Extract from Internal instruction on valuation for resolution purpose

Chapter I. GENERAL PROVISIONS

1. This instruction establishes the rules on the requirements to be met by the independent valuer, the procedure for the valuation of assets, liabilities and equity of a bank in case of taking a resolution action, to be applied by the NBM in order to prepare the necessary documentation in the process of procuring the services of the independent valuer.

2. The terms used in this instruction have the meanings provided by Law no.232 of October 3, 2016 on the Recovery and Resolution of Banks (hereinafter Law no.232/2016) and Law no.202 of October 6, 2017 on the activity of banks (hereinafter Law no.202/2017).

3. For the purpose of this instruction, the used terms have the following meanings:

   1) **Valuation** – valuation performed according to the articles 72, 73, 80, 263 of Law no.232/2016;
   2) **Independent valuer** - a legal person, independent of any public authority, including the National Bank of Moldova and the bank subject to the valuation, which carries out a valuation, which corresponds to the requirements set out in Chapter VII of this instruction;
   3) **Valuer** – independent valuer, or where appropriate, the National Bank of Moldova, then when they carry out a valuation;
   4) **Provisional valuation** – valuation carried out by the valuer pursuant to articles 73 and 80 of Law no. 232/2016;
   5) **Ex-post definitive valuation** –a valuation carried out by an independent valuer as soon as possible after a provisional valuation carried out pursuant to articles 73 and 80 of Law no. 232/2016, within the meaning of article 81 of Law no. 232/2016;
   6) **Valuation basis** – the manner/methodology of estimating the values assigned by the valuer to assets and liabilities;
   7) **Resolution date** – the date on which the decision to initiate resolution procedure is adopted with regard to a particular bank, pursuant to articles 281 and 282 of Law no. 232/2016;
   8) **Valuation date** – (a) either the reference date, as established by the valuer based on the earliest date prior to the date on which the National Bank of Moldova is expected to take the decision to start the resolution procedure with regard to the bank subject to valuation or to exercise its power to write down or convert the bank's capital instruments for the valuation under article 75, letter a) and letters b)-g) of Law no. 232/2016; (b) or the resolution date for the ex-post valuation and/or for the purposes stipulated in articles 263-264 of Law no. 232/2016;
   9) **Effective treatment date(s)** – in the case of shareholders and creditors, it means the date(s) on which they received any compensation as a consequence of the implementation of one or more resolution actions;
   10) **Disposal value** – valuation basis referred in point 38 of this instruction;
   11) **Equity value** – the estimated market price, for shares transferred or issued, resulting from the application of generally accepted valuation methodologies. Depending on the nature

of the assets or the nature of the business, the equity value may include the franchise value;

12) **Fair value** – the price that would be obtained for the sale of an asset or transfer of a liability in an ordinary transaction between market participants at the valuation date, as defined in the relevant accounting framework;

13) **Franchise value** – the net present value of the cash flows that can reasonably be expected to result from the retention and renewal of the assets and liabilities or activities and includes the impact of any business opportunities, as appropriate, including those resulting from the various resolution actions that are being evaluated by the valuer. The value of the franchise may be higher or lower than the value resulting from the contractual terms and conditions of the assets, liabilities and equity existing at the valuation date;

14) **Retention value** – the present value, discounted at an appropriate rate, of the cash flows that the bank being evaluated can reasonably be expected to experience under fair, prudent and realistic assumptions from holding certain assets and liabilities, taking into account factors affecting customer or counterparty behavior or other valuation parameters in the context of resolution.

Chapter II. COMMON PROVISIONS ON VALUATION FOR THE STIPULATED PURPOSE IN ARTICLE 75, LETTER A) OF LAW NO. 232/2016 AND VALUATION FOR THE PURPOSES LISTED IN ARTICLE 75 LETTERS B)-G) OF LAW NO. 232/2016

Section 1. General principles on valuations for the purpose stipulated in article 75, letter a) and for the purposes listed in article 75 letters b)-g) of Law no. 232/2016

4. When performing the valuation there should be taken into account the circumstances affecting the expected cash flows of the assets, liabilities and equity of the bank concerned and the applicable discount rates and shall seek to present fairly the financial position of the bank in the context of the opportunities and risks it faces.

5. There are specified and justified the key assumptions used in the valuation. Any significant deviations of the valuation from the assumptions used by the management body in preparing the financial statements and in calculating the bank's own funds requirements shall be based on additional methodologies, data and information available to the valuer.

6. Valuation provides the best accurate estimate of the value of a particular asset, liability, equity instrument or combination thereof. Where appropriate, valuation results shall also be provided in the form of ranges. The size of the ranges shall not undermine the validity and usefulness of the valuation.

7. The criteria set out in this instruction for the valuation of a bank's assets, liabilities and equity shall also apply to the valuation of portfolios or groups of assets or combinations of assets and liabilities, business lines or the bank as a whole, depending on the circumstances.

