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12.06.2018

Regulation on the calculation of specific and general credit risk adjustments by banks

DECISION
no. 116 of 24 May 2018

on the approval of Regulation on the calculation of specific and general credit risk adjustments by banks

(*effective as of 30.07.2018*)

Published in the Official Monitor of the Republic of Moldova no.183-194 of 08.06.2018, Art.906

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Registered
by the Ministry of Justice
of the Republic of Moldova
under no. 1331 of 31 May 2018

Pursuant to Art. 5 par. (1) (d), Art. 11 par. (1), Art. 27 (1) (c), Art.44 (a), Art. 46 (b) of the Law no. 548-XIII of July 21, 1995 on the National Bank of Moldova (republished in the Official Monitor of the Republic of Moldova, 2015, no. 297-300, Art. 544), with subsequent amendments and completions; Art. 64 of the Law no. 202 of 6 October 2017 on the Banking activity (Official Monitor of the Republic of Moldova, 2017, no. 434-439, Art.727), with subsequent amendments and completions, the Executive Board of the National Bank of Moldova

RESOLVES:

1. To approve the Regulation on the calculation of specific and general credit risk adustments by banks, as laid down in Annex hereto.

2. The Regulation referred to in paragraph 1 shall enter into force on 30 July 2018.

3. From the date of entry into force of the Regulation referred to in paragraph 1 of this decision, banks will ensure full compliance of their businesses, including internal policies and regulations, with its provisions.

Chairman
of the Executive Board

Sergiu CIOCLEA

no. 116 of 24 May 2018

Annex

Approved
by the Decision of the Executive Board
of the National Bank of Moldova

no. 116 of 24 May 2018

REGULATION
on the calculation of specific and general credit risk adjustments by banks

This Regulation:
a) transposes Art. 4 par.(1), (95) and Art. 110 par. (1) of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012 (Text with EEA relevance), published in the Official Journal of the European Union L 176 of 27 June 2013, as amended by Commission Regulation (EU) 2015/62 of 10 October 2014;
b) partially transposes the Commission Delegated Regulation (EU) No. 183/2014 of 20 December 2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments (Text with EEA relevance), published in the Official Journal of the European Union L 57 of 27 February 2014.

Chapter I
GENERAL PROVISIONS

1. The terms and expressions used in this Regulation shall have the meaning provided in the Law no. 202 of 6 October 2017 on the Banking Activity and in the regulatory acts of the National Bank of Moldova issued in its application.
For the purposes of this Regulation, credit risk adjustment shall mean the amount of specific and general loan loss provision for credit risks that has been recognised in the financial statements of the institution in accordance with the applicable accounting framework;

2. This Regulation shall apply to banks headquartered in the Republic of Moldova as well as to branches of foreign banks, established in the Republic of Moldova and licensed by the National Bank of Moldova (hereinafter – institutions).

3. This Regulation lays down rules to be applied by institutions for the identification and calculation of general and specific credit risk adjustments for the purpose of:
1) determining the exposure value according to the Regulation on the treatment of banks' credit risk using the standardised approach;
2) determining default according to the Regulation on the treatment of banks' credit risk using the standardised approach.

4. Institutions applying the standardised approach shall treat general credit risk adjustments in accordance with the Regulation on banks' own funds and capital requirements.

5. Institutions shall document the identification and calculation of general credit risk adjustments and specific credit risk adjustments.

Chapter II
IDENTIFICATION OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

6. For the purposes of this Regulation, the amounts required to be included in the calculation of general and specific credit risk adjustments by an institution shall be equal to all amounts by which an institution's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items.

7. Any amounts resulting pursuant to Article 6, which have been recognised during the financial year, may only be included in the calculation of general and specific credit risk adjustments if the respective amounts have been deducted from an institution's Common Equity Tier 1 capital, either in accordance with Regulation on banks' own funds and capital requirements or, in the event of interim profits or year-end profits that have not been approved in accordance with Regulation on banks' own funds and capital requirements, by way of a corresponding immediate reduction in Common Equity Tier 1 capital for the determination of own funds.

8. The amounts referred to in Articles 6 and 7 shall be included in the calculation of general credit risk adjustments by the institution where they fulfil both of the following criteria:
1) they are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialised;
2) they reflect credit risk losses for a group of exposures for which the institution has currently no evidence that a loss event has occurred.

9. All other amounts referred to in Articles 6 and 7 shall be included in the calculation of specific credit risk adjustments.

10. Subject to meeting the criteria of Article 8, the institution shall include the following losses in the calculation of general credit risk adjustments:
1) losses recognised to cover historical average portfolio loss that is higher than average portfolio loss experience over the last years although there is currently no evidence of loss events supporting these loss level observed in the past;
2) losses for which the institution is not aware of a credit deterioration for a group of exposures but where some degree of non-payment is statistically probable based on past experience.

11. The institution shall always include the following losses in the calculation of specific credit risk adjustments referred to in Article 9:
1) losses recognised in the profit or loss account for instruments measured at fair value that represent credit risk impairment under the applicable accounting framework;
2) losses as a result of current or past events affecting a significant individual exposure or exposures that are not individually significant which are individually or collectively assessed;
3) losses for which historical experience, adjusted on the basis of current observable data, indicates that the loss has occurred but the institution is not yet aware which individual exposure has suffered these losses.

Chapter III
ASSIGNING SPECIFIC CREDIT RISK ADJUSTMENTS FOR A GROUP OF EXPOSURES TO THE EXPOSURES WITHIN THE GROUP

12. Where a specific credit risk adjustment reflects losses related to the credit risk of a group of exposures, institutions shall assign that specific credit risk adjustment to all single exposures of that group proportionally to the risk-weighted exposure amounts. For that purpose, the exposure values shall be determined without taking into account any specific credit risk adjustments.

13. When assigning specific credit risk adjustments to exposures, institutions shall ensure that the same portion is not assigned twice to different exposures.

Chapter IV
CLACULATION OF CREDIT RISK ADJUSTMENTS

14. For the purposes of determining the exposure value according to the provisions referred to in par. (1) of Article 3, institutions shall calculate specific credit risk adjustments related to an exposure as the amounts of specific credit risk adjustments for that single exposure, or as the amounts of specific credit risk

adjustments that the institution has assigned to that exposure according to Chapter III.

15. For the purposes of determining default according to Regulation on the treatment of banks' credit risk using the standardised approach, specific credit risk adjustments shall be calculated as the amounts of specific credit risk adjustments related to the credit risk of a single exposure or single obligor.

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