



**REPUBLIC OF ALBANIA  
BANK OF ALBANIA  
SUPERVISORY COUNCIL**

**DECISION**

**No. 105 dated 5.10. 2016**

**APPROVAL OF THE REGULATION “ON RISK MANAGEMENT IN THE ACTIVITY OF SAVINGS AND LOAN ASSOCIATIONS AND THEIR UNIONS”**

Pursuant to the Law No. 52/2016, dated 19.05.2016 “On savings and loan associations and their Unions”; Article 1, paragraph 4(b) and Article 43(c) of the Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended; Article 44 and 45 of the Law No. 9902, dated 17.04.2008 “On consumer protection”, as amended; Article 66, paragraph 8 of the Law No. 53/2014, dated 22.05.2014 “On deposits insurance”, as amended; having regard to the proposal from the Supervision Department, the Supervisory Council of the Bank of Albania,

**DECIDED:**

1. To approve the regulation “On risk management in the activity of savings and loan associations and their Unions”, according to the text attached to this Decision.
2. The Supervision Department shall be responsible for the implementation of this Decision.
3. The Research Department shall be responsible for the publication of this Decision in the Official Bulletin of the Bank of Albania and in the Official Journal of the Republic of Albania.
4. With the entering into force of this Decision, the Regulation “On the supervision of savings and loan associations and their Union”, adopted with the Decision of the Supervisory Council No. 43, dated 08.06.2005, as amended, shall be abrogated.

This Decision shall enter into force on the 15th day after its publication in the Official Journal of the Republic of Albania.

**SECRETARY**

**CHAIR**

**Elvis ÇIBUKU**

**Gent SEJKO**

## **REGULATION**

### **“ON RISK MANAGEMENT IN THE ACTIVITY OF SAVINGS AND LOAN ASSOCIATIONS AND THEIR UNIONS”**

(Adopted with decision No. 105, dated 5.10.2016 and amended by circulating decision No. 15, dated 12.3.2020 and by circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania)

#### **CHAPTER I GENERAL PROVISIONS**

##### **Article 1 Purpose**

The purpose of this Regulation is to set out the rules for the risk management in the activities of the savings and loan associations and their Unions.

##### **Article 2 Legal framework**

This Regulation shall be drafted pursuant to:

- a) the Law No. 52/2016, dated 19.05.2016 “On savings and loan associations and their Unions”, which from here on shall be referred as the Law “on SLAs”;
- b) Article 1, paragraph 4(b), and the Article 43(c), of the Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended;
- c) Articles 44 and 45 of the Law No. 9902, dated 17.04.2008 “On consumer protection”, as amended;
- d) Article 66, paragraph 8 of the law No. 53/2014, dated 22.05.2014 “On deposits insurance”, as amended.

##### **Article 3 Scope of Application**

This Regulation shall apply to savings and loan associations and their Union, licensed by the Bank of Albania.

##### **Article 4 Definitions**

1. The terms used in this Regulation shall have the same meaning as those defined in the Law on SLAs and the bylaws of the Bank of Albania.
2. In addition to what provisioned in paragraph 1, for the purposes of this Regulation, the following terms shall apply:

- a) **“non-performing loans”** – means the total loans (principal and interest) classified as “substandard”, “doubtful”, “loss” and restructured, according to the provisions of this Regulation;
- b) **“net non-performing loans”** – means the total of non-performing loans (principal and interest), deducting the reserve fund established to cover losses from these loans;
- c) **“loan restructuring”** – means the easing/s the SLA makes for the borrower, owing to his/her financial difficulties, due to economic or legal causes, which in general shall include:
  - i. easing on the loan terms, through the alteration of one or some contract conditions (including alteration of the product and interest capitalisation) which mainly shall be related to the deadline, principal and interest rate,
  - ii. acquisition (use) of the collateral or other assets for the partial payment of a loan,
  - iii. replacement of the first borrower or the inclusion of one or more additional borrowers;
- d) **“liquid assets”** – means the assets with residual maturity up to a month (deposits, treasure bonds, etc.) and without maturity (cash, current accounts, etc.);
- e) **“short-term liabilities”** – means liabilities with a residual maturity up to one month;
- f) **“statutory auditor”** – has the same meaning defined in the Law “On legal auditing, the organisation of the profession of the statutory auditor and of the chartered accountant”;
- g) **“audit company”** – has the same meaning defined in the Law “On legal auditing, the organisation of the profession of the statutory auditor and of the chartered accountant”;
- h) **“related group of persons”** – are two or more members or persons, which may constitute a single risk for the SLA since they are related in such a way that the worsening of the financial conditions of one of them may bring the other/s to face the same situation, because the loss, profit or the paying ability of one of them may transfer to the other/s;
- i) <sup>1</sup>**“subordinated debt”**- is a subordinate debt (loan or bond), whose contract in case it stipulates a definite date for repayment, the initial maturity period should not be shorter than 5 (five) years, or in case it does not stipulate a definite date, the obligation should not be settled before a period of 5 (five) years from the date of issue is met, and in no case a pre-maturity settlement shall be stipulated, without the approval of the Bank of Albania. The provisions of the subordinated debt contract, in any case, stipulate that the claims of all other creditors have a higher settlement priority compared to the claim of subordinated debt. Settlements are not used to cover losses.

