

NATIONAL BANK OF MOLDOVA

DECISION

on the approval of Regulation on Large Exposures

No 109 of 05.04.2019

(in force as of 19.06.2019)

Official Monitor of the Republic of Moldova No 139-147, Article 704 of 19.04.2019

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REGISTERED:
by the Ministry of Justice
of the Republic of Moldova
No 1437 of 10 April 2019

Pursuant to Article 74 of the Law No 202/2017 on the Activity of Banks (Official Monitor of the Republic of Moldova, 2017, No 434-439, Article 727) with further amendments, the Executive Board of the National Bank of Moldova

DECIDED:

- 1.** To approve the Regulation on Large Exposures according to the Annex.
- 2.** To approve Annex 1 to the Decision No 240 of 9 December 2013 of the Council of Administration of the National Bank of Moldova (Official Monitor of the Republic of Moldova 2014, No 17-23, Article 97), registered with the Ministry of Justice of the Republic of Moldova under No 955/2014.
- 3.** This decision shall enter into force at the expiry of 2 months from the date of publishing in the Official Monitor of the Republic of Moldova.

**PRESIDENT OF THE EXECUTIVE BOARD
OF THE NATIONAL BANK OF MOLDOVA**

Octavian ARMAȘU

No 109, Chisinau, 5 April 2019

REGULATION ON LARGE EXPOSURES

This Regulation:

- implements Article 1(b), Article 4(1), paragraph 39 and 71(b), Article 387, Article 389, Article 390(3)-(7), Article 392 – 394(1), Article 395(1), Thesis 1, (3), (5), Article 396(1), Thesis 1, Article 397-399(1), (2), (4), Article 400(1)(a-d), f-i), k), (2), f-i), Article 401(1), (3) and Article 403 of the Regulation No 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) No 648/2012 (Text with EEA relevance) published in the Official Journal of the European Union No L176 of 27 June 2013, according to the latest amendments introduced by Regulation (EU) 2017/2401 of the European Parliament and the Council of 12 December 2017;

- implements the Delegated Regulation (EU) No 1187/2014 of the Commission of 2 October 2014 for the completion of the Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to the regulatory technical standards for the determination of global exposure to a client or group of connected clients from the point of view of underlying assets transactions (Text with EEA relevance), published in the Official Journal of the European Union No L324 of 7 November 2014.

CHAPTER I GENERAL PROVISIONS

1. This Regulation establishes the requirements for the calculation of amount of exposure, including the eligible techniques of credit risk mitigation, the maximum allowable concentration risks of banks' exposures, additional requirements related to the trading book, as well as the requirements related to monitoring, administration and reporting on large exposures.

2. Banks shall monitor and control the exposures under the provisions of this Regulation.

3. This Regulation applies to banks having their headquarters in the Republic of Moldova, branches of banks from other countries in the Republic of Moldova, which are licensed by the National Bank of Moldova, hereinafter called "*banks*".

4. The terms, notions and expressions used in this Regulation have the meanings provided in Law No 202/2017 on the Activity of Banks and other regulatory documents issued by the National Bank of Moldova.

5. For the purpose of this Regulation, terms and expressions used herein shall have the following definitions:

exposure – means the value of an asset or off-balance sheet item mentioned in the Regulation on the Treatment of Bank's Credit Risk Using Standardised Approach, approved by Decision No 111 of 24 May 2018 of the Executive Board of the National Bank of Moldova (hereinafter - *Regulation No 111/2018*), until the application of risk weight or risk degree;

large exposure – exposure of a bank to a client or a group of connected clients which value equals to 10% or more from the eligible capital of the respective bank;

eligible capital – the sum of the following elements:

1) level I own funds, as mentioned in the Regulation on Own Funds of Banks and Capital Requirements approved by Decision No 109 of 24 May 2018 of the Executive Board of the National Bank of Moldova (hereinafter - *Regulation No 109/2018*);

2) level II own funds, as mentioned in Regulation No 109/2018, which shall not exceed one third of the level I own funds;

group of connected clients - means any of the following:

(1) two or more individuals or legal entities who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others;

(2) two or more individuals or legal entities between whom there is no relationship of control as described in sub-paragraph 1), but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would also be likely to encounter funding or repayment difficulties;

3) the individual/individuals or the legal entities which intermediate one or more transactions (operations) with the bank in the interest of other person/persons and which are considered to be influenced by the latter during the respective transaction (operation) based on the existence of civil or other type of working relationship between these persons, under Regulation No 240/2013 on Banks' Transactions with their Related Parties.

Notwithstanding sub-paragraphs (1) and (2), where a central government (hereinafter – *central government*) has direct control over or is directly interconnected with more than one individual or legal entity, the group consisting of the central government and all of the individuals or legal persons directly or indirectly controlled by it in accordance with sub-paragraph (1), or interconnected with it in accordance with sub-paragraph (2), may be considered as not constituting a group of connected clients. However, the existence of a group of connected clients formed by the central government and other individuals or legal entities may be assessed separately for each of the persons directly controlled by it in accordance with sub-paragraph (1), or directly interconnected with it in accordance with sub-paragraph (2), and all of the individuals and legal entities which are controlled by that person according to sub-paragraph (1) or interconnected with that person in accordance with sub-paragraph (2), including the central government.

6. Exposures shall not include any of the following:

1) in the case of foreign exchange transactions, exposures incurred in the ordinary course of settlement during the two working days following the payment;

2) in the case of transactions for the purchase or sale of securities, exposures incurred in the ordinary course of settlement during five working days following payment or delivery of the securities, whichever the earlier;

3) in the case of the provision of money transfers, including the execution of payment services, clearing and settlement in any currency and correspondent banking or financial instruments clearing, settlement and custody services to clients, delayed receipts in funding and other exposures arising from client activity which do not last longer than the following business day;

4) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking, intra-day exposures to institutions providing those services;

5) exposures deducted from own funds in accordance with paragraphs 30, 87 and 100 of Regulation No 109/2018.

7. In determining the existence of a group of connected clients, Annex 2 shall be applied.

CHAPTER II SOME PECULIARITIES RELATED TO THE EXPOSURE AMOUNT CALCULATION

8. The bank which calculates the own funds requirements for the activities of the trading book under the Regulation on the Treatment of Market Risk Using Standardised Approach, approved by Decision No 114 of 24 May 2018 of the Executive Board of the National Bank of Moldova (hereinafter – *Regulation No 114/2018*) and Regulation on the Treatment of Settlement/Delivery Risk approved by Decision No 115 of 24 May 2018 of the Executive Board of the National Bank of Moldova (hereinafter – *Regulation No 115/2018*), shall calculate the exposures to individual clients which arise from the trading book by totalling the following items:

1) the positive excess of the bank's long positions over its short positions in all the financial instruments issued by the client in question. The net position in each of the different instruments shall be calculated according to the methods laid down in Regulation No 114/2018;

2) the net exposure, in the case of the underwriting of a debt or an equity instrument;

3) the exposures due to the transactions, agreements and contracts referred to in Regulation No 115/2018 and calculated in the manner laid down in that Regulation, for the calculation of exposure values.

9. For the purpose of paragraph 8, sub-paragraph 2) the net exposure is calculated by deducting those underwriting positions, which are subscribed or sub-underwritten by third parties on the basis of a formal agreement reduced by the factors set out in paragraph 92 of Regulation No 114/2018.

10. For the purposes of paragraph 8, sub-paragraph 2), banks shall set up systems to monitor and control their underwriting exposures between the time of the initial commitment and the next business day in the light of the nature of the risks incurred in the markets in question.

11. The overall exposures to individual clients or groups of connected clients shall be calculated by totalling the exposures of the trading book and those of the non-trading book.

12. The exposures to groups of connected clients shall be calculated by totalling the exposures to individual clients in a group.

13. In order to determine the overall exposure to a client or a group of connected clients, in respect of clients to which the bank has exposures through transactions referred to in paragraph 11), sub-paragraph 12) and 14) of Regulation No 111/2018 or through other transactions where there is an exposure to underlying assets, the bank shall assess its underlying exposures taking into account the economic substance of the structure of the transaction and the risks inherent in the structure of the transaction itself, in order to determine whether it constitutes an additional exposure.

14. For the purpose of paragraph 13, the conditions and methodologies used to determine the overall exposure to a client or a group of connected clients, as well as the conditions under which the structure of the transaction does not constitute an additional exposure, are referred to in Annex No 1.