8. The valuation shall divide creditors into classes of claims according to the rules of the bank liquidation procedure and shall include estimates of the following elements:

   a) The value of claims in each class of claims according to Law no.550/1995 on the liquidation of banks and, where applicable and feasible, according to the contractual rights conferred to the holders of the claims;

b) The revenue that would be received by each class of creditor if the bank being valued were to be wound up in compulsory liquidation;

In calculating the estimates referred to in letters (a) and (b) in the valuation, the criteria set out in Chapter VI, Section 4 of this instruction shall be applied, as appropriate.

9. Where appropriate and feasible, taking into account the timing and credibility of the valuation, the National Bank of Moldova may request multiple valuations. In this case, the National Bank of Moldova shall establish the criteria for determining how such valuations shall be used for the purposes set out in article 75 of Law No 232/2016.

10. Where a provisional valuation is performed under article 73 or 80 of Law 232/2016, it must be followed by a final ex-post valuation carried out by an independent valuer within the meaning of article 81 of Law 232/2016.

Section 2. Information Sources

11. The valuation may be based on all information relevant to the valuation date that the valuer considers relevant. In addition to the bank's financial statements, audit reports and related supervisory reporting that the valuer considers relevant, pertinent information may include:

a) updated financial statements and supervisory reporting prepared by the bank as close as possible to the valuation date;
b) explanation of the methodologies, key assumptions and value judgments used by the bank in preparing its financial statements and supervisory reporting;
c) data contained in the bank's records;
d) relevant market data;
e) the conclusions of the valuer resulting from discussions with the bank's governance and external auditors;
f) where available, supervisory valuation of the bank's financial situation, including information obtained pursuant to article 42 paragraph (1) letter h) of Law no. 232/2016;
g) data on national stress testing through asset quality valuations or equivalent exercises carried out by the competent authority;
h) information from valuations of similar banks, appropriately adjusted to reflect bank-specific circumstances;
i) historical information, adjusted appropriately to remove factors that are no longer relevant and to include other factors that have not affected the historical information;
j) trend analyses, appropriately adjusted to reflect the specific circumstances of the entity;
k) supervisory authorities findings and reports, external audit, taxes, etc.

Section 3. Impact of group arrangements

12. Where the bank being valuated is part of a group, the valuation shall consider the impact that existing intra-group contractual support arrangements may have on the value of the assets, liabilities and equity when, given the circumstances, it is likely that those arrangements will be implemented.

13. The impact of other formal or informal arrangements within the group shall be considered only when, taking into account the circumstances, it is probable that those arrangements would remain in place if the group were in financial difficulty or in the case of group resolution.

14. The valuation process should consider whether the resources of one group entity are available to cover the losses of other group entities.

Section 4. Valuation report

15. The valuation report will comprise at least the following elements:

a) updated balance sheet and individual financial statements of the bank prepared in accordance with NAS and IFRS;
b) analyzing and estimating the book value of assets;
c) the list of on-balance-sheet and off-balance-sheet liabilities appearing in the bank's registers and accounting records, with an indication of the respective claims and priority ranking, according to the applicable legislation on the bank's forced liquidation procedure;
d) information on the distribution of creditors by categories according to the priority ranking according to the applicable legislation on the bank's forced liquidation in order to estimate the treatment that each category of shareholders and creditors could have received if the bank being evaluated had been wound-up under the forced liqudation procedure;
e) valuation of passives arising from derivative financial instruments;
f) reconciliation of the estimated values, including the reasoning of the selected result for the final value/range of values of the object of valuation and specification of the sources/uncertainty aspects of the valuation performed;
g) a description of the methodologies and assumptions applied by the valuer in conducting the valuation, the sensitivity of the valuation to the chosen methodologies and assumptions and, where feasible, an explanation of the difference between those methodologies and assumptions and those used for other relevant valuations, including valuations conducted prior to resolution;
h) any additional information that, in the opinion of the valuer, would be of assistance to the National Bank of Moldova to achieve the purposes set out in articles 72-82 of Law no. 232/2016.

Chapter III. SPECIFIC CRITERIA OF VALUATION FOR THE PURPOSE STIPULATED IN ARTICLE 75, LETTER. A) OF LAW NO. 232/2016

Section 1. General principles of valuation for the purpose stipulated in article 75, letter a) of Law no. 232/2016

16. The valuation for the purposes stipulated in Article 75 letter a) of Law no. 232/2016 must be based on fair and realistic assumptions and aim to ensure that the losses incurred under the appropriate scenario are fully recognized. This valuation must represent a source of information on the basis of which the competent authority, to determine whether a particular institution "is entering or is likely to enter a state of major distress", according to the article 58 paragraph 1 letter a) and article 59 paragraph (1) of Law no. 232/2016. On the basis of existing supervisory guidance or other generally recognized sources that establish fair and realistic valuation criteria for different types of assets, liabilities and equity, the valuer may question the assumptions, data, methodologies and reasoning on which the valuated bank has based its valuations for the purposes of its financial reporting obligations or for calculating its own funds requirements and disregard them for the purposes of its valuation.

