Republic of Albania

Agreement on the organisation of Albanian Government Securities Auctions, Settlement of Operations and the Maintenance of the Securities Register

Parties:

Bank of Albania (for simplicity hereinafter referred to as the "Bank"), address: Sheshi "Avni Rustemi" Tirana, acting as a fiscal agent to the Government, legally represented by the Governor, Mr. Ardian Fullani.

and

the Ministry of Finance (for simplicity hereinafter referred to as the "Ministry"), address: Bulevardi "Dëshmorët e Kombit" legally represented by the Minister, Mr. Ridvan Bode,

agree to enter this agreement with respect to the following terms and conditions:

CHAPTER I
General provisions

Article 1
Legal ground

The agreement is entered into in accordance with the following acts:

b) Law No. 9665, dated 18.12.2006 "On public borrowing, public debt and public guarantees of loan in the Republic of Albania";
c) Law No. 9879, dated 21.02.2008 "On securities" and
d) The by-laws acts issued by the Bank of Albania on Payment Systems operated by the Bank of Albania.

Article 2
Purpose

The purpose of this Agreement is to regulate the relationships between the parties for the execution of:

a) Auctions of government securities;
b) The settlement of transactions involving these securities; and
c) The maintenance of the book-entry by the Bank acting as a fiscal agent for the Government of the Republic of Albania, represented by the Ministry.
Article 3
Definitions

For the purposes of this Agreement the following definitions apply:

a) “Bank” – is the Bank of Albania;

b) “Ministry” – is the Ministry of Finance

c) “Payment systems” – are AIPS, AECH and the securities settlement system operated by the Bank. For this purpose, this definition will be used only for AIPS dhe AECH;

d) “Securities Settlement System” – is a formal agreement obligatory among three or more participants, at common rules and standardised agreement on the processing of transfer orders of securities amongst participants. In this agreement it refers to the system operated by the Bank;

e) “Securities book-entry system” – means the system established and maintained by the Bank for the registration of public securities, as stipulated in Article 31 of the Law “On public borrowing, public debt and public debt guarantees of the Republic of Albania”;

f) “Direct participant in the payment system” – means the entities that conduct direct payments from their settlement accounts with the Bank;

g) “Indirect participant in the payment system” – means the entities that conduct payments through the Bank which is their settlement agent.

h) “Participant in the securities settlement system” – means another bank or institution that maintains a securities account in the securities book-entry system with the Bank and that executes the transfer orders in the system;

i) “Settlement agent” – is the Bank, that provides a settlement account to systems’ participants, through which, the participants settle the transfer orders and/or securities transfers;

j) “Settlement account” – means accounts in payment systems and in the securities settlement system for holding cash and securities;


l) “Primary market” – means the natural or functional place within which the Albanian State issues securities for the first time. The Bank shall organise the primary market auctions of government securities;

m) “Secondary market” – means the natural or functional place where the securities transactions are conducted, after being firstly issued in the primary market;

o) “Authority” – means the Albanian Financial Supervisory Authority, established under the Law No. 9572, dated 03.07.2006 “On the Financial Supervisory Authority”.

p) “Auction” - means the auction held by the Bank of Albania on the sale of securities;


r) “Registrar” – means the shareholding company being granted a licence by the Authority, whose primary activity the organisation and management of data on securities;

s) “Broker” – means a shareholding company with head offices in the Republic of Albania, licensed by the authority to conduct transactions with securities in compliance with the provisions set out in the Law “On securities”;

t) “Custodian” – means the bank authorised by the Authority to provide safeguarding services of securities in line with the stipulations in the Law "On securities";

u) “Direct participants in the auction” – means the participants which submit the bids for participation in the auction directly at the Bank;

v) “Market” - is the natural or functional place where the purchaser and seller interact (either directly or through intermediaries) for the sale and purchasing of securities.

w) “Settlement Instructions” – is the bunch of data that as a rule includes the nominal value, yield, purchase price, settlement account of cash and security settlement account;

x) “Margin” – means the additional value in per cent applied on the reference interest rate in case of securities at variable coupon;

y) “Calendar of auctions organisation” – means a data set that, as a rule includes the types of securities to be issued, the amount to be announced and the issue day;

z) “Pro-rata” – means the ratio of the remaining amount up to the completion of the announced amount to the bids amount with the same yield;

aa) “Yield” – means the return rate on securities investment;

bb) “Weighted yield” – means the average yield calculated by yields of accepted competitive bids based on the individual share that these bids have to the total of bids accepted in the auction;

cc) “Coupon rate” – means the interest rate stated on the bond at its issue;

