

3.31 ROMANIA

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I. FRAMEWORK

The Romanian Covered Bond Legislation has been updated during 2022 in line with the EU Covered Bond Directive. The former Law 304/2015 was repealed and replaced by Law 233/2022 ("CB Law") accompanied by a new Covered Bond Regulation ("CB Regulation") issued by the National Bank of Romania ("NBR").

Alpha Bank opened the covered bond market in Romania in April 2019 when it established its EUR 1 billion Global Covered Bond Programme. The first issuance of EUR 200 million took place on May 16th, 2019. The issue is currently listed on the Luxembourg Stock Exchange and the Bucharest Stock Exchange.

II. STRUCTURE OF THE ISSUER

The issuer can only be a credit institution, as defined by the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR"), which falls under one of the following categories provided for in the Government Emergency Ordinance no. 99/2006 on Credit Institutions and Capital Adequacy, approved with amendments and supplements by Law. No. 227/2007, as amended and supplemented:

- > banks,
- > credit co-operative organisations, except for credit co-operatives, and
- > mortgage banks.

The issuer must obtain approval from the National Bank of Romania on the covered bond programme.

The issuer holds the assets on its balance sheet. A direct legal link between single cover assets and covered bonds does not exist. All obligations from bonds are obligations of the issuing bank as a whole. In the event of insolvency, the cover pool is segregated by law from the general insolvency estate and is reserved for the claims of bondholders.

The covered bonds are direct and unconditional obligations of the issuer. The claims of the holders of covered bonds are secured by a first rank security over the cover assets, which are segregated from the rest of the issuing bank's patrimony, in case of bankruptcy. Eligible cover assets liquid assets and financial derivatives are structured by the issuer in cover pools depending on the cover bond labels used for classification (see section III below).

The law imposes asset encumbrance limits: the total value of the cover pool cannot exceed certain thresholds of the issuer's total assets, i.e. 10%, 15% or 20%, depending on the metrics defined by the National Bank of Romania, such as capital, liquidity, asset quality, loan-to-deposits ratio.

III. COVER ASSETS

As per the new CB Law, covered bonds can be issued under two labels: European Covered Bonds or European Covered Bonds (Premium).

While the repealed CB legislation permitted as primary cover assets only mortgage loans (i.e. residential or commercial mortgage loans) and, for substitution or liquidity coverage, eligible financial assets, the new CB Law takes a broader view and the cover pool can include the following asset categories: residential mortgage loans, commercial mortgage loans, exposures to or guaranteed by the public sector, exposures to EU credit institutions, either compliant with art. 129 (1) a), c), d) and f) of CRR or considered to be of high quality as per the conditions set out in the CB legal framework and the CB Directive.

The primary cover assets must account for at least 70% of the accounting value of the cover pool and composition and some of the eligibility criteria differ between the two labels.

The geographical scope of cover assets is restricted to the European Union and the European Economic Area.

The issuer can include in the cover pool, apart from the categories described above, financial derivatives, subject to certain conditions set out in the CB Law. Derivatives can be included in the cover pool only for the purpose of hedging interest rate risk and foreign currency risk. Financial derivatives may be included in the cover pool only if the agreements related thereto do not contain a clause according to which the bankruptcy or the resolution of the issuer is deemed to be a termination event.

The CB legislation stipulates that the cover pool is dynamic. The replacement/supplementation of the mortgage loans included in the cover pool is compulsory when certain mortgage loans no longer comply with the eligibility criteria, have become non-performing in the meaning of the CB legislation, the weighted average maturity of the mortgage loans included in the cover pool decreases below the weighted average maturity of the corresponding covered bonds, or the value of the mortgage loans included in the pool declines below the thresholds provided by the CB legislation.

The value of the residential loans included in the cover pool cannot exceed 80% of the value of the issuer's total residential loans that are eligible for the cover pool. For commercial loans this ratio is 60%.

A novelty of the CB Law is the enforcement of Intragroup pooled covered bond structures whereby internally issued covered bonds by a credit institution can be used as cover assets for the external issue of covered bonds by another credit institution that belongs to the same group, if certain conditions are met.

IV. VALUATION AND LTV CRITERIA

Property valuation is regulated and is required to be undertaken by an authorised real estate appraiser. Details about the valuation process and the qualifications of evaluators are regulated by the Romanian Association of Evaluators (ANEVAR).

