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Regulation on assets and conditional commitments classification, approved by the DCA of the NBM no.231 of October 27, 2011

Note: The translation is unofficial, for information purpose only

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COUNCIL OF ADMINISTRATION OF THE NATIONAL BANK OF MOLDOVA

DECISION no.231
of October 27, 2011

On approval of the Regulation
on assets and conditional commitments classification

According to the provisions of Art.5, paragraph 1, letter d), Art.11 (1), Art. 27 letter c) and Art.44 of the Law on National Bank of Moldova no.548-XIII as of July 21, 1995 (Official Monitor of the Republic of Moldova, 1995, no. 56-57, Art. 624), with further amendments and completions, and Art.25, Art.28 paragraph 2, Art. 31 paragraph (3), Art.33 and Art. 40 of the Law on Financial Institutions no.550-XIII from July 21, 1995 (republished in the Official Monitor of the Republic of Moldova, 2011, no.78-81, Art.199), with further amendments and completions, the Council of Administration of the National Bank of Moldova

HAS DECIDED:

1. To approve the Regulation on assets and conditional commitments classification, according to the Annex no.1.
2. To abrogate some decisions of the National Bank of Moldova, according to the Annex no.2.
3. Within three months from the effective date of this Decision, banks shall adjust their activity in accordance with the Regulation referred to in paragraph 1 of this Decision.
4. Assets, written off from the allowances for assets losses account as of December 31, 2011, have been reflected in the off-balance sheet accounts, with their restoration in the balance sheet shall be classified as "compromised".
5. This Decision shall be published in the Official Monitor of the Republic of Moldova and shall enter into force on January 1, 2012.

Chairman
of the Council of Administration

Dorin DRĂGUȚANU

Annex no.1
to the Decision
of the Council of Administration
of National Bank of Moldova
no.231 of October 27, 2011

REGULATION on assets and conditional commitments classification

Amended by:

(compiled version with amendments and completions:

Decision of the CA of the NBM no.301 of December 20, 2012

Decision of the CA of the NBM no.240 of December 9, 2013)

Decision of the CA of the NBM no.131 of May 21, 2015

Decision of the CA of the NBM no.45 of October 01, 2015

I. APPLICATION AND DEFINITIONS

1. This Regulation on assets and conditional commitments classification (hereinafter- Regulation) shall be applied by the authorized banks upon classification and provisioning to the allowance for losses on on-balance assets/ conditional commitments subject to credit risk and namely,

1) on the following assets:

- a) „Nostro” accounts with banks (including the overnight placements that not exceed the repayment term stipulated in the legal act concluded between the parties, the funds representing reserves for settlements with international payment systems);
- b) placements with banks (including the funds representing reserves for settlements with international payments systems);
- c) securities held until maturity;
- d) equity interests;
- e) credits (including the overnight placements that have exceeded the repayment term stipulated in the legal act concluded between the parties, factoring, bills, discounted bills, credit cards, temporary allowed overdrafts, financing of trade transactions, REPO agreements, guarantee-placements with banks, financial lease receivables and other direct credit substitutes (assets with property similar to credits for which risk assessment is done similar to credits);
- f) receivables on capital investments and intangible assets;
- g) receivables for documentary settlements;
- h) receivables for settlements with individuals and legal entities;
- i) assets (goods) transmitted in possession / purchased in exchange for debt repayment;
- j) interest and other amounts calculated and reflected in the accounts of the bank to be received;

2) the following bank's conditional commitments for granting and future investment of funds (except those that may be canceled / revoked unconditionally by the bank according to contracts between the customer and the bank) (hereinafter – conditional commitment):

- a) obligation to purchase securities/ equity shares;
- b) letters of credit and guarantees issued (except letters of credit and guarantees covered with money)
- c) obligation for granting future credits;
- d) drafts accepted;
- e) bills sold with bank's endorsement;
- f) contingent liabilities.

The notions and the essence of assets and conditional commitments categories to which is applied this Regulation shall be determined in accordance with the law and the International Financial Reporting Standards.