dd) “Operational risk” – means the risk of failure to carry out the procedures/operations due to human error;

e) “Non-competitive bids” – means the bids which contain only the amount of the security to be purchased in the securities auction;
ff) **Competitive bids** means the bid which contains the amount intended to be purchased at the auction and the yield/margin;

gg) **The division line between the competitive bid and the non-competitive bid** means the maximum amount set forth for non-competitive participation in an auction for one participant;

hh) **Issue date** means the date in which the securities, sold through the auction in the primary market are transferred from the Ministry's account to purchasers' account, participant in the auction. At the same time funds for the payment of securities price are transferred from purchasers' account to the Ministry's account;

ii) **Maturity date** means the date in which the Ministry redeems the security's nominal value;

jj) **Settlement date** means the date in which the securities are transferred from the seller's account to the purchaser's account and simultaneously the funds are transferred from the purchaser's account to the seller's account;

kk) **Business day** means every day, excluding the days which are official holidays and Saturday and Sunday;

ll) **Means of communication** means national televisions, newspapers, website, REUTERS, Bloomberg;

mm) **Account balance adequacy** means an estimation for the account, if the position is equal or higher than the nominal value of the security intended to be purchased through the submission of the bid at auction;

nn) **Minimum value** means the lowest minimum value set forth by the Ministry in its regulatory acts available for the participation in the auction;

oo) **Security's lowest value** means the lowest nominal value that a security might be sold (issued) or purchased as set forth by the Ministry in its regulatory acts;

pp) **Counters** means the Bank's organisational units, which have as main task to provide the service for the participation of individuals in auctions on the issue of the treasury bills;

qq) **Time of auction organisation** means the time, from the opening of bids at the time set forth in the auction announcement, to the sending of the information on the bids from the Bank to the Ministry.

**CHAPTER II**
The organisation of the auction

**Article 3**
The auction committee

1. The auction committee shall carry out the procedures for the organisation of the auction. The committee consists of two employees - representatives of the Bank and one employee-representative of the Ministry.

2. The Bank and the Ministry shall inform each-other, via official letter, on the appointed committee members.
3. The committee should maintain at any time the neutrality and confidentiality of the information it owns throughout the auction by adhering to the rules on information dissemination.

Article 4
Responsibilities of the Ministry

In organising the auction, the Ministry has the following responsibilities:

1. To submit at the Bank the calendar on the organisation of auctions for the following quarter. The calendar will be delivered in electronic form and/or in writing, within two weeks prior to the beginning of the quarter and also at any time the calendar is changed according to the Ministry’s needs.

2. To send to the Bank detailed information on the organisation of auctions. The announcement is delivered in writing as well as in electronic form, as a rule within two days before the organisation of the auction. The auctions not forecasted in the quarterly calendar are excluded.

3. To be attentive that the days for the organisation of the auction and the issue days are business days.

4. The announcement on the auction organisation should as a rule contain the following details:
   a) each type of security (securities) to be issued:
   b) the amount of the security (securities) to be announced for sale;
   c) security (securities) issue date;
   d) security (securities) maturity date;
   e) date and time of auction;
   f) coupon rate (if available); and
   g) date of operations settlement if auction re-opening takes place.

5. In case of an auction re-opening, the announcement on the re-opening of the auction shall be sent at least three hours prior to the re-opening.

6. To publish the calendar and announcement on the auction organisation via all means of communication considered as important, by covering all expenses relevant to this publication.

7. To take decision on the maximum accepted yield/margin for each security and the pro-rata on the maximum accepted yield/margin bid and the pro-rata on the admission of the non-competitive bids.

Article 5
Responsibilities of the Bank

In organising the auction, the Bank has the following responsibilities:
1. To provide the required technology for the organisation of auctions, aiming to minimise operational risk and to preserve information confidentiality.

2. To publish in its official website and in the dedicated Reuters pages the announcement of the auction organisation as soon as it receives the announcement from the Ministry. The press release should contain at least the data laid down in Article 4 (4).

3. To ensure the well-functioning of the auction process by exchanging information with the Ministry and the market in a timely manner, adhering to the specified deadlines.

4. To ensure compliance with the conditions for participation in the auction by the individuals participating at auction through its counters.

Article 6
Admission of bids

1. Each bid submitted in the auction will be considered an order to conduct operations with the accounts owned by the sender or entity that intermediates the participation at auction, in the payment system and in the securities settlement system.

2. Bids in the auction are accepted in writing and when possible in electronic form. The bid forms in writing are laid down in Annexes 1 and 2 attached to this Agreement, whereas the electronic form is set forth in the procedures laid down by the Bank and the Ministry on the functioning of the electronic system of the auction organisation.