17. The valuer shall determine the most appropriate valuation methodologies, which may be based on the bank's internal models where the valuer considers this to be appropriate, depending on the nature of the bank's risk management framework and the quality of the available data and information.

18. Valuation for the purposes stipulated in article 75, letter a) of Law no. 232/2016 must be consistent with the applicable accounting and prudential regulatory framework.

Section 2. Fields that require special attention in valuation for the purpose stipulated in article 75, letter a) of Law no. 232/2016

19. The valuation process should focus in particular on those areas where the valuation is subject to more uncertainties and which have a significant impact on the valuation as a whole. For those areas, the results of the valuation shall be presented in the form of best point estimates and, where appropriate, ranges as set out in point 6 of this instruction. These areas include:

    a) loans or loan portfolios whose expected cash flows depend on the ability, desire or motivation of a counterparty to fulfill its obligation, when the respective forecasts are based on assumptions regarding default rates, the probabilities of default payment obligations, losses given default or instrument characteristics, particularly if based on loss models for a portfolio of loans;
    b) repossessed assets, the cash flows of which are affected both by the fair value of the asset at the time the bank being valued forecloses on the related security or lien and by the expected evolution in that value after foreclosure;
    c) instruments measured at fair value when the estimate of their fair value in accordance with accounting or prudential requirements for their valuation by reference to quoted market prices or by reference to a model is no longer applicable or valid considering the circumstances;
    d) goodwill and intangible assets, when the impairment test may depend on a judgement of subjective value, including reasonably determinable cash flows, discount rates and the perimeter of cash-generating units;
    e) disputes and regulatory actions, as a result of which cash flows may be generated that may be subject to varying degrees of uncertainty as to their amount and/or timing;
    f) deferred tax items.

Section 3. Factors that may affect the valuation results of purpose stipulated in article 75, letter a) of Law no. 232/2016

20. The valuation process should take into account general factors that may affect the key assumptions used to estimate the value of assets and passives in the areas referred to in Section 2, including the following factors:

    a) the economic and industry circumstances affecting the bank being evaluated, including relevant market developments;
    b) the bank's business model and changes to its strategy;
    c) the bank's asset selection criteria, including lending policies;
    d) circumstances and practices that are likely to lead to unforeseen increases in payments;
    e) circumstances affecting the parameters used to determine the risk-weighted assets used to calculate minimum own funds requirements;
    f) the impact of the bank's financial structure on the bank's ability to keep assets for the expected storage period and the entity's ability to generate predictable cash flows;
    g) general or bank-specific liquidity or funding concerns.

21. The valuation should clearly segregate any unrealized material revenue identified in the valuation process, to the extent that such revenue was not recognized in the valuation, so that the valuation report provides appropriate information about the exceptional circumstances that led to the gain.

Chapter IV. SPECIFIC CRITERIA OF VALUATION FOR THE PURPOSES LISTED IN ARTICLE 75 LETTER B)-G) OF LAW NO. 232/2016

Section 1. General principles of valuation for the purposes listed in article 75 letters b)-g) of Law no. 232/2016

22. The valuation process shall examine the valuation impact of each resolution measure that the National Bank of Moldova may adopt for the substantiation of the decisions referred to in Article 75, paragraphs b) - g) of Law no. 232/2016. Without prejudice to the independence of the valuer, the National Bank of Moldova may consult with the valuer in order to identify the resolution measures considered by that authority, including the measures in the resolution plan or, if different, in any proposed resolution schemes.

23. In order to ensure a fair, prudent and realistic valuation, separate valuations reflecting the impact of sufficiently diversified instruments of resolution actions shall be presented, where appropriate, following consultation with the National Bank of Moldova.

24. The valuation process shall take into account that, when applying resolution tools or when exercising the power to decrease the book value or convert the relevant capital instruments, any loss on the bank's assets shall be fully recognized under scenarios that are relevant to the resolution tools under consideration.

25. Where the values from the valuation differ significantly from the values presented by the bank in the financial statements, the assumptions and results from that valuation shall be used to prepare the updated balance sheet, as required by Article 77 letter a) of Law no. 232/2016, in accordance with the applicable accounting framework. In terms of the losses identified by the valuer that cannot be recognized in the updated balance sheet, specify their amount, describe the reasons for determining the losses and the probability and time horizon of their recognition.

26. Where the relevant capital instruments or eligible liabilities are converted into own funds, the valuation must provide an estimate of the post-conversion value in own funds of the new shares transferred or issued as consideration to holders of the converted capital instruments or other creditors. This estimate forms the basis for determining the conversion rate or rates in accordance with article 190 of Law 232/2016.