(Item 1 amended by the Decision of the NBM no.240 of 09.12.2013)

(Item 1 amended and completed by the Decision of the NBM no.131 of 21.05.2015)

2. For the purposes of this Regulation, the following definitions apply:

- a) past-due asset - assets whose payment for reimbursement / settlement has been made more than 30 days after payment due under the contract. If an asset is expired and its balance is considered past-due;
- b) renegotiated asset - outstanding / unextinguished asset (initially asset), to which, later, under an agreement, were modified terms of past-due payments. For qualifying assets as renegotiated, during the renegotiation of any asset may be set preferential terms by reducing the interest rate and / or the original asset amount (the amount specified in the contract), taking into account the worsening financial situation of the counterparty.
- c) prolonged asset - an asset which term for reimbursement / settlement, established under the contract is extended by agreement. For qualifying an asset as prolonged, the agreement must be signed before the qualification of the asset as expired under the terms of payment specified in the original contract. Determining the expiration of the asset shall be carried out under the original contract and the term "past-due asset";
- d) counterparty - the person who is part of the contract with the bank and has certain obligations related to the bank's assets / conditional commitments subject to credit risk;
- e) payment - the interest or the original amount of the asset and interest, or part of the asset and interest, or part of the asset paid in accordance with the terms and conditions for repayment / settlement of the asset under the contract;
- f) allowance for assets losses and conditional commitments - reserves to absorb estimated losses due to valuation of assets / conditional commitments subject to credit risk.
- g) financial statement - harmonized totality of indicators characterizing the patrimonial and financial statement, the existence and the flow of own capital and that of funds of the entity over a management period, including the complete and/or condensed financial statements set out in Article 29 of the Accounting Law.

(Item 2 amended by the Decision of the NBM no.301 of December 20, 2012)

(Item 2 completed by the Decision of the NBM no.131 of May 21, 2015)

II. ALLOWANCE FOR ASSETS LOSSES AND CONDITIONAL COMMITMENTS

3. Banks are required to establish allowance for assets/conditional commitments losses in the amount provided for in Chapter IV of this Regulation.

4. Banks shall classify the assets and conditional commitments at least on a monthly basis on the last day of the reporting period in accordance with this Regulation and own policy and procedures developed by each bank in compliance with this Regulation.

(Item 4 amended by the Decision of the NBM no.131 of June 21, 2015)

5. The new assets and conditional commitments shall be classified, respectively, at the time of assets occurrence in the bank's balance sheet, while conditional commitments - upon the moment of the contract signing on which basic appears or will appear liabilities recorded in the balance sheet at off-balance accounts. Based on the classification, the required amount of allowance for assets and conditional commitments losses shall be determined in accordance with Chapter IV of this Regulation.

6. Allowance for assets and conditional commitments losses calculated under this Regulation is not reflected in accounting records by income or expense accounts.

7. The difference between the amount of the allowance for assets and conditional commitments losses calculated under this Regulation and balance sheet value of their impairment losses, formed according to International Financial Reporting Standards, will reduce the Tier I capital.

III. CLASSIFICATION OF ASSETS AND CONDITIONAL COMMITMENTS

8. Prior to the assessment of bank's assets and conditional commitments, the value thereof shall be decreased by the insurance amount referred to item 2, paragraph 5) of the Regulation on "large" exposures.

(Item 8 amended by the Decision of the NBM no.240 of December 9, 2013)

9. At the assessments of the assets and conditional commitments, the bank shall take into account at least the followings:

- a) current financial situation of the counterparty assessed from the point of view of the capacity to honor its commitments;
- b) the contractual term's compliance;
- c) counterparty's ability to pay based on developments of the financial history and future estimations of the funds flow;
- d) current trading value of the pledged object and its liquidity degree in the market of the Republic of Moldova;
- e) business environment of the counterparty, economic sector situation where activates and the position within this sector;
- f) credit history on compliance by the counterparty of the obligations assumed by credit contracts;
- g) business plan compliance and technical-economic argument (including further modifications and completions);
- h) financial situation and the ability to pay of the person making a personal guarantee (surety) or of the insurer;
- i) other factors that may affect the compliance by the counterparty of the contractual terms.

(Item 9 amended by the Decision of the NBM no.131 of May 21, 2015)

10. In case of conditional commitments, following the determination of the value thereof pursuant to item 8, the factor of credit transformation shall be applied in compliance with the requirements of the regulations of the National Bank of Moldova for reporting on risk weighted capital adequacy assessment.

