

D E C I S I O N
**Regarding the approval of Regulation on
banks' investments in real estate**

No. 114 of June 2, 2022
(in effect as of July 15, 2022)

Official Monitor of the Republic of Moldova No. 177, Article 703 of June 15, 2022

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REGISTERED:
Ministry of Justice
of the Republic of Moldova
No. 1724 of June 9, 2022
Minister _____ Sergiu LITVINENCO

Pursuant to Art. 27, paragraph (1), item c), of the Law on the National Bank of Moldova No. 548/1995 (republished in the Official Monitor of the Republic of Moldova, 2015, No. 297-300, Art. 544), with subsequent amendments, and Art. 83, item a) and d) of the Law on the activity of banks No. 202/2017 (Official Monitor of the Republic of Moldova, 2017, No. 434-439, Art. 727), with subsequent amendments, the Executive Board of the National Bank of Moldova

DECIDES:

1. To approve the Regulation on banks' investments in real estate (attached).
2. To repeal the Decision of the Council of Administration of the National Bank of Moldova No. 384/1999 regarding the approval of the Regulation on banks' investments in tangible assets.
3. This Decision shall enter into force at the expiration of one month from the date of publication in the Official Monitor of the Republic of Moldova.

CHAIRMAN

OF THE EXECUTIVE BOARD

Octavian ARMAȘU

No. 114, Chisinau, June 2, 2022

Approved
by the Decision of the Executive Board
of the National Bank of Moldova
No. 114, of June 2, 2022

REGULATION
on banks' investments in real estate

I. GENERAL PROVISIONS

1. This Regulation shall apply to banks based in the Republic of Moldova, branches in the Republic of Moldova of banks from other countries, which are licensed by the National Bank of Moldova, hereinafter referred to as "banks".

2. This Regulation establishes the procedure regarding the investment of banks in real estate, hold of assets transferred to the bank in possession/acquired in exchange for debt repayment with the aim of reducing or avoiding losses resulting from any other financial activity (hereinafter - assets transferred to the bank in possession/acquired in exchange for repayment of debts).

3. For the purposes of this Regulation, investment in real estate means any procurement, possession/acquisition (including takeovers based on court decisions or in accordance with pledge contracts), allocation of funds and/or acceptance of funds donated for the purpose of procurement, possession/acquisition of fixed assets and land by the bank.

II. LIMITATION OF INVESTMENTS

4. A bank's investments in real estate must not exceed 50% of its own funds.

5. When determining the value of the real estate investment within the limit provided for in paragraph 4, it shall be taken the accounting value, which represents the amount with which the assets are valued at the date of drawing up the balance sheet and is equal to the entry value, corrected or revalued, reduced by their amortization and depreciation.

6. The provisions of paragraph 4 shall not extend to the assets transferred to the bank in possession/acquired in exchange for the repayment of debts.

7. The reporting by banks regarding investments in real estate provided for in paragraph 4 shall be carried out according to the requirements of the normative acts of the National Bank of Moldova related to reporting.

III. INTERNAL POLICY AND PROCEDURES

8. If the bank is committed to invest in a real estate, it shall adopt the necessary internal policy and procedures regarding the proper management, accounting and control of these types of investments.

9. The bank shall form a commission, authorized and empowered with supervisory powers regarding activities related to investments in real estate.

The commission shall examine and generalize the data related to investments in real estate necessary for the adoption of appropriate decisions by the governing body.

IV. ASSETS TRANSFERRED TO THE BANK IN POSSESSION/ACQUIRED IN EXCHANGE FOR REPAYMENT OF DEBTS

10. Assets transferred to the bank in possession/acquired in exchange for repayment of debts shall be recorded, coordinated and controlled separately from other investments in assets.

11. Assets transferred to the bank in possession/acquired in exchange for repayment of debts shall be classified by the bank as assets held for sale and shall be recognized in the balance sheet only if there is a high probability of their sale in accordance with the provisions of the International Financial Reporting Standard 5.

For this purpose, until the date of recognition in the balance sheet of the assets transferred to the bank in possession/acquired in exchange for the repayment of debts, the bank must have concrete plans for the sale of the respective assets that specify the actions and methods used to promote their sale, the potential buyers and the planned terms of sale, of no more than 12 months from the date of classification of the asset held for sale, based on confirmatory documents (intentions of contracts, requests, offers, studies/statistics proving the liquidity of the asset on the market, evidence that the pledge value of the asset which will be sold is much lower than its market value, etc.). Otherwise, these goods shall be reflected by the bank to the memorandum account for their record and subsequent sale.

At the accounting entry, the assets transferred to the bank in possession/acquired in exchange for repayment of debts shall be reflected at the lower value of the total value of the borrower's debt (debt balance, interest calculated and reflected in the balance sheet, commissions, penalties and other claims related to the credit) and the fair value (market value) of the mentioned assets minus any costs generated by the sale.