CHAPTER III
CAPACITY TO IDENTIFY AND MANAGE LARGE EXPOSURES
AND REPORTING CHARACTERISTICS

15. The bank shall have internal regulations, including control and administrative mechanisms for the identification of connected clients, sound administrative and accounting procedures, and adequate internal control mechanisms which shall allow it to identify, administer, monitor, report and register all large exposures to a client or a group of connected clients and the further modifications, under this Regulation.

16. The bank shall report to the National Bank of Moldova the following information about every large exposure, including large exposures exempted from the application of paragraph 18:

1) the identification of the client or the group of connected clients to which a bank has a large exposure;

2) the exposure value before taking into account the effect of the credit risk mitigation, when applicable;

3) where used, the type of funded or unfunded credit protection;

4) the exposure value after taking into account the effect of the credit risk mitigation calculated for the purpose of paragraph 18;

17. Banks shall report the information required in paragraph 16 under the requirements established in the Guidelines of the National Bank of Moldova on the Presentation of COREP Reports by Banks for Supervisory Purposes.

CHAPTER IV
MAXIMUM LIMITS

18. The amount of exposure, after considering the effect of the credit risk mitigation, under Chapters VI-IX, to a client or a group of connected clients shall not exceed 15% of the eligible capital of the bank.

19. The amount of the aggregate amount of exposures from credits to clients or a group of connected clients, which constitutes by size the first ten credit exposures, after considering the effect of credit risk mitigation, under Chapters VI-IX, shall not exceed 30% of the total amount of the bank's loan book, after deducting credit losses for loans and conditional commitments to ten clients or a group of connected clients that constitute, by size, the first credit exposures, following the reduction with provisions for the respective conditional commitments. Whether the one and the same debtor is included in more groups of connected clients, for the calculation of this indicator, the exposure to this person shall be included just once, within the group that registers the largest exposure to the bank.

20. For the purpose of paragraph 19, credit exposures include the balance of granted credits, the balance of receivables from financial leasing and contractual commitments to provide funds that include but not limited to the following: commitment to grant credits; commitment to perform payments (directly or indirectly) to a third party in case of failure to execute the payment commitments by the client of the bank under the provisions of the agreement between the client and the third party, or based on other conditions; guarantee or collateral commitments in favour of the third party, including the standby letter of credit, guarantees and other similar agreements; any

commitment to purchase receivables or any other rights to execute a payment; commitments to place deposits in the future.

21. The aggregate sum of bank's exposure in Moldovan currency (MDL) attached to the foreign exchange for individuals, including those practicing entrepreneurship or other type of activity, after considering the effect of the credit risk mitigation under Chapter VI-IX, shall not exceed 30% of the eligible capital of the bank, out of which, the amount of exposures - others than the mortgaged ones - shall not exceed 10% of the eligible capital of the bank.

22. The limit stipulated in paragraph 18 may be exceeded in the case of exposures from the trading books of banks, if the following conditions are met:

1) the exposure outside the trading book to a client or a group of connected clients doesn't exceed the limit provided in paragraph 18. This limit shall be calculated by considering the eligible capital, so as the excess will appear in full in the trading book;

2) the bank shall meet an additional requirement for own funds regarding the excess related to the limit stipulated in paragraph 18, which is calculated according to paragraphs 27-30;

3) at the expiry of no more than 10 days from the production of excess, the exposure from the trading book to the client or the group of connected clients shall not exceed 30% of the eligible capital of the bank;

4) the excesses which are maintained more than 10 days shall not exceed 60% of the eligible capital of the bank.

23. For the purpose of paragraph 22, in each case when the limit was exceeded, the bank shall notify the National Bank of Moldova, within no more than 3 (three) business days, the excess amount, the name of the client/group of connected clients.

24. The decision on the conclusion of any transaction or the prolongation of action of an already existing transaction which will lead to the creation of a large exposure with the majority of votes of members of the bank's council before the termination of the respective transaction.

25. Bank shall observe at any time the limits established in paragraphs 18-21.

26. If the limit provided in paragraph 19 was exceeded, the bank shall meet an additional requirement for own funds regarding the respective excess, which shall be calculated under paragraph 32. The bank shall notify the National Bank of Moldova in at least 3 business days about exceeding the limit and amount of the rate of overall adjusted own funds. Whether the requirements stipulated in paragraph 32 are observed, the exceeding of the limit provided in paragraph 19 shall not be considered as violation.

CHAPTER V

CALCULATING ADDITIONAL OWN FUNDS REQUIREMENTS FOR EXCEEDING THE MAXIMUM LIMITS ESTABLISHED IN CHAPTER IV

27. The excess referred to in paragraph 22, sub-paragraph 2) shall be calculated by selecting those components of the total trading exposure to the client or group of connected clients in question which attract the highest specific-risk requirements stipulated in Regulation No 114/2018 and Regulation No 115/2018, the sum of which equals to the amount of the excess referred to in paragraph 22), sub-paragraph 1);

28. Where the excess has not persisted for more than 10 days, the additional capital requirement shall be 200% of the requirements referred to in paragraph 27.

29. 10 days after the excess has occurred, the components of the excess, selected in accordance with paragraph 27), shall be allocated to the appropriate line in column 1 of Table 1 in ascending order of specific-risk requirements in paragraph 27 regarding these components, multiplied by the corresponding factor in column 2 of Table 1.

Tabel 1

Excess over the limits (on the basis of a percentage of eligible capital)	Factors
1	2
Up to 40%	200%
From 40% to 60%	300%
From 60% to 80%	400%
From 80% to 100%	500%
From 100% to 250%	600%
Over 250%	900%

30. Banks shall not deliberately avoid the additional own funds requirements set out in paragraphs 28 and 29 that they would otherwise incur, on exposures exceeding the limit laid down in paragraph 18, once those exposures have been maintained for more than 10 days, by means of temporarily transferring the exposures in question to another company, whether within the same group or not, and/or by undertaking artificial transactions to close out the exposure during the 10-day period and create a new exposure.

31. Banks shall ensure the immediate reporting to the National Bank of Moldova of any transfer which has the effect referred to in paragraph 30.

32. For the purpose of paragraph 26, banks which exceed the limit established in paragraph 19 shall maintain the overall own funds for the excess specified in column 1 of Table 2 in the amount established in column 2 (additional percentage points to the rate of overall own funds).

Tabel 2

Excess over the limits (on the basis of a percentage of total loan book)	Percentage point
1	2
Up to 5%	1 p.p
From 5% to 15%	5 p.p
From 15% to 30%	10 p.p
Over 30%	20 p.p

CHAPTER VI ELIGIBLE CREDIT MITIGATION TECHNIQUES

33. For the purposes of paragraphs 36-43, the term “guarantee” shall include credit derivatives recognised under Regulation on the Credit Risk Mitigation Used by Banks, approved by Decision No 112 of 24 May 2018 of the National Bank of Moldova (hereinafter – *Regulation No 112/2018*), other

than the instruments of “*credit linked note*” type specified in paragraph 38, sub-paragraph 3) of this Regulation, while the term “collateral” includes the guarantees which meet the conditions specified in paragraph 25 of the respective Regulation.

34. When the recognition of funded or unfunded credit protection is allowed under this Regulation, this shall be subject to compliance with the eligibility requirements and other requirements set out in Regulation No 112/2018.

35. Banks shall analyse, to the extent possible, their exposures to collateral issuers, providers of unfunded credit protection and underlying assets pursuant to paragraph 13 for possible concentrations, and where appropriate, take action and report to the National Bank of Moldova, if the exposure towards them exceeds 10% from the eligible capital.