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<sup>1</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

**CHAPTER II**  
**CORE PRINCIPLES AND RULES FOR A RESPONSIBLE AND EFFECTIVE**  
**MANAGEMENT**

**Article 5**  
**The managing bodies and general management culture**

1. The managing bodies, in compliance with the tasks and obligations related to the management and control of the SLA, shall recognize the full and clear risk profile, by prior defining/approving risk undertaking and tolerance, as well as its continuous observation in accordance with the latter, ensuring that capital levels shall cover sufficiently this risk.
2. The managing bodies, through their management style, shall promote an adequate management culture, which shall prioritize law enforcement and the establishment of appropriate relationships between employees, based on high professional standards and ethical values.
3. The SLA, during the exercise of its activity, shall define the criteria and shall draft methods and procedures for the identification and monitoring of all the risks, in accordance with its internal acts and the regulatory acts of the Bank of Albania.

**Article 6**  
**Risk management system**

1. The SLA shall create and develop the risk management system, adequate to the nature, volume and complexity of its activities.
2. The risk management system shall be the entirety of policies, procedures, rules and structures of the SLA dedicated to risk management.
3. The SLA, while drafting its policies for risk management, shall insure that these policies are understandable, implementable and well defined for every unit/structure of the SLA.
4. Risk management policies shall include minimally the following elements:
  - a) the responsible organisational structure for risk management;
  - b) the duties and responsibilities of the risk management structure;
  - c) the establishment/definition of the risk limits/rates and the procedures in case of infringement of this limits/rates;
  - d) information method and reporting procedure;
  - e) approvals and/or confirmations, to be given in special circumstances.

**Article 7**  
**Internal audit unit**

1. The SLA shall create an internal audit unit, if at least one of the following criteria are fulfilled:

- a) it is composed in average by no less than 10,000 (ten thousands) members, or
  - b) total assets in the balance sheets exceeds ALL 1 (one) billion.
2. The management board shall decide the establishment of the internal audit unit and shall clearly define the composition and the functioning rules of the unit.

### **Article 8** **Remuneration policies**

1. The management board, in accordance with the strategy, long-term purposes of the SLA and its performance, shall clearly define and approve the remuneration policies.
2. The SLA shall include in the annual management report, that is presented to the general assembly by the management bodies, the remuneration policies, as well as the aggregate annual amounts of remuneration for the members of the management board and the administrator, explaining and justifying the compliance of these remunerations with the risk management policies and the risk profile, defined according to the long-term purposes of the SLA.

## **CHAPTER III** **RISK MANAGEMENT**

### **SUBCHAPTER I** **RISK EXPOSURE AND LIMITS**

#### **Article 9** **Capital adequacy indicators**

1. The SLA shall insure sufficient levels of capital, so as to exercise a stable and safe activity, as well as to fulfill its obligations.
2. The SLA shall respect in any time the capital adequacy indicators, as defined in the following ratios:
  - a) the ratio in percentage of the capital against risk –weighted assets in the balance sheet and off balance sheet items, shall not be lower than 10% (ten per cent) during the first two years of the activity and in any time no lower than 12% (twelve per cent);
  - b) the ratio of capital to permanent total tangible and intangible assets (net), shall not be lower than 100% (a hundred per cent);
  - c) the ratio of capital to the total non-performing loans not guaranteed by blocked deposits (net) shall not be lower than 100% (a hundred per cent).
3. In particular cases, the Bank of Albania shall have the right to specify for a SLA an adequacy ratio higher than that defined in paragraph 2(a) of this Article, if it shall determine that the SLA is involved in high risk activity.