11. Following the application of provisions of items 8 and 10, the bank's assets and conditional commitments shall be assessed and further included in one of the following categories:

12. Following assets are not subject to classification:

- a) funds due by National Bank;
- b) funds recorded in "Nostro" accounts and placements with foreign banks rated not lower than A-/A3 by at least one of the following agencies Standard & Poor's, Moody's and Fitch-IBCA, provided that the respective banks are simultaneously residents of countries with the above-mentioned ratings. If the rating assigned to a bank/country varies among agencies, the rating of the agency that assigned the lowest rating shall be taken into consideration;
- c) securities held until maturity, issued by the Ministry of Finance of the Republic of Moldova or those issued by the National Bank (National Bank Certificates) or those issued by the Government of member countries of the Organization for Economic Cooperation and Development (www.oecd.org)^[1] which has rating not less than A-/A3 by at least one of the agencies Standard & Poor's, Fitch-IBCA and Moody's;
- d) receivables for settlements with the budget.

13. Standard asset / conditional commitment.

Asset /conditional commitment shall be considered standard in the event that none of the definitions set out in items 14-17 is applicable and if the following factors persist:

- a) have no expired payments;
- b) all the contractual terms, including requirements of collaterals, are observed;
- c) has not been renegotiated;
- d) financial situation of the counterparty and estimated future funds flows shows a high capacity for implementing its commitments and performance of current and future obligations;
- e) the bank has the updated information on the counterparty's financial situation (at least quarterly) and on the

debt repayment sources, as well as other documents related to counterparty activity;
f) there is no reason to consider that the bank currently or in future will be at risk of losses.

(Item 13 amended by the Decision of the NBM no.301 of December 20, 2012)

(Item 13 completed by the Decision of the NBM no.131 of May 21, 2015)

14. Supervised asset/conditional commitment.

Asset/conditional commitment engagement shall be considered supervised in the event that the counterparty's/person making a personal guarantee (surety) ability to pay is good, the degree of liquidity of the pledged item (set out) has stable characteristics, bank has received all the information and data necessary to assess the financial situation, but, at least one of the following factors persist:

- a) there are potential problems related to the financial situation of the counterparty, and in case of credit its guarantee;
- b) there are potential problems on the performance of the counterparty's obligations because of irregular cash flows (except those with seasonal) and difficult to control, although their creditworthiness is not deteriorated; (Sub-item c) excluded by the Decision of the NBM no.131 of May 21, 2015)
- d) the payments recovery is delayed from 31 to 90 days;
- e) there have been several changes in terms of paying up the default payments set under the contract;
- f) the business plan and technical-economic argument has not been observed (including further modifications and completions);
- g) other similar factors that constitute reasons for classifying the asset as supervised.

(Item 14 completed by the Decision of the NBM no.131 of May 21, 2015)

15. Substandard asset/conditional commitment.

Asset/conditional commitment shall be considered substandard if under the conditions of the existing of bank's certainty on servicing and repayment of the asset, exists a higher risk of losses than the usual one and, at least, one of the following factors persist:

- a) the financial situation of the counterparty is getting worse;
- b) the guarantee (if there is any) is insufficient or getting worse;
- c) the bank has not received sufficient updated information on the counterparty's financial situation of the counterparty (at least quarterly), of the person making a personal guarantee (surety), on the debt repayment sources, the justification for the use of credit according to the purpose specified in the credit contract, as well as other documents related to counterparty activity;
- c)1 the asset is used for other purposes than those specified in the contract;
- d) cash flows of the counterparty/person making a personal guarantee (surety) are estimated to be insufficient for regular performance of its obligations/execution of the guarantee;
- e) the payments recovery is delayed from 91 to 180 days.
- f) other similar factors that constitute reasons for classifying the asset as substandard.

(Item 15 completed by the Decision of the NBM no.131 of May 21, 2015)

16. Doubtful (uncertain) asset/conditional commitment.

Asset/conditional commitment shall be considered doubtful (uncertain) if there is a higher risk of losses caused by at least one of the following factors:

- a) there are problems, including those related to the financial situation and business environment of the counterparty, as well as the deterioration of the debt repayment sources, which doubt and lower the probability of meeting the entire current/future claims of the bank regarding the asset/conditional commitment under the created circumstances and conditions;
- b) the losses probability is extremely high, but there are certain important, concrete and well reasoned factors that will be soon brought into effect and that may contribute to the total or partial satisfaction of current / future claims of the bank regarding the asset/conditional commitment;
- c) payments recovery is delayed from 181 to 360 days;
- d) during the contractual relations related to the respective asset/conditional commitment, the insolvency process has been initiated;
- e) the asset is the object of litigation in court.
- f) other similar factors that constitute reasons for classifying the asset as doubtful (uncertain).