CHAPTER VII EXEMPTIONS

36. The following exposures shall be exempted from the application of paragraph 18-21:

1) asset items constituting claims on central governments, central banks or public sector entities which, unsecured, would be assigned a 0% risk weight under Regulation No 111/2018;

2) asset items constituting claims on international organisations or multilateral development banks which, unsecured, would be assigned a 0% risk weight under the Regulation mentioned in sub-paragraph 1);

3) asset items constituting claims carrying the explicit guarantees of central governments, central banks, international organisations, multilateral development banks or public sector entities, where unsecured claims on the entity providing the guarantee would be assigned a 0 % risk weight under the Regulation mentioned in sub-paragraph 1);

4) other exposures attributable to, or guaranteed by, central governments, central banks, international organisations, multilateral development banks or public sector entities, where unsecured claims on the entity to which the exposure is attributable or by which it is guaranteed would be assigned a 0 % risk weight under the Regulation mentioned in sub-paragraph 1);

5) exposures to counterparties referred to in paragraphs 19-21 of the Regulation mentioned in sub-paragraph 1), if they would be assigned a 0 % risk weight under the same Regulation. Exposures that do not meet those criteria, whether or not exempted from the provisions of paragraph 18-21, shall be treated as exposures to a third party;

6) asset items and other exposures secured by collateral in the form of cash deposits placed by debtors, except non-residents, with the lending institution or with an institution which is the parent undertaking or a subsidiary of the lending institution. The cash collected under an instrument of *credit linked note* type issued by a bank and the loans and deposits of a counterparty in relation to a bank which make the object of a netting agreement on the elements of the balance, recognized under Regulation No 112/2018, shall be considered in compliance with the provisions of this sub-paragraph;

7) asset items and other exposures secured by collateral in the form of certificates of deposit issued by the lending institution or by an institution which is the parent undertaking or a subsidiary of the lending institution and lodged with either of them;

8) exposures arising from undrawn credit facilities that are classified as low-risk off-balance sheet items according to Annex I to the Regulation mentioned in sub-paragraph 1) and provided that an agreement has been concluded with the client or group of connected clients under which the

facility may be drawn only if it has been ascertained that it will not cause the limit applicable under paragraphs 18-21 to be exceeded or cancelled unconditionally by the bank;

9) exposures to the Deposit Guarantee Fund, in accordance with Law No 575/2003 on deposit guarantee of individuals in the banking system (Official Monitor of the Republic of Moldova, No 30-34/169, 20.02.2004), which arise from its financing;

10) asset items constituting claims on and other exposures to banks, including funds registered in "Nostro" accounts, placements in banks, overnight funds placed in banks and overnight credits granted to banks, on condition that these banks hold individually or the group to which the respective bank belongs holds a credit assessment conducted by ECAI, which the National Bank of Moldova qualified it as credit step 2 or a superior level, under the rules for the risk weighting of exposures to banks or short-term exposures provided in Regulation No 111/2018. The respective exposures shall not constitute the own funds of these banks;

11) 50% of the medium risk off-balance sheet documentary credits and medium risk off-balance sheet undrawn credit facilities referred, under Annex No 1 of the Regulation mentioned in sub-paragraph 1).

CHAPTER VIII CALCULATING THE EFFECT OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

37. For calculating the value of exposures for the purposes of paragraphs 18-21, a bank may use the "fully adjusted exposure value" (E^*) as calculated under Regulation No 112/2018, taking into account the credit risk mitigation, volatility adjustments, and any maturity mismatch.

38. For the purpose of paragraph 37, banks which use the financial collateral comprehensive method to calculate the value of exposures, shall perform periodically, but not less than once per year, stress tests of their credit-risk concentrations, including in relation to the realisable value of any collateral taken.

39. These periodic stress tests referred to in paragraph 38, shall address risks arising from potential changes in market conditions that could adversely impact the institutions' adequacy of own funds of banks and risks arising from the realisation of collateral in stressed situations.

40. The stress tests carried out shall be adequate and appropriate for the assessment of such risks. In the event that the periodic stress test indicates a lower realisable value of collateral taken than would be permitted to be taken into account while making use of the Financial Collateral Comprehensive Method, the value of collateral permitted to be recognised in calculating the value of exposures for the purposes of paragraph 18 shall be reduced with the value which represents the difference between these two values of collaterals.

41. Banks referred to in paragraph 38 shall include the following elements in their strategies to address concentration risk:

1) policies and procedures to address risks arising from maturity mismatches between exposures and any credit protection on those exposures;

2) policies and procedures in the event that a stress test indicates a lower realisable value of collateral than taken into account while making use of the Financial Collateral Comprehensive Method;

3) policies and procedures relating to concentration risk arising from the application of credit risk mitigation techniques, and in particular large indirect credit exposures, for example to a single issuer of securities taken as collateral.

CHAPTER IX SUBSTITUTION APPROACH

42. Where an exposure to a client is guaranteed by a third party, or secured by collateral issued by a third party, which meet the conditions specified in paragraph 25 of Regulation No 112/2018, the bank may:

1) treat the portion of the exposure which is guaranteed as having been incurred to the guarantor rather than to the client provided that the unsecured exposure to the guarantor would be assigned an equal or lower risk weight than a risk weight of the unsecured exposure to the client under Regulation No 111/2018;

2) treat the portion of the exposure collateralised by the market value of recognised collateral as having been incurred to the third party rather than to the client, if the exposure is secured by collateral and provided that the collateralised portion of the exposure would be assigned an equal or lower risk weight than a risk weight of the unsecured exposure to the client under Regulation No 111/2018.

43. Where a bank applies the provisions of paragraph 42, sub-paragraph 1):

1) where the guarantee is denominated in a currency different from that in which the exposure is denominated the amount of the exposure deemed to be covered shall be calculated in accordance with the provisions on the treatment of currency mismatch for unfunded credit protection set out in Regulation No 112/2018;

2) a mismatch between the maturity of the exposure and the maturity of the protection shall be treated in accordance with the provisions on the treatment of maturity mismatch set out in the Regulation mentioned in sub-paragraph 1);

3) partial coverage may be recognised in accordance with the treatment set out in the Regulation mentioned in sub-paragraph 1).

44. The method mentioned in paragraph 42, sub-paragraph 2) shall not be used by a bank in case of a gap between the maturity of the exposure and maturity of protection.

**CONDITIONS AND METHODOLOGIES OF DETERMINING THE
OVERALL EXPOSURE TO A CLIENT OR A GROUP OF CONNECTED CLIENTS IN RESPECT OF
TRANSACTIONS WITH UNDERLYING ASSETS**

1. A bank shall determine the contribution to the overall exposure to a certain client or group of connected clients that results from a certain transaction mentioned in paragraph 13 of the Regulation, in accordance with the guidelines set out in paragraphs 4-11 of this Annex. The bank shall determine separately for each of the underlying assets its exposure to this underlying asset in accordance with paragraphs 5-7 of this Annex.

2. For the purpose of this Annex, the underlying assets represent the assets mentioned in Article 112, paragraph 1), item 6), letter a) of the Law No 171/2012 on Capital Market (Official Monitor of the Republic of Moldova, 2012, No 193-197, Article 665).

3. A bank shall assess whether a certain transaction constitutes an additional exposure in accordance with paragraph 13 of this Annex.

4. When assessing the underlying exposures of a transaction (transaction A) which itself has an underlying exposure to another transaction (transaction B) for the purpose of paragraphs 6-12 of this Annex, a bank shall treat the exposure to transaction B as replaced with the exposures underlying transaction B. This provision shall apply as long as the underlying exposures are exposures to transactions with underlying assets.

5. The exposure of a bank to an underlying asset of a transaction is the lower of the following:

1) the exposure value of the exposure arising from the underlying asset;

2) the total exposure value of the bank's exposures to the underlying asset resulting from all exposures of the institution to the transaction.

6. For each exposure of an institution to a transaction, the exposure value of the resulting exposure to an underlying asset shall be determined as follows:

1) if the exposures of all investors in this transaction rank *pari passu*, the exposure value of the resulting exposure to an underlying asset shall be the pro rata ratio for the institution's exposure to the transaction multiplied by the exposure value of the exposure formed by the underlying asset;

2) in cases other than those referred to sub-paragraph 1), the exposure value of the resulting exposure to an underlying asset shall be the pro rata ratio for the bank's exposure to the transaction multiplied by the lower of:

a) the exposure value of the exposure formed by the underlying asset;

b) the total exposure value of transaction together with all other exposures to this transaction that rank *pari passu* with the institution's exposure.

7. The pro rata ratio for a bank's exposure to a transaction shall be the exposure value of the bank's exposure divided by the total exposure value of the bank's exposure together with all other exposures to this transaction that rank *pari passu* with the bank's exposure.

8. For each credit risk exposure for which the debtor is identified, a bank shall include the exposure value to the relevant underlying asset when calculating the overall exposure to this debtor as an individual client or to the group of connected clients to which this debtor belongs.

9. If an institution has not identified the debtor of an underlying credit risk exposure, or where a bank is unable to confirm that an underlying exposure is not a credit risk exposure, the bank shall assign this exposure as follows:

1) where the exposure value does not exceed 0,15% of the bank's eligible capital, it shall assign this exposure to the transaction as a separate client;

2) where the exposure value is equal to or exceeds 0,15 % of the bank's eligible capital and the bank can ensure, by means of the transaction's mandate, that the underlying exposures of the transaction are not connected with any other exposures in its portfolio, including underlying exposures from other transactions, it shall assign this exposure to the transaction as a separate client;

3) in cases other than those referred to in sub-paragraphs 1) and 2), it shall assign this exposure to the unknown client.