Section 2. Choice of the valuation base

27. When choosing the most appropriate basis or bases of valuation, the resolution instruments to be examined in accordance with point 22 of this instruction shall be taken into account.

28. The valuation shall determine the cash flows that the bank under valuation can be expected to derive, based on fair, prudent and realistic assumptions, from the assets and passives existing as a result of the resolution measure or measures under review, discounted at an appropriate rate determined in accordance with point 33.

29. Cash flows shall be set at the appropriate level of aggregation, ranging from individual assets and liabilities to portfolios or activities, taking due account of differences in risk profiles.

30. Where the resolution actions referred to in point 22 of this instruction require that assets and liabilities be retained by a bank that continues to be a going concern, the valuation process should estimate the retention value as a proxy for the estimated value. If judged to be fair, prudent and realistic, the retention value may anticipate a normalization of market conditions.

31. The retention value may not be used as a basis of valuation when assets are transferred to a bridge bank pursuant to Articles 110-137 of Law 232/2016 or to an asset management vehicle pursuant to Articles 138-150 of Law 232/2016, or where the sale of business instrument is applied pursuant to Articles 94-109 of the same law.

32. Where the resolution actions referred to in point 22 of this instruction provide for the sale of assets, the expected cash flows shall correspond to the expected disposal values over the expected disposal period.

33. The discount rates shall be determined taking into account the timing of cash flows, the risk profile, funding costs and market conditions of the asset or passive being valued, the disposal strategy being considered and the financial position of the bank being valued after the possible application of resolution.

Section 3. Specific factors related to estimation and update of the expected cash flows

34. In order to estimate the cash flows, the main characteristics of the assets, liabilities and equity that are being measured need to be established. It shall also be determined how the continuation, possible renewal or refinancing, suspension/run-off or disposal of those assets or liabilities, as set out in the resolution measure under review, affects the cash flows concerned.

35. Where the resolution action requires the bank under valuation to retain an asset, maintain a liability or continue an activity, factors that could affect future cash flows may be taken into account, including the following factors;

    a) changes in assumptions or expectations relative to those prevailing at the valuation date, consistent with long-term historical trends and a reasonable time horizon consistent with the bank's asset retention or the bank recovery period; or
    b) additional or alternative valuation bases or methodologies that are considered appropriate by the valuer and are consistent with this instruction, including in the context of estimating the post-conversion actions and equity value.

36. As for groups of assets and liabilities or activities to be run-off, the costs and benefits of restructuring shall be taken into account.

37. Where a bank is in a situation that does not allow it to retain an asset or to continue an activity, or where the National Bank of Moldova considers, for other reasons, that the sale of the asset is necessary to achieve the resolution objectives, the value attributed to the expected cash flows shall be the expected disposal value to be achieved within a specified disposal period.

38. The disposal value shall be estimated on the basis of the cash flows, after deducting the costs of disposal and the expected value of any collateral provided, that the bank being valued could reasonably be expected to realize under then prevailing market conditions from the orderly sale or transfer of assets or passives. Where appropriate, in order to the actions to be taken in the resolution, the valuation may determine the transfer value by applying a discount for a possible forced sale to the existing market price of the sale or transfer. In determining the disposal value of assets that do not have a liquid market, consideration should be given to prices prevailing in markets in which similar assets are traded or to calculation models using observable market parameters, with discounts for illiquidity appropriately reflected.

39. The valuation process should take into account factors that could influence the values and periods of disposal, including:

    a) the amounts and periods of disposal practiced in similar transactions, appropriately adjusted for differences in the business models and financial structures of the parties to those transactions;
    b) the advantages or disadvantages of a particular transaction that are specific to the parties involved or to a particular class of market participants;
    c) the specific characteristics of an asset or activities that may be relevant only to a potential buyer or to a particular class of market participants;
    d) the likely impact of expected sales on the value of the bank's franchise.

40. When estimating the value of activities for the purpose of using the sale of business instrument or the bridge bank instrument, reasonable expectations as to the value of the franchise may be taken into account, it shall include the value of the franchise resulting from a renewal of assets, refinancing of an open portfolio or continuation or resumption of business in the context of resolution measures.

41. If it is determined that a realistic prospect of disposal of an asset or business cannot reasonably be expected to exist, the determination of the disposal value is not mandatory, but the related cash flows must be estimated based on the relevant prospects of continuation or run-off. This provision does not apply to the asset separation instrument or the sale of the business instrument.

42. In the case of parts of a group of assets or of a business which are likely to be liquidated by the normal liquidation procedure, the valuer may take into account the values and periods of disposal found in auctions with assets of a similar nature and in a similar condition. In determining expected cash flows, consideration shall be given to illiquidity, the absence of reliable inputs for determining disposal values and the resulting need to rely on valuation methodologies using unobservable inputs.