The classification of this asset/conditional commitment in the category "compromise (losses)" is delayed until

a more precise determination of the status of such asset/conditional commitment.

(Item 16 completed by the Decision of the NBM no.131 of May 21, 2015)

17. Compromised (losses) asset/conditional commitment.

An asset/conditional commitment shall be considered compromised (losses) if at the moment of classification the bank's current/future claims related to asset/conditional commitment can not be satisfied, there are no arguments in favor of the fact that the asset can be recovered and, at least one of the following factors persists:

- a) the counterparty is in liquidation process (except the banks in the liquidation process from the Republic of Moldova and of the counterparties whose debts are guaranteed with real estate);
- b) the pledged item is missing;
- c) payments recovery is delayed from 361 days and more;
- d) other similar factors that constitute reasons for believing firmly that the asset recovery is not possible.

(Item 17 completed by the Decision of the NBM no.131 of May 21, 2015)

18. In the event assets/conditional commitment may be classified differently according to the given criteria, these shall be referred to a more severe category.

19. The extension and the renegotiation of an asset can not determine its classification in a better category than that which was on the extension and renegotiation date.

20. Assets/conditional commitments classified as substandard, doubtful and compromised are considerate nonperforming.

21. In the event that the counterparty has many assets/conditional commitments given by the same bank and any of these are classified as nonperforming, all the debts of the counterparty shall be classified in the same category of nonperforming assets/conditional commitments.

21¹. In the case the counterparty, in addition to the classification carried out by the bank according to items 13-17, is assessed by one of the international rating agencies Standard & Poor's, Moody's and Fitch-IBCA, the classification of assets/conditional commitments is made in accordance with the counterparty rating and these shall be included in one of the following categories:

- 1) Standard - counterparties that are assigned by one of the international rating agencies Standard & Poor's, Moody's and Fitch-IBCA a rating varying from AAA/Aaa to A-/A3 inclusively.
- 2) Supervised - counterparties that are assigned by one of the international rating agencies Standard & Poor's, Moody's and Fitch-IBCA a rating varying from BBB+/Baa1 to BBB-/Baa3 inclusively.
- 3) Substandard - counterparties that are assigned by one of the international rating agencies Standard & Poor's, Moody's and Fitch-IBCA a rating varying from BB+/Ba1 to BB-/Ba3 inclusively.
- 4) Doubtful (uncertain) - counterparties that are assigned by one of the international rating agencies Standard & Poor's, Moody's and Fitch-IBCA a rating varying from B+/B1 to CCC-/Caa3/C inclusively.
- 5) Compromised (losses) - counterparties that are assigned by one of the international rating agencies Standard & Poor's, Moody's or Fitch-IBCA a rating varying from CC/Ca/ DDD to R/C/D inclusively.

(Item 21¹ included by the Decision of the NBM no.131 of May 21, 2015)

22. In case the payment of bank's claims regarding certain assets/conditional commitments assessed pursuant to items 13-17 may be influenced by the circumstances and conditions existent in a foreign country, following the assessment of the respective assets/conditional commitments, these shall be included in one of the following categories:

- 1) Standard - countries that are assigned by one of the international rating agencies Standard & Poor's, Moody's or Fitch-IBCA a rating varying from AAA/Aaa to A-/A3 inclusively.
- 2) Supervised - countries that are assigned by one of the international rating agencies Standard & Poor's, Moody's or Fitch-IBCA a rating varying from BBB+/Baa1 to BBB-/Baa3 inclusively.
- 3) Substandard - countries that are assigned by one of the international rating agencies Standard & Poor's, Moody's or Fitch-IBCA a rating varying from BB+/Ba1 to BB-/Ba3 inclusively.
- 4) Doubtful (uncertain) - countries that are assigned by one of the international rating agencies Standard & Poor's, Moody's or Fitch-IBCA a rating varying from B+/B1 to CCC-/Caa3/C inclusively.
- 5) Compromised (losses) - countries that are assigned by one of the international rating agencies Standard &

Poor's, Moody's or Fitch-IBCA a rating varying from CC/Ca/ DDD to R/C/D inclusively.

23. If the rating assigned to a country/counterparty differs among agencies, the rating of the agency that assigned the lowest rating shall be taken into consideration.

(Item 23 completed by the Decision of the NBM no.131 of May 21, 2015)

24. The country that was not assessed by one of the agencies mentioned under item 22 of this Regulation will be evaluated by the bank itself based upon its internal policies and procedures.