10. If a bank is not able to distinguish the underlying exposures of a transaction, the institution shall assign the total exposure value of its exposures to the transaction as follows:

1) where this total exposure value does not exceed 0,15 % of the bank's eligible capital, it shall assign this total exposure value to the transaction as a separate client;

2) in cases other than those referred to in sub-paragraph 1), it shall assign this total exposure value to the unknown client.

11. For the purposes of paragraph 9, sub-paragraph 3) and paragraph 10, sub-paragraph 2) of this Annex "unknown client" means a single hypothetical client to which the bank assigns all exposures for which it has not identified the debtor, provided that paragraph 9, sub-paragraph 1) and 2), and paragraph 10, sub-paragraph 1) of this Annex are not applicable.

12. For the purpose of paragraphs 9 and 10 of this Annex, the bank shall regularly, and at least on a monthly basis, monitor such transactions for possible changes in the composition and the relative share of the underlying exposures.

13. The structure of a transaction shall not constitute an additional exposure if the transaction meets both of the following conditions:

1) the legal and operational structure of the transaction is designed to prevent the manager of the transaction or a third party from redirecting any cash flows which result from the transaction to persons who are not otherwise entitled under the terms of the transaction to receive these cash flows;

2) neither the issuer nor any other person can be required, under the transaction, to make a payment to the institution in addition to, or as an advance payment of, the cash flows from the underlying assets.

14. The condition in paragraph 13, sub-paragraph 1) of this Annex shall be considered to be met where the transaction is one of the following:

a) a collective investment undertaking of securities (CIUS) in the Republic of Moldova or another country, as defined in Article 6 of the Law No 171/2012 on the Capital Market;

b) an enterprise established in a third country which develops activities similar to those developed by a CIUS, and which is subject to supervision under a regulatory act.

METHODOLOGY ON DETERMINING THE GROUP OF CONNECTED CLIENTS

CHAPTER 1 GENERAL PROVISIONS

1. This Annex establishes the methodology of establishing the “group of connected clients” which constitute a single risk, as well as scenarios related to control relations and economic dependence between the clients of banks for determining the group of connected clients.

SECTION 1 *Groups of connected clients based on control*

2. In determining the “group of connected clients” according to the notion of the Regulation, banks are required to assume that two or more clients constitute a single risk when there is a control relationship between them.

3. In exceptional cases, where banks are able to demonstrate that no single risk exists despite the existence of a control relationship among clients (see scenario C1 from Chapter 2), they shall document the relevant circumstances that justify this case in a detailed and comprehensible manner.

4. Banks shall apply the concept of control as defined in Law No 202/2017 on the Activity of Banks.

5. In addition to the concept of control mentioned in paragraph 4, banks shall consider in their assessment, if necessary, other control indicators, which include at least, but not limited to the following:

- 1) power to decide on the strategy or direct the activities of an entity;
- 2) power to decide on crucial transactions, such as the transfer of profit or loss;
- 3) right or ability to coordinate the management of an entity with that of other entities in pursuit of a common objective (e.g. where the employees of a debtor are involved in the management board of a debtor; where the same individuals are involved in the management or board of two or more entities);
- 4) holding more than 50% of the shares of capital of another entity.

6. Banks shall group two or more clients into a group of connected clients on account of a relationship of control among these clients regardless of whether or not the exposures to these clients are exempted from the application of the large exposures limit.

SECTION 2 *Alternative approach for exposures to central governments*

7. Under the definition of “group of connected clients”, banks may assess the existence of a group of connected clients separately for each of the persons directly controlled by or directly interconnected with the central government (“alternative approach”).

8. The same provision allows for a partial application of the alternative approach, assessing separately individuals or legal entities directly controlled by or directly interconnected with the central administration or directly connected with it (see Scenario CG1 of Chapter 2).

9. The provision clarifies the following:

1) the central government is included in each of the groups of connected clients identified separately for individuals or legal entities directly controlled by or directly interconnected with the central government (see scenario CG 2, Chapter 2);

2) each group of connected clients under sub-paragraph 1) includes also persons controlled by or interconnected with the person who is directly controlled by or directly interconnected with the central government (see scenario CG 3, Chapter 2).

10. Where the entities directly controlled by or directly interconnected with the central government are economically dependent on each other, they shall form separate groups of connected clients (excluding the central government), in addition to the groups of connected clients formed in accordance with the alternative approach (see scenario CG 4, Chapter 2).

SECTION 3

Establishing interconnectedness based on economic dependency

11. When assessing interconnectedness among their clients based on economic dependency, the bank shall take into account the specific circumstances of each case, in particular whether the financial difficulties or the failure of a client would lead to funding or repayment difficulties for another client (see scenarios E 1, E 2, E 3 and E 4 in Chapter 2).

12. Where a bank is able to demonstrate that the financial difficulties or the failure of a client would not lead to funding or repayment difficulties for another client or a client is economically dependent on another client in a limited way, meaning that the client – due to the specific nature of the product or relationship between clients, geographical location, fierce competition on the market, can easily find a replacement for the other client, the bank may consider that these clients do not constitute a single risk. The bank's probation of the lack of economic dependence of an entity (A) on another entity (B) can be accepted by the National Bank of Moldova only if entity A has a real economic activity comparable to the amount of financing obtained from the bank.

13. Banks shall consider, in particular, the following situations when assessing economic dependency:

1) where a client has fully or partly guaranteed the exposure of another client and the exposure is so significant for the guarantor that the guarantor is likely to experience financial problems if a claim occurs. This situation refers to the guarantees which do not meet the conditions specified in paragraph 25 of Regulation No 112 of 24 May 2018, and subsequently, the substitution method mentioned in Chapter IX of the Regulation cannot be applied in this regard;

2) where a client is liable in accordance with his or her legal status as a member in an entity, for example a general partner in a limited partnership, and the exposure is so significant for the client that the client is likely to experience financial issues if a claim against the entity occurs;

3) 25% or more from the receipts or gross expenditures of a client (on an annual basis) is derived from transactions with another client (e.g. the owner of a residential/commercial property the tenant of which pays a significant part of the rent), which due to the specificity of the product or relation, geographical location or fierce market competition, cannot be easily replaced;

4) Where a significant part of a client's production/output is sold to another client of the bank, and the production/output cannot be easily sold to other clients due to the specificity of the product or relation, geographical location or fierce market competition;

5) Where the expected source of funds to repay the credits of two or more clients is the same and none of the clients has another independent source of income from which the credit may be serviced and fully repaid;

6) Other situations where clients are legally or contractually jointly liable for obligations to the bank (e.g. a debtor and his or her co-borrower, or a debtor and his or her spouse/partner).

7) Where 25% of the receivables or liabilities of a client are due to another client.

8) Where clients have common owners, shareholders or managers. For example, horizontal groups where an undertaking is related to one or more other undertakings because they all have the same shareholder structure without a single controlling shareholder or because they are managed on a unified basis. This management may be pursuant to a contract concluded between the undertakings, or to provisions in the memoranda or articles of association of those undertakings, or if the management or supervisory bodies of the undertaking and of one or more other undertakings consist, to a large extent, of the same persons.

14. Where a bank's client is economically dependent on more than one client, which are not dependent on each other, the bank shall include the latter clients in separate groups of connected clients (together with the dependent client).

15. The bank shall form a group of connected clients where two or more of their clients are economically dependent on an entity, even if this entity is not a client of the institution.

16. Banks shall group two or more clients into a group of connected clients on account of economic dependency among these clients regardless of whether or not the exposures to these clients are exempted from the application of the large exposures limit.

SECTION 4

Economic dependency through a main source of funding

17. Banks shall consider situations where the funding issues of one client are likely to spread to another on account of a one-way or two-way dependency on the same funding source. This does not include cases where clients get funding from the same market (e.g. the market for commercial paper) or where clients' dependency on their existing source of funding is caused by the clients' deteriorating creditworthiness, such that they cannot easily replace the respective source of funding.

18. Banks shall consider cases where the common source of funding depending on is provided by the bank itself, its financial group or its connected parties (see scenarios E5 and E6, Chapter 2). Being clients of the same bank does not in itself create a requirement to group the clients if the bank providing funding can be easily replaced.