Chapter V. SPECIFIC CRITERIA FOR PROVISIONAL VALUATION

Section 1. Provisional valuation

43. A provisional valuation may be carried out pursuant to articles 73 and 80 of Law 232/2016, which shall be made in accordance with the provisions laid down in article 74 of the said Law and, as far as reasonably possible, considering the given situation, the requirements of articles 72, 77 and 79 and, taking into account the urgency of the action and other circumstances that justify the carrying out of such valuation.

44. The provisional valuation shall include a reserve to approximate the amount of additional losses in the provisional valuation of a bank's assets and passives, if such losses can be expected, based on known facts and circumstances.

45. The additional loss reserve is determined on the basis of widely recognized standards used to determine the value of assets, where the designated loss data for one type of asset can be applied to other types of assets with possible adjustments.

46. The valuation performed in accordance with this chapter shall be considered provisional until a final ex-post valuation is carried out by an independent valuer in accordance with point 10 of this instruction and fully complying with all the requirements set out in Articles 72-84 of Law no.232/2016.

Section 2. Used methodology for calculating and including of a reserve for additional losses

47. In order to address the uncertainty related to provisional valuations carried out in accordance with article 80 of Law no.232/2016, a reserve shall be included in the valuation to reflect the facts and circumstances supporting the existence of additional losses whose amount and timing is uncertain. In order not to take into account the same uncertainty twice, the assumptions on which the calculation of the reserve is based shall be adequately explained and justified.

48. To determine the size of the reserve, you need to identify the factors that may affect the cash flows expected to be recorded as a result of the resolution measures that are likely to be adopted.

49. For the purposes of point 47, the estimated losses for a portion of the entity's assets may be extrapolated to the rest of the entity's balance sheet. When available, average estimated losses for the assets of competitors of the entity that are comparable to the entity may also be extrapolated, subject to adjustments for differences in business models and financial structures.

Chapter VI. SPECIFIC CRITERIA OF VALUATION FOR THE PURPOSE STIPULATED IN ARTICLE 263-264 OF NO. 232/2016

Section 1. General principles of valuation for the purpose stipulated in article 263-264 of Law no. 232/2016

50. In determining the treatment that would have been applicable to shareholders and creditors in forced liquidation proceedings, the valuation shall be based solely on information relating to facts and circumstances that existed and that the valuer reasonably believes could reasonably have been known at the date of the resolution decision and that, if known by the valuer, would have affected the value of the bank's assets, liabilities and equity at that date.

51. In order to determine the effective treatment of shareholders and creditors in resolution procedures, the valuation must be based on the information available on the facts and circumstances existing at the date or dates of the effective treatment.

52. The valuation reference date is the date of the resolution decision, which may differ from the effective treatment date. To the extent that the impact of any discounting of receipts is considered to be negligible, the undiscounted receipts as of the date the resolution action was implemented may be directly compared with the present value of the hypothetical receipts that would have been recorded by shareholders and creditors if the bank being valued had entered into forced liquidation on the date of the resolution decision.

Section 2. Assets and claims inventory

53. For the purposes of the valuation, an inventory shall be made of all identifiable and conditional assets held by the bank being valued. This shall include assets for which the existence of cash flows is either demonstrated or can reasonably be expected.

54. The valuer has access to the list of all claims and conditional liabilities against the bank. This list shall rank all contingent claims and liabilities according to their priority in liquidation under the rules of the bank liquidation procedure. The valuer shall have the possibility to enter into

arrangements to obtain expert advice or information as to the compliance of the ranking of claims with the applicable insolvency law.

55. A distinction must be made in the valuation between encumbered assets and claims secured by these assets.

Section 3. Valuation stages for the purpose stipulated in article 263-264 of Law no.232/2016

56. In order to determine whether there is a difference in treatment as provided for in articles 263-265 of Law no. 232/2016, it is analyzed:

a) the treatment that would have been applicable to the shareholders and creditors or the Deposit Guarantee Fund in the banking system in relation to which resolution measures have been adopted if the bank under valuation had entered into forced liquidation at the date of the resolution decision, without taking into account the provision of any extraordinary public financial support;
b) the amount of claims restructured as a result of the application of the internal recapitalization tool or other resolution powers and tools, or the amount of other proceeds received by shareholders and creditors on the date or dates of the effective treatment, discounted to the date of the resolution decision, if considered necessary to allow a fair comparison with the treatment referred to in point a);

c) if the result of the treatment referred to in letter (a) exceeds the result of the value referred to in letter (b) for each creditor in accordance with the priority ranking in a forced liquidation as identified according to Section 2 of this Chapter.

Section 4. Determining the treatment of shareholders and creditors in forced liquidation procedures

57. The methodology for carrying out the valuation in accordance with point 56 letter (a) of this instruction shall be limited to estimating the present value of the expected cash flows under the forced liquidation procedure.

58. Expected cash flows shall be updated at a rate or rates that reflect, as appropriate, the timing of the expected cash flows, conditions prevailing at the date of the decision to initiate resolution, risk-free interest rates, risk premiums for similar financial instruments issued by similar banks, market conditions or discount rates applied by potential purchasers and other relevant characteristics of the item or items being valued.