25. In the event the classification of the asset/conditional commitment pursuant to items 13-17, 21¹ and 22 differs, the respective asset/conditional commitment shall be referred to a more severe category.

(Item 25 amended by the Decision of the NBM no.131 of May 21, 2015)

26. Considering an asset as an expired asset does not result in debt cancellation of asset of the debtor or other counterparties and does not affect the bank's obligation to require such payment or performance of other asset related receivables.

IV. REQUIRED PROVISIONING TO THE ALLOWANCE FOR ASSETS AND CONDITIONAL COMMITMENTS LOSSES

27. The required amount for the allowance for assets losses/conditional commitments shall be established by applying the following percentages to the sum of assets/conditional commitments in each classification category pursuant to items 13-17, 21¹ or 22:

1) Standard	2%
2) Supervised	5%
3) Substandard	30%
4) Doubtful	60%
5) Compromised (Losses)	100%

(Item 27 completed by the Decision of the NBM no.131 of May 21, 2015)

V. POLICIES ON CREDIT RISK MANAGEMENT

28. The bank shall have internal policies and procedures of credit risk management providing, including the identification, monitoring and its evaluation depending on bank's risk profile for in order to permanently maintain an appropriate and controlled credit risk environment.

29. The policy of credit risk management shall include at least the following components:

- 1) the process and the procedures of credit risk assumption;
- 2) the defining criteria and procedures for approval of new assets and conditional commitments , as well as the rolled over and renegotiated assets;
- 3) the procedures of effective administration of the credit which shall include:
 - a) continuous analysis of the debtor's ability to pay up the default payments set up under the contract and to determine the level of the total indebtedness of the debtor;
 - b) permanent examination of the documentation related to the credit (credit, pledged contract and other guarantee, documents certifying the counterparty's financial situation, etc);

- c) evaluation of the classification system so that it corresponds to the specificity, size and complexity of the bank's activity;
- 4) the comprehensive procedures for identifying the nonperforming assets and conditional commitments ;
- 5) the stress tests operation for the identification of the potential weaknesses or vulnerabilities on credit risk positions, based on the various stress scenarios;
- 6) the monitoring process to comply with the limits established on credit risk assuming;
- 7) the internal reporting process ensuring the bank management with appropriate information measurement, estimation and reporting of size and quality of credit risk.

VI. PECULIARITIES REGARDING THE CLASSIFICATION OF CERTAIN ASSETS AND CONDITIONAL COMMITMENTS

30. Asset/conditional commitment (except the asset/conditional commitment related to the credit cards and the asset/conditional commitment representing reserves for settlement of international payment system, credit lines provided that on the extension date all payments are paid) that where extended and renegotiated shall be classified:

1) In case of extension – not above the “supervised” category for assets that on the extension date are classified in the “standard” or “supervised” category and not above the assets category at the extension date for assets, which at the same date are classified in the “substandard” or “doubtful (uncertain)” category, if the interest calculated at the extension date was paid to the bank. Thus it is classified for a period of six months after the extension, if the interest and the basic amount of the asset/conditional commitment will be paid regularly (at least monthly). Subsequently, for assets that on extension date are classified as "supervised", if the interest and the basic amount of the conditional asset/ commitment will be paid regularly (at least monthly) and the financial performance shows a high capacity of the debtor to fulfill its commitments, this could be classified more favorably, while for those classified as “standard” or “doubtful”, if the interest and the basic amount of the conditional asset/ commitment will be paid regularly (at least monthly), this could be classified more favorably, depending on the circumstances, but not above the “supervised” category. Otherwise, a tougher classification shall be made. If the asset has been extended two times and more, due to the unstable economic situation, it is reclassified in the “substandard” category.

2) In case of renegotiation – not above the "substandard" category for the asset which at the renegotiation data are classified in the "standard" or "supervised" category and not above the asset category for asset's renegotiation data on the same data are classified in the category “substandard” or "dubious (uncertain)”, if the interest calculated at the renegotiation data has been paid or shall be paid within 3 months after the date of renegotiation. Thus it is classified for a period of 6 months after renegotiation, if the interest and the basic amount of the asset / conditional commitment will be paid regularly (at least monthly). Subsequently, the assets on the renegotiation data are classified in the "substandard" or "dubious (uncertain) category, if the interest and the basic amount of the asset / conditional commitment will be paid regularly (at least monthly), this may be classified as positive depending on the circumstances, but not above the “supervised” category. Otherwise, a more severe classification shall be made.