19. Banks shall assess any contagion or idiosyncratic risk that could emerge from the following situations:

1) use of one funding entity (e.g. the same bank or conduit that cannot be easily replaced);

2) use of similar structures;

3) reliance on commitments from one source (e.g. guarantees, credit support in structured transactions or non-committed liquidity facilities), taking into account its solvency, especially where

there are maturity mismatches between the maturity of underlying assets and the frequency of the refinancing needs

20. For the purpose of paragraph 19 of this Annex, by idiosyncratic risk is meant the effects of risks characteristic to individual debtors. The idiosyncratic risk may appear in the context of bilateral relations when the financial issues of an entity are transferred based on this relation to another entity which under other conditions would not be affected.

SECTION 5

Relation between interconnectedness through control and interconnectedness through economic dependency

21. Banks shall first identify which clients are connected via control (“control group”) and which clients are connected via economic dependency. Subsequently, banks shall assess whether the identified groups of connected clients need to be (partially) connected themselves (e.g. whether groups of clients connected on account of economic dependency need to be grouped together with a control group).

22. In their assessment, banks shall consider each case separately, i.e. identify the possible chain of contagion (“domino effect”) based on the individual circumstances (see scenarios C/E 1 and C/E 2 in Chapter 2)

23. Where clients that are part of different control groups are interconnected via economic dependency, all entities for which a chain of contagion exists need to be grouped into one group of connected clients. Downstream contagion shall always be assumed when a client is economically dependent and is itself the head of a control group (see scenario C/E 3). Upstream contagion of clients that control an economically dependent entity shall be assumed only when this controlling client is also economically dependent on the entity that constitutes the economic link between the two controlling groups (see scenario C/E 4, Chapter 2).

SECTION 6

Establishing interconnectedness within transactions performed with the bank by a person in the interest of another person

24. For the purpose of a lending transaction with a debtor, banks shall determine, where appropriate, the persons for whose benefit the transactions with the debtor were carried out, as well as if towards the persons that are subjects of transactions, the bank exposes through an asset and/or an off-set off-balance sheet item, described in the balance and/or outside the balance, and which can be subject to credit risk (see scenarios 1 and 2 of section 3, Chapter 2).

25. Where the existence of exposure mentioned in paragraph 24 of this Annex is established, the bank shall determine the existence or absence of relations provided in sub-paragraph 3) based on the term “group of connected clients” through which, the debtor of the bank towards whom the bank has no asset or conditional commitment (for instance, employment relation, proxy on behalf of another person, civil status relationships, divorced persons, persons in guardianship or curatorship relations, first and second degree relatives, spouses of relatives, persons in marriage-like relationships (cohabitation) or parent-like relationships between parents and children, etc.) – may be influenced.

SECTION 7

Control and management procedures for identifying connected clients

26. Banks shall have a thorough knowledge of their clients and their clients' relationships. Banks shall also ensure that their staff understand and apply the guidelines of this Annex.

27. Identification of possible connections among clients shall be an integral part of a bank's credit granting and surveillance process. The management body and senior management shall ensure that adequate processes for the identification of connections among clients are documented and implemented.

28. Banks shall identify all control relationships among their clients and document as appropriate. They shall also investigate and document correspondingly, any potential economic dependencies among their clients. In addition, banks shall take reasonable steps and use readily available information to identify these connections. If, for example, a bank becomes aware that clients have been considered interconnected by another institution (e.g. because of the existence of a public register), it shall take into account that information.

29. The efforts that banks put into the investigation of economic dependencies among their clients shall be proportionate to the size of the exposures. Therefore, banks shall strengthen their investigations, by extensive research of any type of unconfirmed information, as well as information that goes beyond the banks' clients, in all cases where the sum of all exposures to one individual client exceeds 5% of the bank's tier 1 own funds.

30. To assess grouping requirements based on a combination of control and economic dependency relationships, banks shall collect information on all entities forming a chain of contagion. Banks might not be able to identify all clients that constitute a single risk if there are interconnections that stem from entities that are not in a business relationship with the bank and are therefore unknown to the bank. However, if a bank becomes aware of interconnections via entities outside its clientage, it shall use this information when assessing connections.

31. Control and management procedures for identifying connected clients shall be subject to periodic review to ensure their appropriateness and topicality. Banks shall also monitor changes to interconnections, at least in the context of their periodic loan reviews and when a substantial increase to a loan is planned.

CHAPTER 2

SCENARIOS RELATED TO CONTROL AND ECONOMIC DEPENDENCE RELATIONSHIPS BETWEEN BANKS FOR THE PURPOSE OF DETERMINING THE GROUP OF CONNECTED CLIENTS

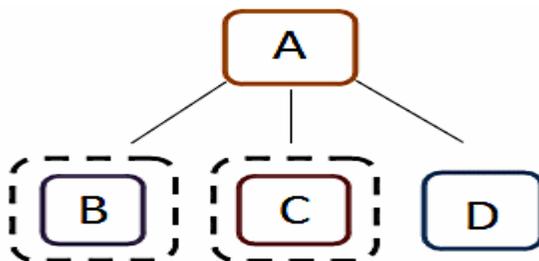
The scenarios included in this Chapter illustrate the application of methodology to groups of connected clients falling under the definition of "group of connected clients" and shall be applied by the reporting banks.

SECTION 1

Groups of connected clients based on control

Scenario C 1: Exceptional case (no single risk exists despite the existence of control)

The reporting bank has exposures to all entities shown below (A, B, C and D). Entity A has control over entities B, C and D. The subsidiaries B, C and D are special purpose entities/ special purpose vehicles (SPEs/SPVs).



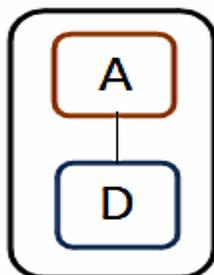
To assess if there is no single risk, despite the existence of a control relationship, the reporting bank shall assess at least all of the following elements in relation to each of the SPEs/SPVs (entities B, C and D in this scenario):

1) the absence of economic interdependence or any other factors that could be indicative of a material positive correlation between the credit quality of the parent undertaking A and the credit quality of the SPE/SPV (B, C or D). Among other factors, potential reliance on parent undertaking A for funding sources and some of the criteria preventing the deconsolidation of the SPE/SPV or the derecognition of securitised assets under the applicable accounting rules have to be assessed as potential signs of material positive correlation.

2) The specific nature of the SPE/SPV, especially its bankruptcy remoteness – in the sense that effective arrangements exist that ensure that the assets of the SPE/SPV will not be available to the creditors of parent undertaking A in the event of its insolvency – and if the debt securities issued by the SPE/SPV normally reference assets that are third parties' liabilities.

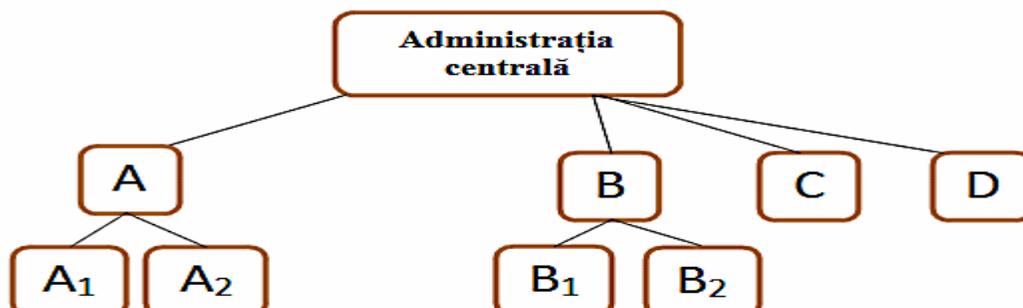
3) The structural enhancement in a securitisation, and the delinkage of the obligations of the SPE/SPV from those of parent undertaking A, such as the existence of provisions, in the transactions documentation, ensuring servicing and operational continuity.

Having assessed all of these elements, the reporting bank could conclude that, for example, subsidiaries B and C do not constitute a single risk with parent undertaking A. As a result, the reporting bank needs to consider a group of connected clients composed only of clients A and D. The reporting bank shall document these assessments and their findings in a comprehensive way.