- 3/1. <sup>2</sup>SLAs, for the purposes of calculating and monitoring the supervisory indicators, issue subordinated debt, which is recognized/accepted by the Bank of Albania for the purposes of this calculation, up to 33.3% of the amount of capital elements provided in the article 39, paragraph 1, of the law “On SLAs”, only if the characteristics of the subordinated debt are met, as defined in this regulation.
- 3/2. <sup>3</sup>The SLA which intends to issue and recognize the subordinated debt for the purposes of paragraph 3/1 of this article, notifies the Bank of Albania, and submits the following documentation:
- a) the contract concluded for the issuance of the subordinated debt;
  - b) a summary of the references in the contract for the fulfilment of the subordinated debt’s characteristics, defined in article 4, paragraph 2, letter “i”, of this regulation;
  - c) a description of the accounting treatment of the subordinated debt, together with an opinion by a statutory auditor or audit company, regarding its eligibility; and
  - d) a statement on the legal source of the borrowed funds.
4. The SLA shall classify any items’ exposure in and off the balance sheet, according to Forms No. 1/1 and 1/2 of this Regulation.
5. The SLA shall calculate the appropriate exposure value after the deduction of the reserve funds for covering losses <sup>4</sup>and statistical reserve funds.
6. <sup>5</sup>The SLA shall apply a 0% risk weight, for the part of exposure guaranteed by one of the following forms of credit risk protection:
- a) cash deposit or certificate of deposit;
  - b) the Albanian government’s securities, denominated in the national currency;
  - c) the unalienable guarantees of the Albanian government;
  - d) the unalienable guarantees of the governments of the OECD countries;
  - e) guarantees of multilateral development banks, listed below:
    - i. International Bank for Reconstruction and Development,
    - ii. International Finance Corporation,
    - iii. Council of Europe Development Bank,
    - iv. European Bank for Reconstruction and Development,
    - v. European Investment Bank,
    - vi. Multilateral Investment Guarantee Agency,
    - vii. Islamic Development Bank;
  - f) guarantees of funds listed below:
    - i. Rural Credit Guarantee Foundation,
    - ii. European Fund for Southeast Europe,
    - iii. European Investment Fund.

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<sup>2</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>3</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>4</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>5</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

7. In the cases of noncompliance with the ratio defined in paragraph 2, letter “a” of this Article, in addition to the implementation of the supervisory measures, according to Article 32 of this Regulation, to the SLA shall also be applied the additional premium for deposit insurance, according to the provisions of Article 66, paragraph 8 of the Law “On deposits insurance”.

## **Article 10**

### **Maximum allowable large exposure limits**

1. The SLA’s exposure to a person or a group of related persons shall be the sum of all transactions in the balance sheet asset and the off-balance sheet commitments with this person or group of persons.
2. The SLA’s exposure to a person or a group of related persons shall be considered as a large exposure when its value is equal or higher than 10% (ten per cent) of the SLA capital.
3. The SLA’s exposure to a person or a group of related persons shall not exceed 20% (twenty per cent) of the SLA capital.
4. The SLA’s exposure to a member shall be an exclusion from the provision of paragraph 3 of this Article, and it shall not exceed 10% (ten per cent) of the SLA capital.
5. The SLA shall not undertake large exposures that, taken together, shall exceed 600% (six hundred per cent) of its capital.
6. The exposure of SLA to a person or a group of related persons shall include:
  - a) claims arising from the transactions stipulated in paragraph 1 of this Article, insured with an insurance pledge over a cash deposit or a certificate of deposit, up to the amount of this insuring pledge;
  - b) Albanian government’s securities in the national currency denomination;
  - c) unalienable guarantees of the Albanian government.
7. For the purpose of calculating, reporting and respecting the maximum allowed limits of large exposures, the SLA shall include in 80% (eighty per cent) reduced amount of exposure, rights to banks operating in the Republic of Albania and the SLA’s Union.
8. The SLA shall draft internal and accounting procedures, as well as internal audit mechanisms, to identify, register and monitor all large exposures and their changes.

**Article 11**  
**Allowable rates for open foreign exchange positions**

1. The open foreign exchange position in a particular foreign currency shall represent the amount equivalent to the difference in lek between the entire assets and liabilities of the SLA, in this currency.
2. The SLA shall calculate and respect the following rates for open foreign exchange positions, on monthly basis, respectively:
  - a) the open foreign exchange position ratio for an individual currency to capital should not exceed 20% (twenty per cent); and
  - b) the open foreign exchange position ratio for all currencies to capital should not exceed 30% (thirty per cent) of capital.
3. In calculating the open foreign exchange position shall not be included the structural position in foreign currency, which is the position created by:
  - a) elements (in or off balance sheet items) that are not in the nature of the primary financial activity (business) of the SLA and/or are fixed/long-term such as: “participatory interests”, “fixed tangible and intangible assets”, etc.;
  - b) SLA’s transactions that conserve the capital adequacy level, in the cases when the capital adequacy rate shall be affected by the exchange rate fluctuations.

**Article 12**  
**Borrowings**

The amount of the borrowing by the savings and loan association shall not exceed 50% (fifty per cent) of total assets.