Re-evaluation of immovable properties securing real estate receivables included in the cover pool is made in accordance with art. 208 par. (3) of the Regulation (EU) no. 575/2013 and, for assets collateralizing European Covered Bonds (Premium), with art 129 of CRR as amended by Regulation (EU) 2019/2160. The asset monitor will check the fulfilment of this issuer's obligation.

In order to be eligible for inclusion in the cover pool, the mortgage loans collateralizing the Premium label bonds must have an LTV in line with art 129 of CRR (up to 80%/60% residential/commercial), while for European covered bonds the LTV is allowed to reach 85%/70% residential/commercial.

V. ASSET – LIABILITY MANAGEMENT

The CB legislation stipulates an asset coverage test, an overcollateralisation test, and a liquidity coverage test. Under the asset coverage test, the value of the cover pool must at all times exceed the value of all liabilities of the covered bonds, i.e. principal and interest of the bonds, payment obligations attached to derivatives and winding down costs of the covered bond programme. In calculating the value of the cover pool, the value of mortgage loans will be the lower of: the accounting value of that receivable; the value of the principal of that mortgage together with any previous mortgage rights; and the value of that mortgaged property weighted with the appropriate LTV cut off percentage as indicated in section IV above.

Under the overcollateralisation test, the net present value of the outstanding assets must exceed at all times 105% of the net present value of all bond-related liabilities. The overcollateralisation test is calculated under certain stress scenarios as well, where the net present value of assets must be at least 100% of the net present value of liabilities. The stress tests include: shocking the yield curve (+/-) by 350 basis points, shocking the EUR-RON exchange rate (+/-) by 35.5%, stressing the level of payment patterns based on historical pre-

payment rates for cover assets, taking into account a decrease in real estate prices and the loss given default in real estate enforcements.

Under the liquidity coverage test the issuer must calculate liquidity deficits that might arise over the following 180 days and cover them with liquid assets eligible for liquidity operations with NBR, which constitute a liquidity buffer.

The liquidity coverage test is performed daily, while the overcollateralisation tests under stress scenarios are performed at least monthly.

In terms of extendable maturity, the New CB Law does not allow the issuance of covered bonds with such structures.

VI. TRANSPARENCY

Issuers shall prepare and publish on their own websites quarterly reports as regards inter alia the risks related to the cover pool, the total volume of the issued mortgage bonds and the structure of the cover pool, including the nominal value of the receivables in the pool, their residual value and the structure of the maturities of the receivables in the pool.

In addition, the issuer shall make available on its website updated information from the cover pool registry, for each asset included in the cover pool, and update it regularly.

VII. COVER POOL MONITOR AND BANKING SUPERVISION

Under the CB legislation, the activity of a covered bond issuer is supervised by the NBR. As a mandatory prerequisite for the issuance of mortgage bonds, an asset monitor (in Romanian “*agent*”) must be appointed by the issuer, as independent auditor of the cover pool. The agent has to be authorised by the NBR.

The agent’s main role is to monitor the cover pool, to certify the issuer’s reports to NBR and to report its findings on the observance of the legal requirements to NBR. Its monitoring obligations shall be performed regularly, based on the documentation provided by the issuer. The agent has to observe the issuer’s compliance with the law and prospectus requirements. Based on the documentation provided by the issuer, the agent shall issue a certification attesting the issuer’s compliance with the provisions of the law and with the prospectus regarding the cover pool structure.

VIII. SEGREGATION OF COVER ASSETS AND BANKRUPTCY REMOTENESS OF COVERED BONDS

The issuer has the obligation to keep an internal cover pool register, which allows for the identification of the cover assets. Registration in the cover register reflects the structure and dynamic of the portfolio at any time throughout the life of the issue. For each label, the cover register shall have separate sections for each category of assets included in the cover pool, i.e. primary assets, substitution assets, liquid assets, and derivatives. For each loan in the cover pool, the registry shall include at least the identification number and the value of the amount borrowed plus the interest to be received throughout the life of the loan, calculated at the origination date. The cover register is kept by the issuer and is subject to regular verifications by the agent.