Alternative approach for exposures to central governments

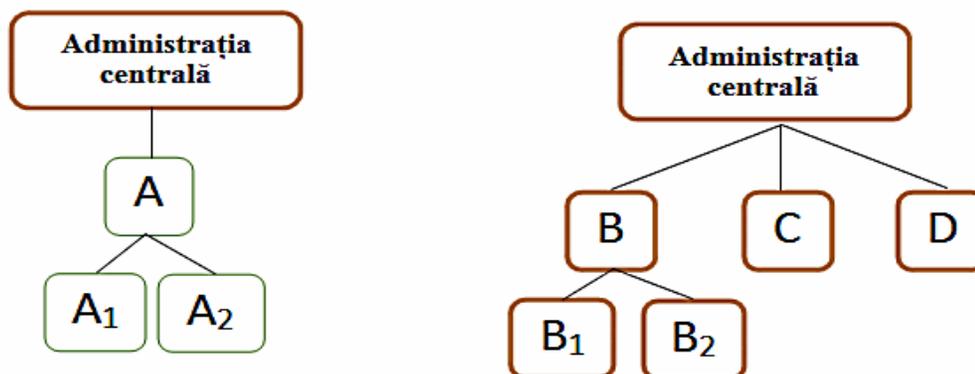
To illustrate the possible scenarios, the following general scenario shall be used: the central government directly controls four legal entity (A, B, C and D). Entities A and B themselves have direct control over two subsidiaries each (A1/A2, B1/B2). The reporting bank has exposures to the central government and all of the entities shown.



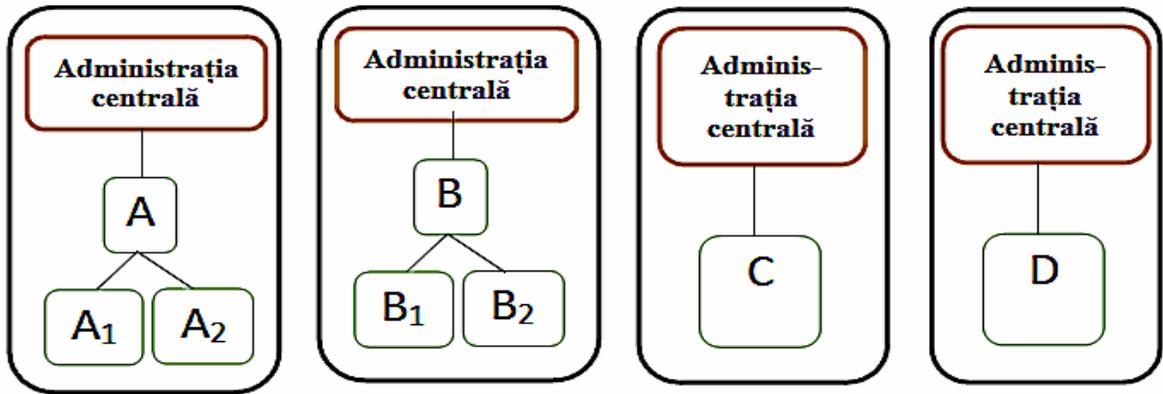
Administrația centrală - *central government*

Scenario CG 1: Alternative approach – partial use

The reporting bank could carve out only one group (“central government/A/all controlled or dependent entities of A”) and keep the general treatment for the rest (“central government/B, C and D/all controlled or dependent entities of B”):



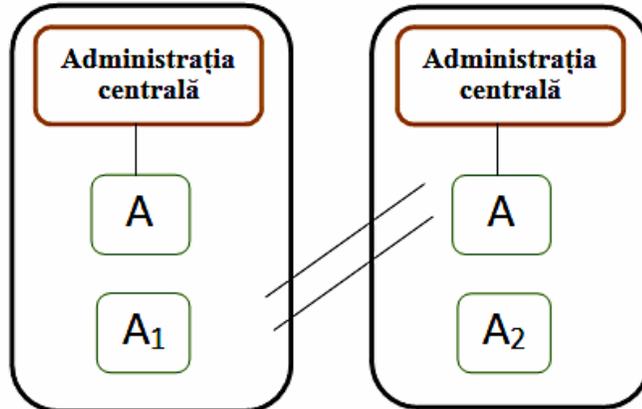
Scenario CG 2: Alternative approach – used for all directly dependent entities



Administrația centrală - *central government*

Scenario CG 3: Alternative approach – applicable on “first/second level”, not below

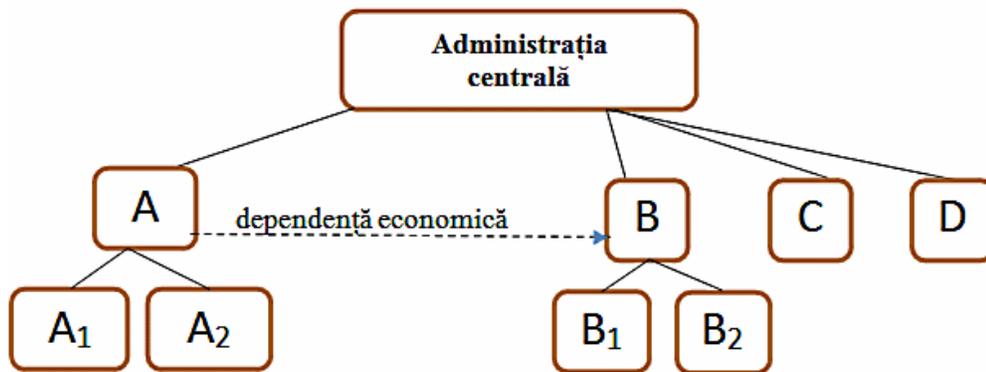
In the scenarios CG1 and CG2, entities A, B, C and D constitute the “second level”, i.e. the level directly below the central government (“first level”). Here, a carve-out from the overall group of connected clients is possible. However, entities A1, A2, B1 and B2 are only indirectly connected to the central government. A carve-out on their level is not possible (e.g. both A1 and A2 need to be included in the group “central government/A”):



Administrația centrală - *central government*

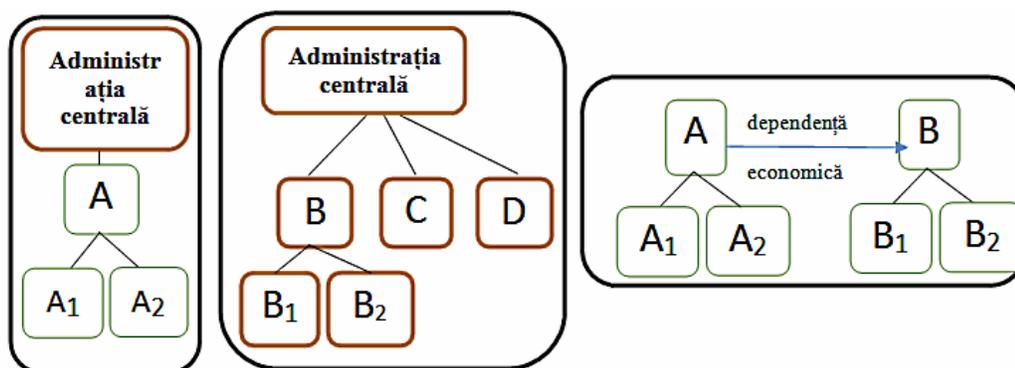
Scenario CG 4: “Horizontal connections” on the “second level”

In a variation on the general scenario above, entities A and B are economically dependent (payment difficulties for B would be contagious to A):



Administrația centrală - *central government*
 Dependență economică - *economic dependency*

Assuming that the reporting bank uses the alternative approach only in part, as described in scenario CG 1 above, the following groups of connected clients shall be considered:



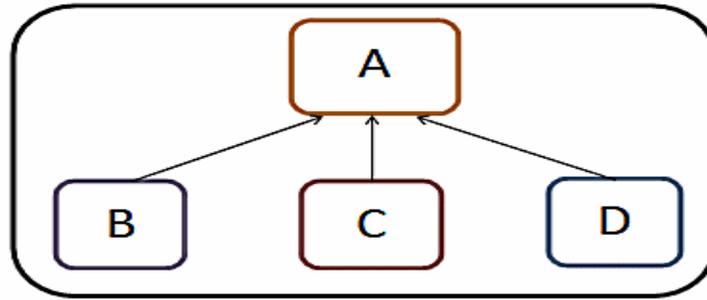
Administrația centrală - *central government*
 Dependență economică - *economic dependency*

SECTION 2

Establishing interconnectedness based on economic dependency

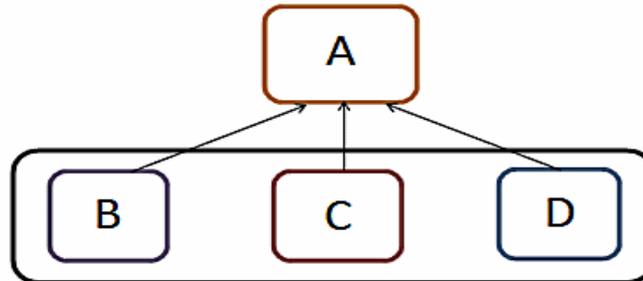
Scenario E1: Main case

The reporting bank has exposures to all entities shown below (A, B, C and D). B, C and D rely economically on A. Hence, the underlying risk factor for the bank is in all cases entity A. The reporting bank shall form one comprehensive group of connected clients, not three individual groups. It is irrelevant that there is no dependency among entities B, C and D.