3. Bids submitted in writing should be closed in an envelope and addressed: Për Ankandin e Titujve të QRSHò ("To RAG Securities Auction") and should be submitted to the Bank at the specified premises.

4. All the natural and legal persons placing competitive bids will participate in the auction via a special request. These bids may be submitted by entities being granted a licence by the Authority to conduct operations with government securities (as stipulated in the form in Annex 1) or directly to the Bank (as set forth in the form in Annex 2).

5. The submission of direct competitive bids at the Bank should be accompanied by an attestation issued by an entity, which has to be a direct participant in the payments system, by the virtue of which, the entity commits to carry out the settlement of the transactions generated on the auction settlement day on behalf of the entity, be it natural or legal person, placing the bid. The attestation format is set forth in Annex 3 of this Agreement.

6. The direct and indirect participants in the payments systems are excluded from paragraph 5. Only for the indirect participants, the Bank members at the Auction Committee shall verify the adequacy of these participants' account balance in the payments system at the auction day.

7. Entities licensed by the Authority on the intermediation of bids at auction should present their bids clearly distinguished from the bids they submit as intermediaries of their clients.
8. The non-competitive bids should be submitted on an aggregate basis through the entities licensed by the Authority to conduct operations with the government securities and through the Bank counters. The aggregation takes place by presenting the total amount of bids and their number.

9. The bids shall be accepted until the time of the auction organisation set forth in the auction announcement.

10. The Bank’s bid for participation at auction is always a non-competitive one and it is the first in the rank of bids to be accepted. The required amount for participation of the Bank at auction should not exceed the amount to be matured.

**Article 7**

**The auction**

1. The bids submitted in writing are evidenced in a separate book-entry by all the members of the Committee. They shall be opened at the time of the auction organisation in the presence of all Committee members. At the same time, the information on the bids submitted electronically is printed as soon as it is received.

2. The auction shall be deemed viable if a minimum of one bid is submitted. In case there are no competitive bids, the non-competitive bids are accepted by applying the yield set forth in the most recent auction held for the same type of security.

3. The commission shall reject as a rule:

   a) The bids that do not have an attestation as laid down in Article 6, paragraph 5;
   b) The bids with the highest yield, if the number of bids presented at auction exceeds the allowed number set forth by the Ministry in its regulatory acts;
   c) The bids which are different from the stipulations of the Ministry in its regulatory acts on the minimum value, or for the division limit between competitive and non-competitive bid; and
   d) The bids which do not have a clear amount and/or established yield.

4. The cases deemed unanimously by the Committee as unintentional human errors are excluded from paragraph 3 (c) and (d). In this case, the commission shall take a confirmation of the bidder and shall accept it by a unanimous decision only if it is a correction of human error. If the confirmation is impossible to be received within the time of the auction organisation, then the bid shall be rejected.

5. For the bids, whose nominal value is not in accordance with the multiple of the lowest value set forth by the Ministry in its regulatory acts, the Committee has the right to round the figure to an amount in line with the criteria of the determined multiple. The bidder shall be notified of this change in the bid amount.
6. For bids submitted by the indirect participants in the payments system, whose value is higher than the funds' balance in the participant's account, the Committee has the right to accept the lowest amount according to the account balance by rounding the figure conforming to the criteria of the lowest value multiple.

7. When a bid is rejected, the Committee shall inform in writing the bid submitter by providing the reasons on the rejection.

8. Non-competitive bids shall be deemed regular at any time.

9. At the end of the book-entry process of all bids, the Committee shall compile and sign a process-verbal where, as a rule, the number of the submitted bids, the number of the rejected bids, the rejection reasons and the total amount are evidenced. The process-verbal may include other data according to the Committee's discretion.

**Article 8**

**The issue of the auction result**

1. After the registration of the bids, the Bank shall send to the Ministry, as a rule no later than two hours from the time of auction organisation, the information on the auction total bids and the detailed competitive bids by the yield amount. This information is delivered electronically.

2. The Ministry shall send, as a rule no later than two hours from receiving the information on the auction bids as stipulated in point 1, the decision on:

   a) the maximum accepted yield/margin for each security;
   b) the weighted yield;
   c) prorate of the maximum accepted yield bid;
   d) prorate on the accepted non-competitive bids;
   e) the accepted amount by type of securities announced for sale; and
   f) the date of auction;

   This information is sent electronically and confirmed in writing.