59. In determining the present value of expected cash flows in case of forced liquidation, the following shall be taken into account:

a) insolvency law and practice, which may influence factors such as the expected disposal period or recovery rates;
b) the reasonably predictable costs of administration, transaction, maintenance, disposal and other costs that would have been incurred by the liquidator, as well as financing costs;
c) information on recent cases of forced liquidation of similar banks, where available and relevant.

60. For assets traded in an active market, the valuer shall use the prevailing market price, unless specific circumstances affect the marketability of the entity's assets, such as concentration, saturation and depth of the market.

61. For assets that are not traded in an active market, the valuer should consider a number of factors when determining the amount and timing of expected cash flows, including:

a) prices observed in active markets where similar assets are traded;
b) prices observed in forced liquidation or other distressed transactions with assets of a similar nature and condition;
c) prices observed in transactions consisting in the sale of a bank's business or a transfer to a bridge bank or an asset management vehicle in a resolution context relating to peer banks;
d) the likelihood that an asset will generate net cash inflows in forced liquidation procedures;
e) the expected market conditions during a given disposal period, including the depth of the market and the ability of the market to change the volume of those assets during that period; and
f) the fact that the duration of a particular disposal period should reflect the implications of applicable insolvency law, including the expected duration of the liquidation process or the characteristics of the relevant assets.

62. The valuer evaluates whether the bank's financial situation would have affected the expected cash flows, including by restricting the ability of the administrator to negotiate with potential buyers.

63. To the extent practicable and subject to any applicable provisions of the forced liquidation regime, cash flows should reflect the contractual, statutory or other legal rights of creditors or normal liquidation practice.

64. Hypothetical proceeds from the valuation will be allocated to shareholders and creditors in accordance with their priority under the rules of the bank liquidation procedure as set out in Section 3 of this Chapter.

Section 5. Establishing the effective treatment of the shareholders and creditors in resolution

65. The valuer shall identify all claims outstanding after reduction of book values or conversion of capital instruments and the application of any resolution measures and attribute those claims to the individuals and legal entities who were shareholders and creditors of the bank at the date of the decision to initiate resolution proceedings. Unless the individuals and legal entities who were shareholders and creditors of the bank at the date of the resolution decision receive cash compensation as a result of the resolution, the valuer shall determine the actual treatment of such persons in accordance with paragraphs 66 to 68.

66. Where individuals and legal entities who were shareholders and creditors of the bank at the date of the decision to initiate resolution proceedings receive equity compensation as a result of the resolution measure, the valuer shall determine their actual treatment by providing an estimate of the total value of shares transferred or issued as consideration to holders of converted equity instruments or to creditors subject to internal recapitalization. This estimate may be based on the valued market price calculated on the basis of generally accepted valuation methodologies.

67. Then when individuals and legal entities that were shareholders and creditors of the entity at the date of the resolution decision receive compensation for liabilities as a result of the resolution, the valuer shall determine the actual treatment of those individuals and legal entities taking into account factors such as changes in contractual cash flows resulting from book values reductions or conversion or other resolution actions and the relevant discount rate.

68. For any outstanding claim, the valuer may take into account, if available, in addition to the factors described in points 66 and 67, prices implemented in active markets for the same or similar instruments issued by the bank being valued or other similar entities.

Section 6. Valuation report

69. The valuer shall prepare a valuation report for the National Bank of Moldova, which shall include the information in accordance with article 264 of Law No 232/2016 and at least the following elements:

a) a summary of the valuation, including a presentation of the ranges and sources of uncertainty of the valuation;
b) an explanation of the main methodologies and assumptions adopted and the sensitivity of the valuation to the methodologies and assumptions chosen;
c) an explanation, as far as possible, of the reasons why the valuation is different from other relevant valuations, including valuations for the purposes stipulated in article 75, letters a), b)-g) of Law no. 232/2016 carried out in accordance with this instruction or other regulatory or accounting valuations.

Chapter VII. INDEPENDENT VALUER

Section 1. Elements of independence

70. The valuer is considered independent when all the following conditions are met:

a) the valuer possesses the necessary qualifications, experience, capacity, necessary knowledge and resources in accordance with Section 2 and is able to carry out the valuation effectively without reliance on the bank, the National Bank of Moldova or any relevant public authority, unless it relates to information or circumstances known/held by them, which is outside the control of the valuer;

b) the valuer meets the requirements of integrity and has no actual or potential conflict of interest or substantial interest together with the bank being evaluated, the National Bank of Moldova or any relevant public authority. The National Bank of Moldova shall evaluate an actual or potential conflict of interest or interest as substantial where it could influence or could reasonably be perceived to influence the independent valuer's judgment in carrying out the valuation;

c) considering the individuals employed by the independent valuer, they may not be employed or contracted by the National Bank of Moldova, any relevant public authority or the bank to be evaluated or the banking group comprising the bank being evaluated. The independent valuer shall not belong to the same group/company/organization as any of the relevant public authorities, the bank to be evaluated or the banking group of which the bank being evaluated is part;

71. In terms of point 70 letter b) common interests or conflicts of interest with at least the following parties are relevant:

a) members of the management bodies and other key persons of the bank subject to valuation;
b) legal entities or individuals that control or have a qualifying holding in the bank being assessed;
c) creditors identified as significant based on information available to the National Bank of Moldova;
d) each group entity.