Scenario E 2: Variation on main case (no direct exposure to source of risk)

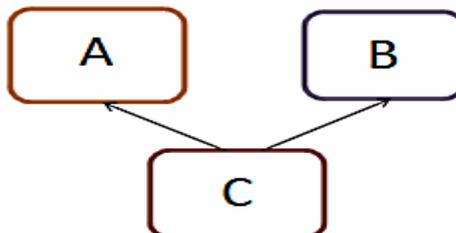
There is a grouping requirement even if the reporting bank does not have a direct exposure to entity A but is aware of the economic dependency of each client (B, C and D) on entity A. If possible payment difficulties for entity A are contagious to B, C and D, they will all experience payment difficulties if A gets into financial troubles. Therefore, they need to be treated as a single risk.



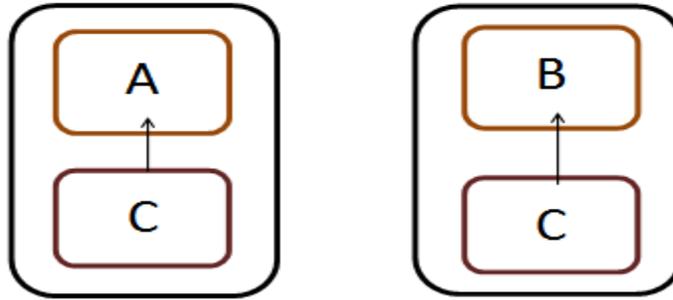
As in scenario E 1, it does not matter that there is no dependency among entities B, C and D. Entity A shall cause the grouping requirement, although it is not a client itself and thus is not part of the group of connected clients.

Scenario E 3: Overlapping groups of connected clients

If an entity is economically dependent on two (or more) other entities (note that the payment difficulties of one of the other entities (A or B) might be sufficient to result in entity C being in difficulty),



it has to be included in the groups of connected clients of both (all such) entities:

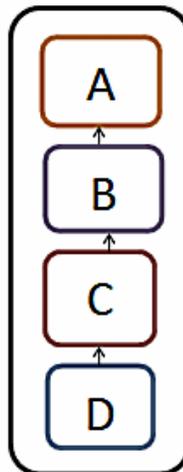


The argument that the exposure to entity C will be double-counted is not valid because the exposure to C is considered a single risk in two separate groups. The large exposure limit applies separately: once to exposures to group A/C and once to exposures to group B/C.

As there is no dependency between A and B, no comprehensive group (A + B + C) needs to be formed.

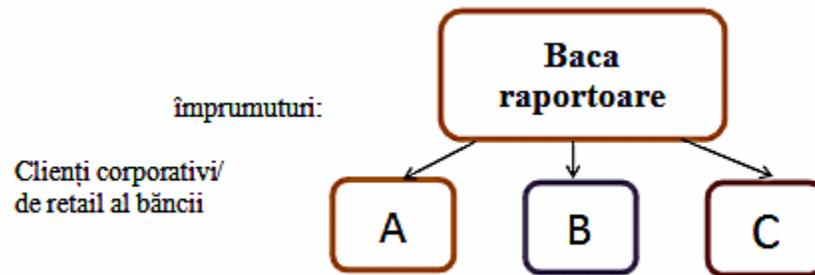
Scenario E 4: Chain of dependency

In the case of a “chain of dependency”, all entities that are economically dependent (even if the dependency is only one way) need to be treated as one single risk. It would not be appropriate to form three individual groups (A + B, B + C, C + D).



Scenario E 5: Reporting bank as source of funding (no grouping requirement)

In the following scenario, the reporting bank is the sole provider of funds for three clients. It is not an “external funding source” that connects the three clients and it is a funding source that can normally be replaced.



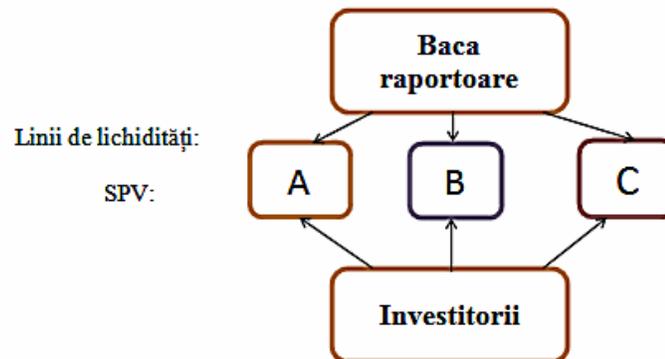
Banca Raportoare - *reporting bank*

Împrumuturi - *loans*

Clienți corporative/de retail al băncii - *corporate / retail customers of the bank*

Scenario E 6: Reporting banks as source of funding (grouping requirement)

In the following scenario, the reporting bank is the liquidity provider of three SPVs or conduits (similar structures):

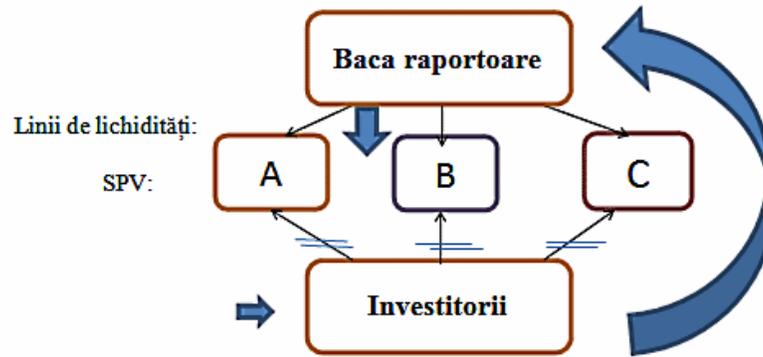


Banca Raportoare - *reporting bank*

Linii de lichidități - *liquidity lines*

Investitori - *investors*

In such a case, the reporting bank itself can constitute the source of risk (the underlying risk factor).



- ↓ liniile de lichiditate sunt trase simultan
- ↻ evaluarea negativă/percepția de către investitori a situației de lichiditate a instituției raportoare
- investitorii se retrag din SPV

Banca Raportoare - *reporting bank*
 Linii de lichidități - *liquidity lines*
 Investitori - *investors*

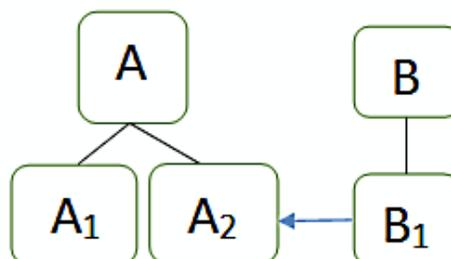
In the scenario above, it does not make a difference whether the liquidity lines are directly to the SPV or to underlying assets within the SPV; what matters is the fact that liquidity lines are likely to be drawn on simultaneously. Diversification and quality of the assets are also not considerations in this scenario, nor is the reliance on investors in the same sector (e.g. investors in the ABCP market), as the single risk is created by the use of similar structures and the reliance on commitments from one source (i.e. the reporting bank as the originator and sponsor of the SPVs).