(Item 30 completed by the Decision of the NBM no.301 of December 20, 2012)

(Item 30 amended and completed by the Decision of the NBM no.131 of May 21, 2015)

31. Asset / conditional commitment with repayment / settlement of sight shall not be classified above the "supervised" category from date on which the period of the first interest payment has expired or date on which the bank demands repayment / settlement of the asset / conditional commitment and the requirement is not satisfied.

In the event the asset is subsequently extended or renegotiated the classification pursuant to item 30 shall be performed.

32. If payments on a past-due asset classified as “substandard” or tougher have been made and the asset becomes due, then such asset may be classified as standard or under supervision depending on the circumstances. In the event that no payment has been made on such asset for another 30 days, it shall be classified above the “substandard” category, depending on the circumstances.

(Item 32 completed by the Decision of the NBM no.131 of May 21, 2015)

33. Consumer credit, credit granted to bank's employee for primary needs (not guaranteed with pledge or other funds of guarantee) amounting to MDL 100 thousand and credit granted to legal entity, individuals practicing a certain type of activity, as well as individuals carrying out professional lawyer's or notary's activity amounting to MDL 500 thousand that is not guaranteed with pledge or other funds of guarantee whose repayment is based solely on the debtor obligation and the bank's internal insurance procedures, as well as receivables of individuals and legal entities in the respective amount shall be classified as follows:

1) Credits/ receivables for which payment is made at least once a month:

a) in the event that the debtor has made no payment up to 30 days, the credit/ receivables shall not be classified above the "supervised" category;

b) in the event that the debtor has made no payment from 31 up to 60 days, the credit/ receivables shall not be classified above the "substandard" category;

c) in the event that the debtor has made no payment from 61 up to 90 days, the credit/ receivables shall not be classified above the "doubtful" category;

d) in the event that the debtor has made no payment for over 90 days, the credit/ receivables shall not be classified above the "losses" category;

2) Credits/ receivables for which payments are made less than once per month shall be classified in a category lower than that referred in item 1, except for those already classified under "losses" category.

(Item 33 amended and completed by the Decision of the NBM no.131 of May 21, 2015)

33¹. Loans / receivables amounting to MDL 100 thousand, excluding consumption loans, which are totally or partially secured by financial guarantees granted within special projects by international financial organizations and/or by legal entities which main activity is to guarantee loans and which patrimony consists mostly of shares of authorized banks or state:

a) if the debtor was late to make the payments from 31 to 60 days, the credit/receivables shall not be classified above the "supervised" category;

b) if the debtor was late to make the payments from 61 to 90 days, the credit/receivables shall not be classified above the "substandard " category;

c) if the debtor was late to make the payments from 91 to 180 days, the credit/receivables shall not be classified above the "doubtful" category;

d) if the debtor was late to make the payments for more than 181 days, the credit/receivables shall not be classified above the "compromised/losses" category;

(Item 33¹ included by the Decision of the NBM no.301 of December 20, 2012)

34. Along with the observance of the reimbursement term of credits/receivables, the classification process shall also imply the evaluation of internal insuring procedures with regard to granting/occurrence, supervision and reimbursement of credits/receivables provided to legal entities and individuals. Additionally, the classification of credits/receivables extended to legal entities shall be determined by the financial position thereof. In the event substantial drawbacks are tracked out, the credit/ receivables shall be classified in a category lower than those provided for under sub paragraphs 1 and 2 item 33, depending on the circumstances.

35. Credits granted and bank's conditional commitments to grant funds in the future to a debtor (except for banks), whose debts exceed 8 times its own capital (in case there are no other potential or real problems with regard to its financial position or credit insurance) shall be not classified above the "supervised" category.

(Item 35 completed by the Decision of the NBM no.131 of May 21, 2015)

35¹ The credits granted and conditional commitments of future granting of financial resources to a debtor (with exception of banks), whose debts exceed 30 times the equity of the debtor and there are no other potential or real problems with regard to his/her financial position or credit guarantee, shall be not classified above the "substandard" category. The respective provisions shall not apply to the following situations:

a) for credits and conditional commitments, the cumulative value of which is smaller or equal to MDL 1,000,000;

b) for credits and/or conditional commitments insured in proportion of at least 50 percent of the exposure

value against the debtor, with real guarantees owned by the debtor (pledge of real estate goods, of fixed and current assets, excluding liabilities or other property rights).

