and improving the quality of services available. The top tier private banks have been able to gain some advantage over the ex-state banks in this area.

Moldova's commercial banks are still not fully being utilized. As in other developing countries, tax evasion and a lack of trust in the banking system are partly to blame. The riskiness of loans in Moldova – exacerbated by the continued poor financial situation of many enterprises and a still unclear legal framework – particularly regarding bankruptcy law – adds a significant premium to lending rates charged by commercial banks.

Anyway we see an increasing in the activity of the commercial banks, because the quality of the loan portfolio has improved lately and nowadays a lot of transfer operations are done.

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