SECTION 3

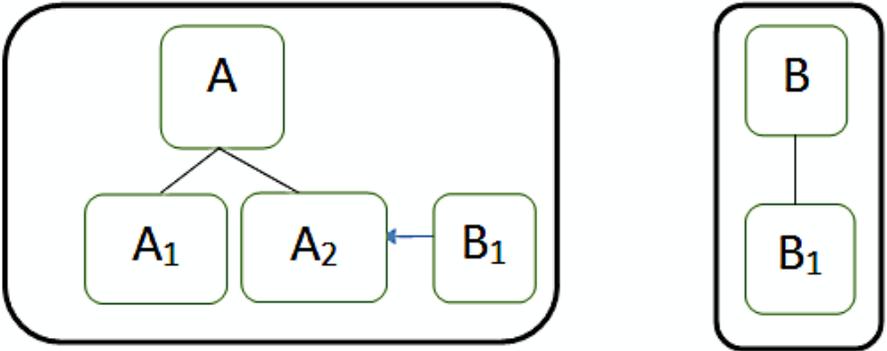
Relation between interconnectedness through control and interconnectedness through economic dependency

Scenario C/E 1: Combined occurrence of control and economic dependency (one-way dependency)

In the following scenario, the reporting bank has exposures to all entities shown in the diagram below. Entity A controls A1 and A2, while entity B controls B1. Furthermore, B1 is economically dependent on A2 (oneway dependency):



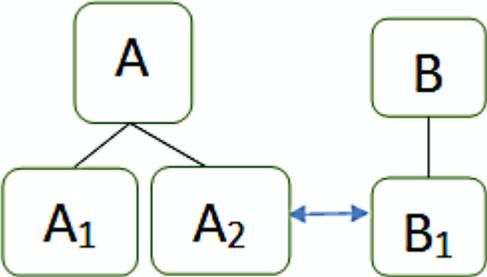
Grouping requirement: In this scenario, the reporting bank shall come to the conclusion that entity B1 is in any case to be included in the group of connected clients of entity A (the group thus consisting of A, A1, A2 and B1) as well as of entity B (the group thus consisting of B and B1):



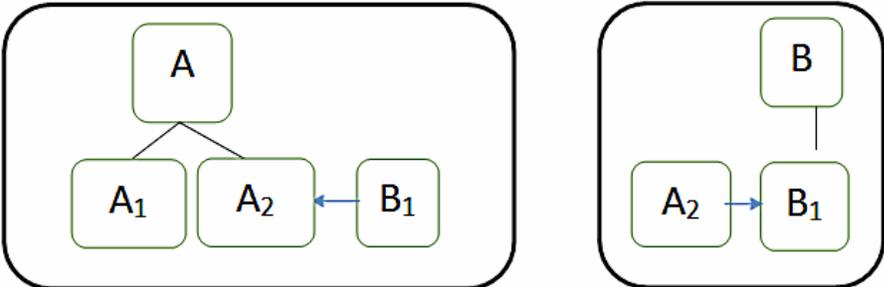
In case of financial problems for entities A, A2 and ultimately B1 will also experience financial difficulties on account of their legal (A2) and economic (B1) dependency respectively. The forming of three different groups (A + A1 + A2, A2 + B1, B + B1) would not be sufficient to capture the risk stemming from entity A, because entity B1, although dependent on entity A2 and thus on entity A itself, would be carved out of the single risk of group A.

Scenario C/E 2: Combined occurrence of control and economic dependency (two-way dependency)

In this scenario, the economic dependency of entity A2 and B1 is not only one way but also mutual:

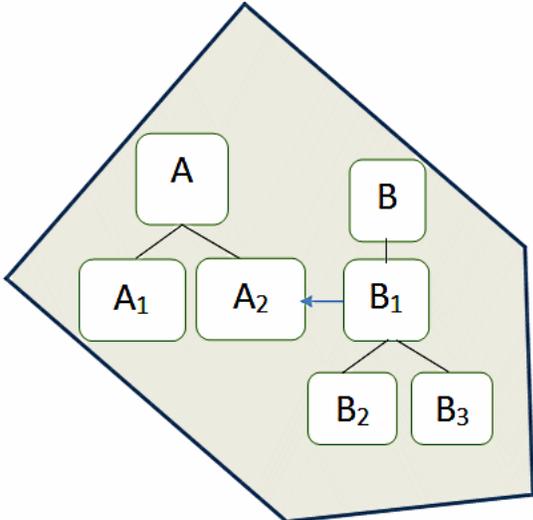


Grouping requirement: A2 would need to be included additionally in group B, and B1 would need to be included additionally in group A:

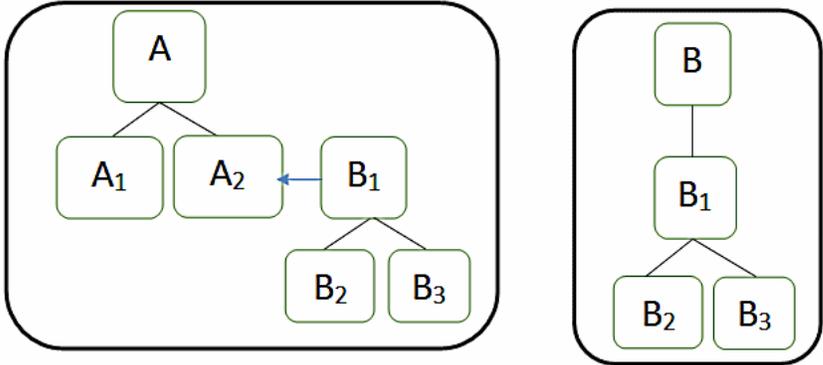


Scenario C/E 3: Downstream contagion

In a variation on scenario C/E 1 above, entity B1 also controls two entities (B2 and B3). In this case, the financial difficulties of A will pass through A2 and B1 down to the two subsidiaries of B1 (“downstream contagion”).

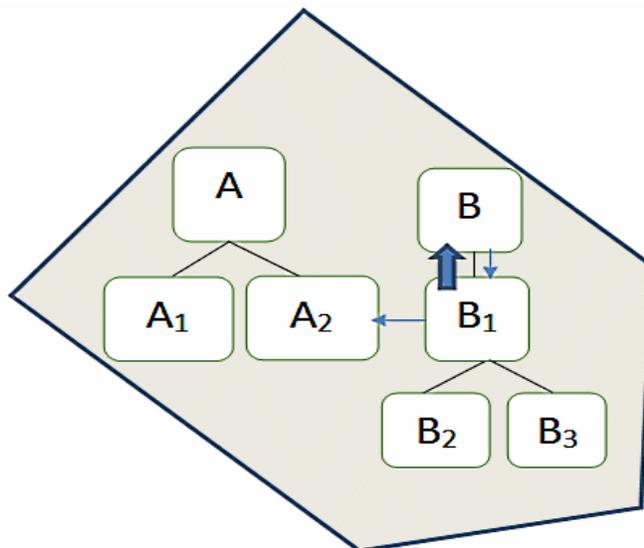


Cerința de grupare:

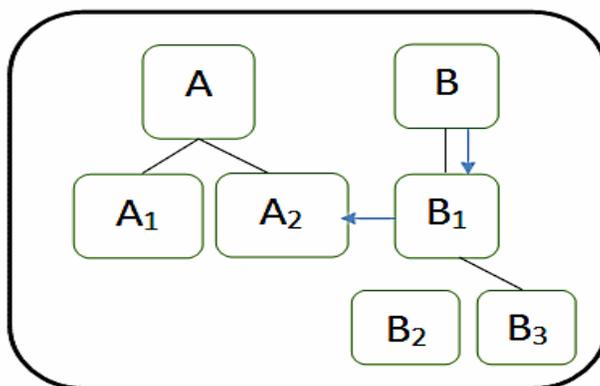


Scenario C/E 4: Upstream contagion

The control relationship between B and B1 does not automatically lead to including B in the group of connected clients of entity A, as financial issues for A are not likely to result in financial difficulties for B. However, the controlling entity B needs to be included in the group of A if B1 forms such an important part of group B that B is economically dependent on B1. In this case, the financial difficulties of A will proceed not only downwards but also upwards to B, causing payment difficulties for B (i.e. all entities now form a single risk).



Cerința de grupare:



SECTION 3

Report between the relation based on influence

Scenario 1

The legal entity which founder is the individual A receives a credit at the reporting bank, while the credit funds are transferred to legal entity 2 with whom the individual has employment relations. In this case, until the submission of evidence, the legal entities 1 and 2 shall treat each other as connected persons, considering that through legal entity 1 a transaction with the reporting bank was performed in the interest of legal entity 2, and legal entity 1 is considered to be influenced by legal entity 2 due to employment relations between legal entity 2 and the founder of company 1.

Scenario 2

Individual A is divorced from individual B. Individual A is administrator/founder of legal entity 1. Individual B is the administrator/founder of legal entity 2. Legal entity 1 benefits from a credit granted by the reporting bank, the funds being used in the interest of legal entity 2. In this case, until

the submission of evidence, legal entities 1 and 2 shall treat each other as connected persons, considering that through legal entity 1 a transaction with the reporting bank was performed in the interest of legal entity 2, and legal entity 1 is considered to be influenced by legal entity 2 due to "other relations" between the administrator/founder of legal entity 1 and administrator/founder of legal entity 2.