(Item 35¹ completed by the Decision of the NBM no.45 of October 01, 2015)

36. In case of the bank's achievement of conditional commitments by the bank to a third party (such as guarantees, letters of credit and other payments made by the bank to a third party if the bank's client does not meet its payment commitments pursuant to the provisions of the agreement between the client and the third party or on the basis of other conditions) and recording of the respective claim as a bank's asset (except for contingent engagements issued within credit lines), it shall not be classified above the "substandard" category.

37. Upon classification of securities and equity interests, the assessment shall be made taking into consideration the financial position and other quantitative and qualitative factors (ex. the management's quality, transparency of information, field of activity, market outlets, etc.) of the security issuer and the legal entity where the bank holds equity interests, respectively. The amount of the investment securities subject to classification shall include, upon the case, the premium or the discount.

38. Upon classification of conditional commitments, the person that will become the bank's debtor or will have claims to the bank following the achievement of the contract related to the respective commitment shall be assessed.

39. The classification of assets/conditional commitments:

1) In the event that the debtor obtained a credit in foreign currency or attached to foreign currency but does not have income in such currency in a sufficient amount for servicing and repayment of commitment in foreign currency or attached to foreign currency according to the provisions of the contract, then the credit shall be classified according to their specific regulation specifying the application within the classification of a lower level of indebtedness, a tighter analysis of forecast cash flows, etc. In case of absence of such regulations, the respective credit shall be classified by a level in a more severe category, compared with cases when the debtor has income in foreign currency.

2) In the event that the interest regarding the asset is required for payment quarterly, the asset shall not be classified above the "supervised" category, once in semester – not above the "substandard" category, yearly – not above the "doubtful" category. The respective classification shall be applied in the event that the bank gives the debtor a grace period on paying interest of more than a quarter.

The respective provision does not extend to assets intending to finance seasonal agricultural activities (frequency of interest payments shall not be higher than 6 months), the investment characterized by lengthy production cycle of profits (interest payment frequency must not be less than 6 months), of the loans granted to the Government of the Republic of Moldova, as well as of the assets which source are funds obtained as loan from international financial organizations, in the event that is established a certain periodicity of interest payment regarding to this funds. The mentioned assets shall be classified according to their own regulations specifying the application within the classification of a less leverage degree, of a more stringent analysis of forecasts funds flows, etc.

3) The new granted credit shall be classified not above the "substandard" category, if previous of the granted decision, the bank had no information on residents concerning the credit history of the credit history bureaus of the licensed banks in the Republic of Moldova, the report from the credit bureau of the country of origin, if such an institution exists in the country of origin, or other available information on the credit history of the debtor in the case of non-residents and, depending on the case, other relevant information related to the debtor's compliance with its contractual obligations over the last three years (certificates from other banks, extracts from the opened accounts to other banks and other information that makes possible to evaluate the historical compliance with contractual obligations), as well as in the event that the debtor has refused to grant permission for submitting the information to the credit history bureaus. Such classification shall be performed by the bank prior the obtaining of the respective information, as well as in the event that the bank does not have updated information (to modify any contractual obligations or at least annually) concerning the credit history content on the compliance by the debtor of the assumed obligations under previous credit agreements. If that debtor has credit / credits in other banks and has not agreed to the submission of the information by the bank to form credit history, the bank will classify the credits granted to the debtor not above the "substandard" category.

4) The credit granted and guaranteed only with surety shall be classified not above the “substandard” category, if the person providing surety does not dispose of sufficient goods (e.g. funds, fixed and current assets) to guarantee the obligation or does not attest the credit repayment ability.

(Item 39 completed by the Decision of the NBM no.131 of May 21, 2015)

40. Assets, excluding movable and immovable assets with related equipment, which is part of a complex patrimony, transmitted into possession/purchased for liabilities reimbursement are classified as following:

- 1) not above the "substandard" category for a period of 12 months from the date of their recognition in the accounts as assets held for sale;
- 2) not above the "doubtful" category, if the bank has not sold those assets within 12 months from the date of recognition in their accounts, but the classification period of assets held for sale has been extended;
- 3) not above the of "compromised/losses" category if the bank has not sold those assets within 12 months and the classification period of asset held for sale has not been extended;
- 4) under "compromise/losses" category if the bank has not sold those assets within the extended period for the classification of asset held for sale;
- 5) under "compromise/losses" category, if the owner of those assets is a legal person in process of insolvency / liquidation, except excluded assets or in process of exclusion from the assets of the debtor, which are classified according to the circumstances provided for in paragraphs 1) -4) of this item;
- 6) under items 33-34, if the asset is sold with the payment of its value and rates as reflected in the accounts as receivable.