3. Upon receiving the information as laid down in paragraph 2, the Bank shall inform the market on the auction result. The announcement, as a rule, is released on the Bank website and in its Reuters pages. The announcement, as a rule, shall contain the following data:

   a) the amount announced for sale for the security (securities) according to the auction announcement;
   b) the amount bid by the participants on the security (securities) at auction;
   c) the amount accepted by the Ministry for the security (securities);
   d) the total number of competitive bids placed;
   e) the total number of accepted competitive bids;
   f) the date of the auction;
   g) the security (securities) issue date;
   h) the security (securities) maturity date;
   i) the minimum required/accepted yield (margin);
   j) the maximum required/accepted yield (margin);
   k) the weighted yield (if applicable);
l) the coupon rate (if applicable);
m) the coupon payment frequency (if available); and
n) the pro-rate of competitive and non-competitive bids.

4. The Bank shall send individual notifications to all direct participants in the auction. This notification shall contain as a rule:

a) the amount of the security (securities) purchased at nominal value being differentiated by yield/margin;
b) yield/coupon/margin;
c) security (securities) price.

5. The bank shall provide to individuals participating in the auction through its counters an attestation as a successful bidder. This attestation shall contain the logo of the Bank and that of the Ministry.

6. The bank shall submit electronically at the Ministry a summary report on the auction after the announcement of the results and in writing no later than the issue day. The summary report shall contain:

a) in details for each competitive bid, the accepted amount, yield/coupon/margin, interest/coupon value and the purchasing price of the security;
b) the number and total amount of non-competitive bids; and
c) the weighted average yield.

Chapter III
Settlement of operations

Article 9
Settlement agent

1. The bank shall act as a settlement agent to all operations with securities for which it organises the auction.

2. The responsibilities of the settlement agent are:

a) to provide the information technology, the regulatory base and human resources for the execution of transactions settlements related to securities for which it conducts the auction;
b) to send settlement instructions of the auction at least one day prior to the issue to all entities holding an account in the payment systems and in the securities system;
c) to send settlement maturity instructions of securities at least one day prior to maturity to all entities holding an account with the payment systems and with the securities system;
d) to send settlement instructions on coupon payments to all entities holding an account at the payment systems and at the securities system;
e) to deposit in the Ministry’s account with the Bank, the tax applied on entities which have participated in the auction. To carry out this process, the Bank may enter into an agreement with the General Directorate of Taxation or be instructed by this authority through an official note.

Article 10
The responsibilities of the Ministry for the settlement

The Ministry shall provide the required liquidity on the maturity day of the securities in the settlement process.

CHAPTER IV
Securities book-entry

Article 11
The maintenance of securities book-entry

1. The Bank is responsible for maintaining the securities book-entry for which it organises the auction.

2. The bank operates the book-entry system of securities by opening an account for:
   a) the entities that have an account in the payment system;
   b) the entities being granted a licence by the Authority to carry out operations with securities, such are registrar, conservators, shareholders companies, etc.; and
   c) other entities accordingly to the field legislation.

3. Legal/natural persons that do not have an account with the securities book-entry system of the Bank, shall open a security account at the entities licensed by the Authority to conduct the activity with securities. These entities have a special account with the Bank book-entry system, through which they conduct operations for all the legal/natural persons, for whom they have opened securities accounts in their book-entries.

4. The bank shall provide the required information technology to ensure the security of the book-entry data.

5. Securities book-entry, as a rule, shall evidence the securities, according to their respective details and by entities having an account in this book-entry.

6. The Bank shall carry out the respective registrations in the securities book-entry by reflecting the following events:
   a) securities issuance and maturity;
   b) the final sale and purchase of securities in the secondary market;
   c) the temporary sale and purchase of securities between banks and/or the Bank;
   d) securities placement as collateral for the operations between banks and/or the Bank.

7. The bank shall be responsible for the reconciliation of the data contained in the securities book-entry system with the data of all entities that have an account in this system.
Article 12
Reporting

1. The Bank shall submit to the Ministry a summary report, at least once a month, in writing, on all outstanding securities.

2. The Ministry has the right to request information on the owners of the securities issued by the Ministry or other data generated from the book-entry system of the Bank upon request.

CHAPTER V
Final provisions

Article 13
Amendments to the Agreement

The agreement may be amended only by the will and approval of parties.

Article 14
Responsibility in case of force majeure

Parties shall not be deemed responsible for the damages resulting from the failure to meet the obligations laid down in this agreement, which come due to emergency situations, wars, demonstrates, other civil unrest, natural disasters and due to any other force majeure.

Article 15
Termination of the Agreement

1. Either Party may terminate this Agreement by giving the other party prior written notice at least three months before the effective date of the notice.