The bank must recognize an impairment loss (gain) for any subsequent reduction (increase) in the balance sheet value of the assets transferred to the bank in possession/acquired in exchange for repayment of debts in accordance with International Financial Reporting Standard 5. The gain recognized by the bank from any subsequent increase in the fair value minus the costs generated

by the sale of the assets transferred to the bank in possession/acquired in exchange for the repayment of the debt cannot exceed the accumulated impairment loss that was previously recognized.

12. The bank is entitled to classify in the balance sheet the assets transferred to the bank in possession/acquired in exchange for the repayment of debts as assets held for sale within 12 months from the date of their recognition in the accounting records.

13. If the assets transferred to the bank in possession/acquired in exchange for the repayment of the debt were not sold for objective reasons (events or circumstances beyond the bank's control) during the period referred to in paragraph 12, the bank may address to the National Bank of Moldova with a request for approval regarding the extension of their classification period in the respective category. The extension of the classification period of the respective assets shall be requested by the bank at least 2 months before the expiration of the period referred to in paragraph 12, only if there are events or circumstances determined by the International Financial Reporting Standard 5.

The following information/documents shall be attached at least to the afore-mentioned request (the copies of the documents shall be authenticated by the bank):

1) information/documents related to debt and pledge that serves as a guarantee for the respective debt on the date of its granting, which include:

a) data (amount of the debt, date of granting, term, etc.) according to the contract related to the debt or its copy in exchange for which the assets were transferred to the bank in possession/acquired;

b) data according to the collateral contract (contract number, date, collateral value) or its copy;

2) information/documents related to debts and pledge at the date of recognition in the balance sheet of the assets transferred to the bank in possession/acquired in exchange for repayment of debts, which include:

a) debt balance

b) its classification according to the provisions of the Regulation No. 231/2011 on assets and conditional commitments classification;

c) the amount of payments related to debt contract that have not been paid by the debtor;

d) the value (according to the independent evaluation act) and the description of the pledge subject transferred in possession;

3) information related to the request to extend the period of classification of the assets transferred to the bank in possession/acquired in exchange for the repayment of debts as assets held for sale, which include:

a) real, legal and economic grounds;

b) measures undertaken by the bank for the timely sale of the respective assets, by attaching the confirmatory documents (examination of requests and offers from potential buyers, actions used for advertising purposes);

c) documentation regarding the plans for the sale provided for in paragraph 11 of the respective assets (letters of intent, evidence of advance payments);

d) data regarding the evaluation of the market value of the assets transferred to the bank in possession/acquired in exchange for the repayment of debts, carried out during the last 12 months until the submission to the National Bank of Moldova of the request for approval regarding the extension of the classification period of the assets held for sale, in the case of assets transferred to the bank in possession/acquired in exchange for repayment of debts.

The application, as well as the mentioned information/documents, shall be submitted to the National Bank of Moldova in Romanian and shall be signed by the person authorized by the bank.

The period of classification of assets transferred in possession/acquired in exchange for repayment of debts as assets held for sale transferred to the bank in exchange for repayment of debts may be extended by a maximum of 12 months only once.

14. Within 30 days from the date of receipt of the complete set of information/documents in accordance with paragraph 13, the National Bank of Moldova shall decide on granting or rejecting approval regarding the extension of the asset classification period, informing the bank of its decision. The National Bank of Moldova can establish, with the bank's information, a longer term for issuing the decision, which will not exceed 60 days under the terms of the Administrative Code of the Republic of Moldova.

15. If the set of information/documents submitted to the National Bank of Moldova is not complete and the bank does not present the necessary documents for its completion within the deadline set by the National Bank of Moldova, the National Bank of Moldova shall inform the bank about the termination of the administrative procedure, upon the expiry of 3 business days from the deadline set by the National Bank of Moldova.

16. If the documents or information submitted in accordance with paragraph 13 are insufficient for making the decision, the National Bank of Moldova shall notify the bank in written form within 5 business days from the date the request has been submitted. The bank shall complete and submit the missing documents and/or information to the National Bank of Moldova, within 10 business days from the date the letter from the National Bank of Moldova has been received, period during which the deadline provided for in paragraph 14 is suspended.

17. In case of rejection of the request for approval regarding the extension of the asset classification period, the grounds on which the request has been rejected shall be indicated. The following are considered grounds for rejecting the request for approval the extension of the asset classification period:

1) failure to fulfill the conditions provided for in the second sentence of paragraph 13 for obtaining the extension of the classification period of the respective assets; and/or

2) submitting erroneous, inauthentic and/or contradictory information to the National Bank of Moldova.

18. If the request for approval the extension of the classification period of the assets transferred to the bank in possession/acquired in exchange for the repayment of debts as assets held for sale was rejected, the bank, upon expiry of the 12-month period, shall qualify these assets as assets with an expired sale term and perform their impairment testing, subsequently on a six-month periodicity.

If the classification period of the assets transferred to the bank in possession/acquired in exchange for the repayment of the debt has been extended in accordance with the provisions of paragraph 13, but the assets have not been sold out during this period, the bank, upon expiry of the extension period, shall qualify these assets as assets with an expired sale term and perform their impairment testing, subsequently on a six-month periodicity.