(Item 40 completed by the Decision of the NBM no.301 of December 20, 2012)

40¹. Movable and immovable assets with related equipment, which is part of a complex patrimony, transmitted into possession/purchased for liabilities reimbursement are classified as following:

- 1) not above the “substandard” category for a period of 24 months from the date of recognition of the asset in the accounts, with an independent evaluation of the respective asset, at least yearly;
- 2) not above the "doubtful" category, on the expiry of 24 months from the date of recognition of the asset in the accounts, with an independent evaluation of the respective asset, at least yearly;
- 3) in "compromised/losses" category, if the owner of those assets is a legal entity in insolvency/liquidation process, except excluded assets or in process of exclusion from the assets of the debtor, which are classified according to the circumstances provided for in paragraphs 1) -2) of this item;
- 4) according to items 33-34, if the asset is sold and the payment is made in installments and reflected in the accounts as receivables.

The independent evaluations referred to in paragraphs 1) and 2) are to be confirmed by an independent audit company in accordance with the International Standard on Auditing: ISA 805 “Special Considerations - Audit missions of individual components of the financial statements and specific elements, accounts or other aspects of the components of financial statements”, preliminary to the classification of the respective assets.

(Item 40¹ included by the Decision of the NBM no.301 of December 20, 2012)

VII. GENERAL RESERVS FOR BANKING RISKS

41. General reserves for banking risks represents the difference between the amount calculated under item 27 of allowances for assets / conditional commitments losses and the balance-sheet amount of allowances for losses of the same assets impairment and provisions for losses for the same conditional commitments formed according to the International Financial Reporting Standards.

(Item 41 amended by the Decision of the NBM no.131 of May 21, 2015)

42. General reserve for banking risks shall be formed at least annually, at the end of the reporting year (as at December 31), from the bank's retained earnings until the payment of taxes and other mandatory payments.

(Item 42 amended by the Decision of the NBM no.301 of December 20, 2012)

43. If the retained equity of the bank is insufficient to meet the required level of reserves for general banking risks, the deficit is considered as incomplete allowances for assets / conditional commitments losses that diminishes the Tier I capital and shall be disclosed in the Explanatory Notes to the financial statements.

44. If reducing the size of allowance for assets/conditional commitments losses, calculated in accordance with this Regulation, to the size reflected the general reserve for banking risks account, the funds return is performed on the same account of retained earnings from which such reserves were formed.

VIII. OTHER PROVISIONS

45. Bank shall not grant additional funds for payment the debt for the original amount and related interest of the existing asset by the counterparty, unless the redemption of debt (the base amount of the asset and / or commitment) to another bank customer.

46. Bank shall report on assets and conditional commitments classification and calculation of allowance for assets/conditional commitments in accordance with the requirements of the regulations of the National Bank for reporting.

Annex no.2
to the Decision
of the Council of Administration
of National Bank of Moldova
no.231 of October 27, 2011

THE LIST of the National Bank of Moldova decisions to be abrogated

1. The Decision of the Council of Administration of the National Bank of Moldova no.224 of August 30, 2007 on the Regulation on assets and conditional commitments, allowances for asset losses and provisions for conditional commitments losses (Official Monitor of the Republic of Moldova, 2007, no.149-152, Art.560).
2. The item VIII of the Decision of the Council of Administration of the National Bank of Moldova no.171 of September 11, 2008 on amendment and completion of some normative acts of the National Bank of Moldova (Official Monitor of the Republic of Moldova, 2008, no.180-181, art. 536).
3. Item 2 of the Decision of the Council of Administration of the National Bank of Moldova no.86 of April 30, 2010 on amendment and completion of some normative acts of the National Bank of Moldova (Official Monitor of the Republic of Moldova, 2010, no.94-97, Art.357).
4. The Decision of the Council of Administration of the National Bank of Moldova no.229 of November 18, 2010 on amendment and completion of the Regulation on assets and conditional commitments, allowances for assets losses and provisions for conditional commitments losses (Official Monitor of the Republic of Moldova, 2011, no. 1-4, Art. 59).
5. Item 1 of the Decision of the Council of Administration of the National Bank of Moldova no.82 of April 21, 2011 on amendment and completion of some normative acts of the National Bank of Moldova (Official Monitor of the Republic of Moldova, 2011, no.87-90, Art.569).

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