2. Upon the termination of the agreement as laid down in paragraph 1, the parties shall meet all the financial obligations matured till the date of its termination.

Article 16
Dispute resolutions

On any disagreement or conflict arising from or relevant to this agreement and which cannot be resolved in a good understanding, Tirana jurisdiction court will be the competent authority to resolve them.
Article 17
Annexes

Annexes 1, 2 and 3 are integrated part of this Agreement.

Article 18
Repeals

Upon the entry into force of this Agreement


and

b) The Agreement between the Bank and the Ministry on the issue by the Republic of Albania Government of bills as book-entry, agreed on 05.09.2006, as amended; will be repealed.

Article 19
Entry into force

This Agreement shall enter into force 30 (thirty) days after its signing by the parties.

The agreement upon being read by the parties, shall be signed by their free and independent will in 4 (four) copies. Two copies are kept by the Bank and two by the Ministry.

For the Bank of Albania: For the Ministry of Finance:

Mr. Ardian Fullani Mr.Ridvan Bode

Governor Minister
Annex 1 Bid form for individuals/entities participating in the action with competitive bids through the entities being granted a licence by the Financial Supervisory Authority.

| **BID** |
|-----------------|-----------------|
| **FOR PARTICIPATION IN THE AUCTION OF** | **TO BE ISSUED ON** |
| [ ] TREASURY BILLS | [ ] VARIABLE COUPON BONDS |
| [ ] FIXED COUPON BONDS | [ ] VARIABLE COUPON BONDS |

**MATURING ON** ___________________________ **ACCOUNT NUMBER OF THE INSTITUTION**

**Information on the bidder (first name/surname for natural persons or the name of the entity for legal persons):**

**Represented by (for legal persons):**

**The bid amount, at nominal value, for direct participation (stated in numbers and words):**

**Currency:**

**Yield/ margin (in percentage terms, expressed in numbers and words):**

**The institution that intermediates the submission of the bid at auction:**

Account number of the institution participating in the payment system of the Bank of Albania:

Account number of the institution’s security account at the Bank of Albania’s securities settlement system:

<table>
<thead>
<tr>
<th>Lek</th>
<th>Euro</th>
<th>Dollars</th>
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<tbody>
<tr>
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</table>
Be the virtue of this application, it is expressed the will to:
- Accept and implement the conditions set forth for the purchasing of the security and the announcement of the auction;
- The presentation of the correct information for the purchaser according to the information provided by the latter;

This form shall be submitted at the Bank enclosed in an envelope and addressed: "Për Ankandid e Titujve të QRSH" (eng. "For the auction of the Albanian Government Securities").

**Annex 2** Bid form for individuals/entities participating at the action directly with competitive bids.

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<thead>
<tr>
<th>Bid</th>
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<tr>
<td>FOR PARTICIPATION IN THE AUCTION OF</td>
</tr>
<tr>
<td>[ ] TREASURY BILLS</td>
</tr>
<tr>
<td>[ ] FIXED COUPON BONDS</td>
</tr>
<tr>
<td>[ ] VARIABLE COUPON BONDS</td>
</tr>
<tr>
<td>MATURING ON ______________________ TO BE ISSUED ON ______________________</td>
</tr>
</tbody>
</table>

Information on the bidder (name/surname for natural persons or the name of the entity for the legal persons):
Represented by (for legal persons):
Passport number:
Address/Tel:

The required amount at nominal value for direct participation (stated in numbers and words):
Currency:

Yield/ margin (in percentage terms expressed in numbers and words):

The entity issuing the attestation for the settlement of the transactions:
Account number in the payment system of the Bank of Albania:

__________________________________________

Account number of the security at the Bank of Albania’s securities settlement system

__________________________________________

☐ Lek ☐ Euro ☐ Dollars

__________________________________________

__________________________________________

__________________________________________

By the virtue of this bid, it is stated the will to:
- Accept and implement the conditions set forth for the purchasing of the security and the announcement of the auction:
- The presentation of the correct information on all the above stated data.

First name/Surname of purchaser (representative), signature, seal (for legal persons)

This form shall be submitted at the Bank of Albania, closed in an envelope, addressed "Për Ankandin e Titujve të QRSH" (eng. "For the auction of the Albanian Government Securities.
Annex 3 Attestation format for individuals/entities that participate directly at the auction.

ATTESTATION

_________________________________, with the account number_________________________________, with the payment system of the Bank of Albania, accepts the settlement through this account, of the transactions that are generated from the participation in the auction of Albanian Government Securities according to the following details:

Information on the buyer (first name/surname for natural persons or the name of the entity for the legal persons):

__________________________________________