**SUBCHAPTER II**  
**CREDIT RISK MANAGEMENT**

**Article 13**  
**Credit risk**

1. The SLA shall adopt the documents related to strategies, policies, internal procedures and rules for monitoring and controlling in continuity the credit portfolio and other asset quality.
2. The documents mentioned in paragraph 1 of this Article, shall contain minimally:
  - a) the lending strategy by periods, including realistic objectives related with the enlargement of credit portfolio, its composition by sectors, geography, currency, type of credit, etc.;
  - b) interests rates, deadlines, settlements and credit size policies;
  - c) rules set out to acknowledge and analyse the borrower and the loan guarantor;

- d) procedures for the necessary documentation to be filled for loan granting, as well as for loan approval, according to the hierarchy of the granting structures;
  - e) risk management policies for the entire portfolio and for particular categories of clients, loan limit for a client, loan concentration by sector, monitoring by object and type of loan, analysis of considerable discrepancies between lending portfolio and its financing sources regarding deadlines and type of currency;
  - f) procedures on regular monitoring of loan functioning and their identification, by equal characteristic loan groups, priority observation of non-performing, evaluation of reserve funds adequacy for possible losses from loans, criteria for loan restructuring, etc.
3. The SLA shall maintain, in separate folders, the entire documentation regarding the borrowers.
- 3/1. <sup>6</sup>The SLA defines in its internal policies, the areas of lending for loans with maturity over 7 (seven) years.
4. The ratio between the total of non-performing loans and the total of credit portfolio shall not be in case above 10% (ten per cent).
  5. The Union of SLAs may grant loans to the savings and loan association member in the Union, within a limit and for defined period, as specified in the agreement between the parties. The lending agreement between the Union and the savings and loan associations shall be renovated at least once a year.
  6. The Union shall calculate a reserve fond of 2% (two per cent) of the amount of the loan stipulated in paragraph 5 of this Article, and in the cases in which the SLA is in violation of paragraph 4 of this Article the Union shall calculate a reserve fund at no less than 30% (thirty per cent) of the used amount.
  7. In the case of non-compliance of the ratio provisioned in paragraph 4 of this Article, in addition to the implementation of the supervision measures laid down in Article 32 of this Regulation, to the SLA shall be applied the additional premium for deposits insurance, according to the provisions of Article 66, paragraph 8 of the Law “On deposits insurance”.

#### **Article 14**

##### **Loan classification**

1. The SLA, based on day past due of loans settlement, shall classify the loans, at least once a quarter, in one of the following categories:
  - a) “standard loans”, when the following conditions shall be met:
    - i. the borrower's financial position and the expected inflows are completely sufficient to continue its activity and pay the liabilities,
    - ii. the principal or the interest is not fully paid for a period of 1 (one) to 30 (thirty) days after the maturity deadline;

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<sup>6</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

- b) “special-mention loans”, when the following conditions shall be met:
    - i. the borrower’s financial position and inflows are sufficient to pay liabilities, notwithstanding the financial difficulties of the moment, and there are no worsening signs of borrower's future situation,
    - ii. the principal or interest is not fully paid for a period from 31 (thirty-one) to 90 (ninety) days after maturity term;
  
  - c) “sub-standard loans”, when the following conditions shall be met:
    - i. the borrower's financial situation, capital and inflows are estimated to be insufficient to regularly meet the remaining installments, or the subject does not have all the required or updated information needed to completely estimate its financial situation,
    - ii. the principal and interest is not fully paid for a period from 91(ninety-one) to 180 (one hundred eighty) days after maturity deadline;
  
  - d) “doubtful loans”, when the following conditions shall be met:
    - i. The borrower’s financial situation, capital and inflows are estimated to be insufficient to fully meet the liabilities – the borrower shows liquidity problems and the borrower’s declaration as “insolvent/bankrupt” is assessed as a real possibility,
    - ii. the principal or interest is not fully paid for a period from 181 (one hundred and sixty-five) days to 365 (three hundred and sixty-five) days after maturity deadline;
  
  - e) “loss loans”, when the following conditions shall be met:
    - i. the financial situation of the borrower is clearly established to not fully meet the terms for the payment of the principal and the interest; or is established that the entire needed documentation to determine the financial situation is not available; or the borrower is insolvent/bankrupted, is involved in a liquidation process, or the borrower is dead and none may pay the loan; or the SLA has taken definitive legal action (the court has taken the final decision) to implement the process of collateral execution,
    - ii. the principal or the interest are not fully paid for a longer period than 365 (three hundred and sixty-five) days after maturity deadline.
2. In the case when the conditions of the loan classification, defined in paragraph 1 of this Article, shall be met in different categories of loan classification, the SLA shall classify the loan at the lowest category.
  3. For persons or related group of persons about whom there is registered more than one exposure the SLA shall classify the loans in a sole category, based on the lowest among the individual classification.