Pursuant to the CB legislation, the issuer is required to create a movable mortgage over the cover pool assets. The movable mortgage will be registered with the National Register in the name of the asset monitor, but on behalf of the covered bondholders, prior to the offering of the covered bonds for subscription, by means of a global registration form. The movable mortgage will be transferred in the name of the covered bondholders’ representative should it be appointed. According to the CB legislation, such movable mortgage is not required to be registered in the relevant land register of the immovable assets securing the loans.

Asset segregation

By registration of the movable mortgage over the cover assets and the entry into the internal cover register of the assets included in the cover pool, such assets are segregated from the other assets of the issuer.

In order to fulfil all the obligations of the issuer towards bondholders under the CB legislation the cover pool securing the covered bonds represents a distinct estate, separate from the estate of the issuer including in case of bankruptcy or resolution of the issuer.

According to the CB legislation, no other creditor of the issuer may initiate enforcement procedures in relation to the cover pool or any part thereof before the covered bondholders, while in case of bankruptcy or resolution of the issuer, the cover pool shall not be part of the general estate of the Issuer until bondholders' claims are fully satisfied.

Acceleration

In case of an event of default under the cover bonds programme, bondholders have the right, upon approval by bondholders' meeting, to request to the issuer the acceleration of covered bond payments and, in this respect, the assignment of cover pool receivables to another credit institution or legal entity authorized in accordance with the law to perform lending activities.

The distribution of the amounts resulted from the assignment of receivables shall be made in the following order of preference:

- > receivables resulting from the holding of mortgage bonds, pro rata, irrespective of the seniority and maturity of the covered bonds issue and receivables held by counterparties under the agreements underlying the financial derivatives included in the cover pool;
- > receivables under financing arrangements granted to the issuer with the view to covering the temporary liquidity deficit;
- > receivables of the issuer's creditors not paid in full upon the temporary closing of the bankruptcy proceedings.

Resolution and bankruptcy

The initiation of resolution of the issuer does not automatically trigger acceleration.

In case of bankruptcy, the cover pool is not affected by the liquidation procedure of bank's assets and any sale-purchase agreements concluded in breach of these legal provisions are null and void by law. Bondholders will continue to receive the amounts they are entitled to (principal and interest) within the deadlines provided by the prospectus/offering document.

The cover pool will continue to be managed by the liquidator (in Romanian "*lichidator judiciar*") for the purpose of reimbursing the amounts owed to the covered bondholders.

Dual recourse

Pursuant to the movable mortgage, the covered bondholders and the counterparties of the derivatives contracts included in the cover pool are entitled to a) a claim against the cover pool; (b) in the case of the insolvency or resolution of the credit institution issuing the covered bonds, a priority claim against the principal and any accrued and future interest on cover assets; (c) in the case of the insolvency of the credit institution issuing the covered bonds and in the event that the priority claim as referred to in point (b) cannot be fully satisfied, a claim against the insolvency estate of that credit institution, which ranks *pari passu* with the claims of the credit institution's ordinary unsecured creditors determined in accordance with art 234 of Romanian Insolvency Law.

There are no specific regulations expressly addressing the issue of voluntary overcollateralisation in insolvency. It may be argued that voluntary overcollateralisation is part of the cover pool with all legal consequences regarding segregation in the event of bankruptcy applicable to the respective pool.

IX. RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION

The legislation creates the framework for covered bonds to be eligible for preferential treatment in compliance with art. 129 of the CRR.¹ and art 52 (4) of UCITS Directive.

Issuers: Alpha Bank Romania.

For the most up-to-date information, please consult the new ECBC Covered Bond Comparative Database webpage on the Covered Bond Label website www.coveredbondlabel.com.

In the context of the transposition of the Covered Bond Directive (the final deadline for which was 8 July 2022), the ECBC has undertaken a full review and update of the Covered Bond Comparative Database to take account of the latest regulatory developments. This unique reference tool can be accessed via the link hosted on the Covered Bond Label website (www.coveredbondlabel.com/legislation/comparative_database).

For further national information on the Romanian market, please see compare.coveredbondlabel.com/frameworks. To access the "Country Comparison" feature of the database, please see compare.coveredbondlabel.com/compare/select/frameworks.

¹ Please click on the following link for further information on the UCITS Directive and the Capital Requirements Regulation (CRR): <https://hypo.org/ecbc/covered-bonds/>.