72. In terms of point 70 letter b) at least the following aspects are relevant:

a) the provision by the independent valuer of services, including the provision of services in the past, to the bank being valued and the persons referred to in point 71, and in particular the relationship between those services and the elements relevant to the valuation;

b) personal and financial relationships between the independent valuer and the bank being valued and the persons referred to in point 71;
c) investments or other significant financial interests of the independent valuer;
d) any legal separation or other arrangements that will be put in place to address any threats to independence (self-valuation, self-interest, lobbying, trust or intimidation, including mechanisms to differentiate between those staff members who may be involved in the valuation and other staff members).

73. Without prejudice to points 71 and 72, an independent valuer shall be considered to have a conflict of interest with the bank being evaluated if the valuer, in the year preceding the date on which the person's eligibility to act as independent valuer is being evaluated, has carried out a statutory audit of the bank.

74. In the assessment by the National Bank of Moldova of the extent to which the common interests or conflicts of interest referred to in this section are substantial, it is relevant whether the independent valuer:
- controls the bank being evaluated or represents the interest of a controlling shareholder of that bank;
- has a significant financial or economic relationship with the bank being evaluated (more than 5% of that bank's own funds);
- has, within the last calendar year, been a significant external auditor or consultant to the bank or other entity within the scope of prudential consolidation or otherwise substantially involved in the service provided;
- is or has been in the past year a significant supplier (has supplied goods or services amounting to more than 5% of the bank's assets) or a significant customer of the bank or of another entity in the prudential consolidation perimeter, or has had another significant business relationship or is otherwise substantially involved, directly or indirectly, with a supplier, customer or business entity that has a significant business relationship with the bank.

75. Any person considered for or appointed as an independent valuer must:

a) have, in accordance with all applicable codes of ethics and professional standards, policies and procedures to identify any actual or potential interest that may be considered to constitute a conflict of interest;
b) promptly notify the National Bank of Moldova of any actual or potential interest, conflict of interest, which the independent valuer considers, in the National Bank of Moldova's valuation, could be considered as substantial in accordance with point 70 letter b);
c) take appropriate measures to ensure that none of the staff or other persons involved in carrying out the assessment has a substantial interest or conflict of interest.

Section 2. Qualifications, experience, capacity, knowledge and resources of the independent valuer

76. The independent valuer and/or the individuals engaged by the valuer must have certifications in the field of valuation, the necessary experience, capacity and knowledge in all aspects relevant to the performance of the valuation or valuations for which he/she is appointed (i.e. valuation for the purpose stipulated in Article 75 letter a), letters b)-g) and/or Article 263-264 of Law no. 232/2016). The independent valuer must be an internationally recognized company.

77. The National Bank of Moldova shall verify the ability and knowledge required to perform the specific tasks of the valuation, namely:

a) Full knowledge and experience in the use and application of IFRS;

b) Knowledge of the legal and regulatory framework of the Republic of Moldova in the banking sector;
c) Knowledge and experience in credit risk valuation, including extensive knowledge of the specific sector of the bank being evaluated;
d) Knowledge and experience in performing valuation according to regulatory guidelines and technical standards;
e) Availability of suitably qualified personnel to carry out the valuation;
f) Internal quality control procedures in line with international best practice;
g) Ability to work efficiently in Romanian and English languages;
h) Lack of disciplinary measures in the last 5 years applied by the authorities responsible for quality control of valuers in the Republic of Moldova or other jurisdictions, for the members of the independent valuer's team, including the partners responsible for carrying out the valuation;
i) Professional risk insurance through a public liability insurance contract for the possible risks of professional activity of the independent valuer, the object being the valuation contract or the valuation activity of the independent valuer;

78. In order to qualify the independent valuer as internationally recognized, the following criteria will be applied:

a) holds appropriate license to carry out valuation work, if required under the law of the jurisdiction of the State in which it is registered;

b) is part (as a subsidiary, member firm, partner or under a franchise agreement) of the network of independent valuers listed in the international industry rankings (audit, financial advisory, asset management/asset management, legal, etc.) For audit firms, the international industry rankings are produced by the International Accounting Standards Board (IASB);

c) has staff who hold certificates of qualification in the field of securities valuation issued by a member association of the European Group of Valuation Associations (TEGoVA) and/or the International Valuation Standards Committee (IVSC) and/or the World Association of Valuation Organizations (WAVO), as well as certificates of qualification based on International Financial Reporting Standards (IFRS).