**Article 15**  
**Reserve funds’ rates loan loss provisioning**

1. Depending on loans classification category, the SLA shall create the respective reserve funds to cover possible losses arising from non-returned loans.

2. <sup>7</sup>Reserve funds rates are defined, respectively, as following:
  - a) for “standard loans”.....no lower than 1% (one per cent);
  - b) for “special-mention loans”.....no lower than 10% (ten per cent);
  - c) for “sub-standard loans”.....no lower than 30% (thirty per cent);
  - d) for “doubtful loans” .....no lower than 60% (sixty per cent);
  - e) for “loss loans”.....100% (one hundred per cent).
3. The rate for the calculation of the reserve fund for loan loss provisioning for both the categories provisioned in paragraph 2(a) and (b) of this Article shall be applied equally to the principal and the interest, while for non-performing loans the applied rate on the calculated interest shall be 100% (one hundred per cent) for each category.
4. Starting from the moment of the classification of the loan as a non-performing loan, the SLA shall not account the accrued interests.
5. The reserve funds to cover restructured loan losses shall be calculated in the same way as for non-performing loans.

**Article 16**  
**Loan restructuring**

1. The SLA, in agreement with the borrower, shall restructure the loan according to the criteria defined in the internal regulatory acts approved by the management board. The restructuring of the loan may also be done when, based on its analysis, SLA believes that the future financial condition of the borrowers shall be significantly improved, or the proceeds from its activity shall increase significantly and the borrower shall pay (settle) the entire loan according to the new terms.
2. The restructured credit shall not be classified higher than in one category from the category when it was classified before the restructuring and, in any case, not higher than the “sub-standard” category, until the simultaneous fulfillment of the following conditions:
  - a) the borrower has regularly settled the instalments (principal and interest) for a 9 (nine) month period from the restructuring date;
  - b) the borrower has regularly settled at least 3 (three) instalments (principal and interest).
3. After the fulfillment of the conditions defined in paragraph 2 of this Article, the restructured loan shall be classified according to the criteria defined in this Chapter.
4. <sup>8</sup>In case the restructured loan has delays longer than 30 (thirty) days, it shall be classified in the same category in which it was classified before the restructuring and, in any case, not higher than the “sub-standard” category, as well as if the restructured loan has delays longer than 90 (ninety) days, it will be classified as "loss loan".

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<sup>7</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>8</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

**Article 17**  
**Writing-off of loss loans from the balance sheet**

1. The writing-off of loss loans from the balance sheet shall be done by decision of the management board of the SLA.
2. In any case the SLA shall write-off the loans from the balance sheet no later than 3 (three) years after their classification in the “lost” category.
3. The folders of written-off loans from the balance sheet shall be saved and assessed regularly, reviewed no less than once every 6 (six) months by the management board of the SLA.
4. Despite the writing-off of the loans from the balance sheet the SLA shall continue the legal procedures for the collections of these loans. Any collection from these written-off loans shall be considered as extraordinary income.

**Article 18**  
**Financial leasing contracts classification**

1. The SLA that also exercises the financial leasing activity shall classify the financial leasing contracts at least every 3 (three) months.
2. Based on the number of past due days of the financial leasing contract, the SLA shall classify them into one of the following categories:
  - a) “standard”, when the principal or the interest are overdue for a period from 1 (one) to 30 (thirty) days;
  - b) “special mention”, when the principal or the interest are overdue for a period of 31 (thirty-one) to 90 (ninety) days;
  - c) “sub-standard”, when the principal or the interest are overdue for a period from 91 (ninety-one) to 180 (one hundred and eighty) days;
  - d) “doubtful”, when the principal or the interest are overdue for a period from 181 (one hundred and eighty-one) to 365 (three hundred and sixty-five) days;
  - e) “loss”, when the principal and the interest are overdue for a period longer than 365 (three hundred and sixty-five) days.

**Article 19**  
**Reserve funds’ rates to cover losses from financial leasing contracts**

1. Depending on the classification category, the SLA shall create respective reserve funds to cover the possible losses from the non-payment of the financial leasing contracts.
2. Reserve funds rates are defined, respectively, as following:
  - a) for “standard category” .....no lower than 1% (one per cent);
  - b) for “special mention category” .....no lower than 5% (five per cent);
  - c) for “sub-standard category” .....no lower than 20% (twenty per cent);
  - d) for “doubtful category” .....no lower than 20% (twenty per cent);

- e) for “loss category”.....no lower than 20% (twenty per cent).
3. The rate for the calculation of the reserve fund for covering losses for both the categories provisioned in paragraph 2(a) and (b) of this Article shall be applied equally to the principal and the interest, while for the categories defined in (c), (d) and (e) the applied rate on the calculated interest shall be 100% (one hundred per cent) for each category.
  4. Starting from the moment of the classification of the leasing contract in the “sub-standard” category the SLA shall not account the accrued interests.

### **SUBCHAPTER III OTHER RISKS MANAGEMENT**

#### **Article 20 Liquidity risk**

1. The liquidity risk is the possibility of financial loss as a result of insufficient liquid assets to meet the liabilities when matured and required, and/or the SLA is unable to finance the growth of its assets.
2. The SLA shall create a liquidity risk management system, to manage the liquidity risk. This system shall minimally include: the strategy and policies for liquidity risk management; the established organisational structure to manage this risk; the internal audit function for the liquidity risk management (if applicable); the information system, etc.
3. The SLA shall respect at any time the ratio of:
  - a) liquid assets to total deposits and borrowings, which should not be lower than 7% (seven per cent);
  - b) liquid assets to short-term liabilities, which should not be lower than 100% (one hundred per cent);
  - c) <sup>9</sup>outstanding loans with residual maturity over 7 (seven) years to total equity and liabilities with a residual maturity over 7 (seven) years, after the fixed assets are deducted, which should not be higher than 100% (one hundred per cent);
  - d) <sup>10</sup>outstanding loans with a residual maturity over 7 (seven) years to total deposits, which should not be higher than 10% (ten per cent).
4. <sup>11</sup>Repealed.
5. The SLA shall not grant any loans with maturity over 7 (seven) years<sup>12</sup>, during the first 2 (two) years of its activity.

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<sup>9</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>10</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>11</sup> Repealed by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>12</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

6. The SLA shall not grant loans with maturity over 10 (ten) years. Excluded from this provision shall be the loans with maturity over 10 (ten) years granted by the SLA which shall be guaranteed by at least one of the following means:
  - a) cash deposit or certificate of deposit;
  - b) Albanian government's securities issued in the national currency;
  - c) guarantees granted by licensed institutions or institutions specialized for this purpose,<sup>13</sup> or by multilateral development banks;
  - d) real estate.
7. The total sum of the loans above 10 (ten) years, guaranteed according to the provisions of paragraph 6 of this Article, shall not be higher than 10% (ten per cent) of the SLA's total credit portfolio.
8. <sup>14</sup>The SLA, in addition to the provisions of paragraph 1 of article 38 of the law "On SLAs", can invest cash funds, which are not used for loans to members, in Albanian government's securities with a maturity over 1 (one) year, provided that it meets the requirements of paragraph 2 of article 38 of the law "On SLAs".

### **Article 21**

#### **Operational risk management**

The SLA is subject of the implementation of the provisions for the operational risk management defined in the Regulation "On operational risk management".

### **Article 22**

#### **Information technology and communication**

The SLA, during the exercise of its activity, shall implement the provisions of the Regulation "On the use of the information technology and communication in the subjects licensed by the Bank of Albania".

### **Article 23**

#### **Money laundry prevention**

The SLA, during the exercise of its activity, shall implement the provisions of the Law "On the prevention of money laundering and the financing of terrorism", as well as the Regulation "On the prevention of money laundering and the financing of terrorism".

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<sup>13</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>14</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

## **CHAPTER IV TRANSPARENCY WITH THE MEMBERS**

### **Article 24 General provisions**

1. The SLA shall publish visibly and clearly in its work premises and/or its website, the information about the interests rates of loans and deposits, as well as the commissions on products and services it shall offer to the borrowers.
2. The SLA shall ensure that the information, deadlines, products and services conditions, as well as the rights and the responsibilities of the borrower, are complete, precise and in a comprehensible language for the borrower.
3. The SLA shall present in advance to the borrower, before he/she chooses a product or service, a complete information on conditions, deadlines and interest rates in percentage, for the risks attached to the getting of the product or service, as well as commissions and fines (penalties), in the case when the latter become applicable etc.
4. In the cases when the SLA shall change the offering conditions of the products and services, it shall notify the new changes to its members, in writing, by electronic means of communication, or by publishing at the work premises or in its official website. This notification shall be done before the changes become applicable, and it also shall contain clear and complete information expressed in a comprehensible language for the borrower.
5. The SLA shall not change, without the approval of the borrower, during the duration of the contract/loan agreement the approach/methodology of calculation of the interest rate and/or its component elements, for which it has agreed with the borrower at the time of entering into the agreement/loan contract.