79. The independent valuer must possess or have access to adequate technical resources to carry out the specific valuation. The valuation of the adequacy of resources should take into account the nature, size and complexity of the valuation to be carried out.

Chapter VIII Selection and appointment of the independent valuer

80. In order to participate in the selection process, the independent valuer must submit a tender drawn up in Romanian and English, containing at least the following information:

a) The name;
b) Legal address and office address;
c) Registration details of the independent valuer;
d) Previous names (if applicable);
e) Contact details (telephone, fax, email, etc.);
f) The authorised person to sign the contract and a copy of the legal act confirming his/her powers;
g) Subsidiaries (if applicable);

h) Number of employees;
i) Annual turnover for the last three completed financial years;
j) Name and address of the bank with which the valuer has a bank account and where the fee is to be paid;
k) Details of the person designated as the „Document Management Officer" responsible for maintaining the document management system;
l) List of key experts proposed to carry out the valuation, which includes information on: full name, proposed position within the project, certificates of qualification in the relevant valuation field, work experience in the requested field, work experience in the organization, experience in the field of bank valuation, experience in the field of valuations and other similar services, etc.
m) Acts relating to the fulfillment of the conditions of independence laid down in Chapter VII;
n) Letters of recommendation from at least 3 entities (of which at least 1 central bank).

81. The National Bank of Moldova may, in exceptional cases, set additional criteria to be met by the independent valuer in order to be selected to carry out the valuation, including the cost of the assignment, as well as its operational, technical and personnel capacity.

82. In addition to the documentation submitted under the terms of this instruction, the National Bank of Moldova may request from the bidders additional information relevant to the requirements set out in this instruction.

83. In order to organize and carry out the procedure for selecting the independent valuer, by an order of the NBM Governor, the working group for the selection of the independent valuer (hereinafter – working group).

84. Secretary of the working group shall send the notice of the launch of the competition for the selection of the independent valuer to the independent valuers as indicated in the List of potential bidders.

85. The deadline for submitting tenders is indicated in the contract notice.

86. Tenders submitted must be complete and sufficiently detailed to provide the working group with sufficient information to easily understand all aspects of the services required. The validation checklist shall be used as a guide for the structure of the tender by subdivision as set out in the specification. Tenders must be drawn up in English and Romanian.

87. The tender must describe at least:

a) the individualized approach to the valuation and the planning of the valuation; the manner of interaction with the management bodies of the bank under valuation and the manner of communicating the results of the valuation; the IT systems that will be applied during the valuation activity; description of the approach on specific elements and financial instruments held by the bank under valuation;

b) description of the team and the roles assigned to them, with the minimum level of involvement of the Partner and the manager of the valuation activity, the CVs of the members of the valuation team; description of the competences of other specialists to be involved in the valuation process;

c) description of the experience required according to the specifications, level of resources of the independent valuer; level and experience in interaction with central banks, etc.;

d) confirmation of independence from the National Bank of Moldova.

88. The tenders are examined confidentially, in accordance with the legislation in force, in compliance with the requirements set out in the tender specifications, and the independent valuer's tender that satisfies the valuation criteria and is the most advantageous from a technical and economic point of view is the successful tender. Tenders will be evaluated in accordance with the criteria and methodology set out in the specifications prepared by the working group.

89. The valuation of tenders includes the valuation of the independent valuer's performance characteristics (listed in this instruction and in the tender specifications) as well as the financial valuation, weighted as follows:

Valuation of performance characteristics	60%
Financial valuation	40%

90. The financial valuation of the tenders for each bidder will be carried out on the basis of the total price (including all related expenses and taxes) proposed by the participating companies in their tenders.
91. During the valuation of tenders, arithmetical errors will be corrected only with the bidder's agreement. If the bidder does not agree to the correction of these errors, his tender will be considered as inadequate and will consequently be rejected.
92. The valuation of the independent valuer's performance characteristics will be carried out by assigning a number of points for each characteristic, depending on the independent valuer's professional performance and according to the maximum score, as follows:

Performance characteristics	Maximum score
1. Regional experience of the bidder in carrying out valuations (or similar services) in banking system	65
2. The experience and qualification of the team	35
Total:	100

93. If the successful bidder does not accept to sign the service contract, the working group has the right to propose to the Executive Board of the NBM the next best tender with the highest score from the remaining tenders or to initiate a new procurement.
94. Tenders that do not comply with the eligibility criteria set out in the tender documentation and the provisions of these instructions shall be rejected. If all tenders are rejected, the working group shall initiate a new procedure to select the independent valuer.
95. The contract with the independent valuer for the conduct of the valuation shall stipulate, among others, the subject matter of the valuation, the deadline for submission of the valuation report, the confidentiality clause relating to the subject matter of the valuation.