### **Article 25 Elements of the loan contract**

1. The loan contract shall be done in any case in writing and it shall have a comprehensible formulation in the Albanian language and a clear and distinctive presentation. The font used shall be "*Times New Roman*" and at least size 10. A copy of the contract signed by the parties, shall be given personally to the borrower, at the time of the contract signing.
2. The SLA and the borrower shall sign an agreement (contract) in writing for every loan, which shall include the following elements:
  - a) the intended use of the loan;
  - b) type of the loan;
  - c) complete data for identification and addresses of the contracting parties;
  - d) total value of the loan and conditions for its disbursement;
  - e) loans maturity deadline;

- f) the interest rate, the conditions that define the application and the calculation of this rate, any index or reference norm applicable, as well as the periods, conditions and procedures for the change of the interest rate, defining as well the method of notification to the borrower and/or guarantor for every possible change;
  - g) initial contribution of the borrower (if it shall be applicable) or different commissions for getting and settling the loan;
  - h) collateral type (if there is one);
  - i) liabilities and penalties of the parties and the reasons when these shall arise and implemented, especially if their subject is the borrower;
  - j) method of change of the contract conditions;
  - k) method of obtaining the consent of the borrower in case changes in contract terms;
  - l) method of termination of contract;
  - m) instalment amount, number and periodicity or the dates of each instalment (payments by the borrower) to settle the loan, and any other expense related with granting and use of the loan, presented in a settlement plan (principal and interest);
  - n) the guaranties in place to ensure the execution of the loan contract, the manner of delivery of the execution, and the life and property insurance contracts (when applicable);
  - o) the right to repay the loan ahead of the deadline and the benefit of a reduction of the total cost of the loan;
  - p) the number of signed copies in original of the contract and the manner of their disposition by the parties;
  - q) penalties related with the violation of contractual obligations, which are paid by the borrower, the amount of which shall not exceed in any case the amount of the contractual obligation.
3. A part the information defined in paragraph 2 of this Article, the SLA may include voluntarily in the contract any additional information as well.
  4. During the process of disbursement of the loan for the first time or during its restructuring, the SLA shall offer to the borrower:
    - a) the loan settlement plan at the moment of its disbursement and in case of restructuring, according the information available at the moment;
    - b) the plan of all the predetermined and known payments that the borrower shall pay during the process of taking the loan and its duration;
    - c) penalties that apply to borrowers and examples of the method of their calculation.

## **Article 26**

### **Rights and obligations in case of loan settlement (payment) before the maturity deadline**

1. The borrowers shall have the right, at any time before maturity, to repay part or all of his/her obligations arising from the loan contract. In this case, the SLA shall reduce the total cost of the loan. This reduction shall consist in the decrease of the

interest amount and other expenses applicable for the principal amount settled before the maturity deadline, as agreed in the loan contract for these cases.

2. The SLA shall have the right to a fair and objective compensation, that in any case shall not exceed:
  - i. SLA's financial losses, which have to be justified by possible costs directly related to the settlement/s of the loan before maturity;
  - ii. 1% (one per cent) of the amount of the loan paid before maturity.

## **Article 27**

### **Elements of the deposit contract**

1. The SLA and the member shall sign an agreement (contract) for each time deposit at the SLA.
2. The time deposit contract, in addition to the personal data of the member, shall include:
  - a) the invested amount in the time deposit;
  - b) the annual interest rate;
  - c) the amount of the interest and the frequency of their payment;
  - d) the amount of income tax on bank interest withheld at the source;
  - e) maturity date of the deposit;
  - f) terms and conditions chosen by the borrower for time deposit renovation;
  - g) terms and conditions for the termination (dissolution) of the contract before maturity; and
  - h) applicable penalties in case of termination (dissolution) of the contract before maturity.
3. The SLA shall provision in the deposit contract, the method of notification to the depositor for changes in the conditions or deadlines of the signed contract before it implements the change.
4. In case of a change in one of the elements defined in paragraph 2 of this Article, only for one member or a limited group of members, the SLA shall be required to inform in advance the member/s in writing. In case of a change of one of the aforementioned elements that shall affect equally all the members as a consequence of the SLA's policies, the latter shall be required to inform in advance each of them, according to the methods defined in the contract.
5. The SLA shall be required to give the member the key information on his/her deposits, insured by the Deposits Insurance Agency.

**CHAPTER V**  
**REPORTING REQUIREMENTS AND SUPERVISORY MEASURES**

**Article 28**  
**Financial reports**

1. The SLA shall maintain accounts and prepare financial reports in order to reflect its financial position accurately and in accordance with the accounting rules and methods, on individual basis and in the case of the Unions, on consolidated basis as well.
2. The accounts and the financial reports shall be prepared in the form and with the content provisioned in the Law “On accounting and financial statements” as well as in accordance with the international accounting standards.
3. The SLA shall draft internal policies and procedure, approved by the management board.

**Article 29**  
**Statutory auditing**

1. The statutory auditor or the audit company shall audit and evaluate the compliance of the financial reports of the SLA with the Law “On accounting and financial statements as well as with the international accounting standards.
2. The statutory auditor or the audit company shall audit and evaluate:
  - a) profit-loss account (income and expenditure statement);
  - b) balance sheet;
  - c) changes in the capital report;
  - d) *cash – flow* statement;
  - e) the implementation of the policies on writing off balance sheet items;
  - f) consolidated reports (for the Union);
  - g) internal audit function (if applicable);
  - h) accounting entries;
  - i) information systems;
  - j) the accuracy and completeness of the reports submitted to the Bank of Albania;
  - k) adequacy of the accounting procedure and regulatory compliance;
  - l) accompanying notes to the financial reports.
3. The statutory auditor or the audit company shall verify the accurateness e of the accounts and of the financial registrations, including the methods provisioned by the Bank of Albania. The auditor shall prepare an annual report related to the full and accurate submission of the financial situation of the SLA, based on the reports and financial statements prepared by the SLA, in accordance with the Law “On accounting and financial statements” and the international accounting standards.
4. The SLA shall appoint an audit company in the case when at least one of the following conditions shall be fulfilled:

- a) the SLA members' number is averagely no lower than 10,000 (ten thousands) members, during the accountable period; or
- b) total assets in the balance sheet, at the closure of the accountable period shall exceed ALL 1 (one) billion.

**Article 30**  
**Reporting at the Bank of Albania**

1. The SLA shall report at the Bank of Albania in quarterly periods, according to the provisions on "The reporting system for the savings and loan associations and their Unions", approved by the Bank of Albania. The data shall be reported no later than 50 (fifty) days after the closure of the relevant quarter.
2. The Union shall report according to the provisions defined in paragraph 1 of this Article, as well as for all member SLAs, on individual and consolidated basis.
3. The SLA that is not a member of a Union and results in non-compliance of the supervising rules shall report at the Bank of Albania every month.
4. The Union shall report at the Bank of Albania the supervising rules of the savings and loan associations that shall result non-complying with them.
5. The SLA shall submit at the Bank of Albania, within the first half of the successive year, a copy of the annual report and a copy of the opinion of the statutory auditor, or the audit company where is stated the financial and accountable situation on individual basis and in the case of the Union in consolidated basis as well.
6. The Bank of Albania, in the exercise of its supervising activity, may require at any time, even more frequently, the reports form the SLAs and their Unions.

**Article 31**  
**Credit Registry**

1. The SLA shall report at the Bank of Albania the required information from the latter, for the Credit Registry purpose, according to the provisions of the bylaws of the Bank of Albania.
2. The SLAs and their Unions shall have the right to use the information contained in the Loans Registry, according to the provisions of the bylaws of the Bank of Albania.

**Article 32**  
**Supervisory measures**

In case of non-compliance with the provisions of this Regulation, the Bank of Albania shall implement the supervisory, preventive, and penalising measures, provided in the Law on SLAs.

## **CHAPTER VI FINAL PROVISIONS**

### **Article 33 Transitory provisions**

1. The SLAs and the Unions licensed by the Bank of Albania and that exercise their activity before the entering into force of this Regulation, shall take steps that the adequacy capital indicator shall be above the level provisioned in Article 9 of this Regulation, by 30 June 2018.
2. A part the provisions of paragraph 1 of this Article, the SLAs and the Unions licensed by the Bank of Albania and that exercise their activity before the entering into force of this Regulation, shall take measures to fulfill the obligations deriving from this Regulation, by 30 June 2017.
3. The SLAs and the Unions licensed by the Bank of Albania and that exercise their activity before the entering into force of this Regulation, shall take measures to account on accrued basis the interest on loans and to calculate the reserve funds for these interests, by 30 June 2021.
4. The provisions in this Regulation for the SLA activity shall be applicable for the Union as well, except when is provisioned otherwise.

### **Article 34<sup>15</sup> Temporary provision**

Suspension of the application of the requirements of Chapter III, Article 14 and Article 15 of this Regulation, for the period March to May 2020.

**Chair of the Supervisory Council**

**Gent Sejko**

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<sup>15</sup> Added by the circulating decision No. 15, dated 12.3.2020 of the Supervisory Council of the Bank of Albania.

## ANNEX 1

### FORM NO.1/1

<b>RISK-WEIGHTED ASSETS</b>	Book value	<sup>16</sup> Risk weight	Weighted value
<b>1. Assets without risk, <sup>17</sup>risk-weighted 0%:</b>		<b>0%</b>	
- Cash and similar items		0%	
- Albanian government securities issued in the national currency		0%	
- Assets guaranteed with collateral or similar guarantees, up to the amount that guaranties the exposure, as follows <sup>18</sup> : <ul style="list-style-type: none"> <li>i) a deposit or a certificate of deposit<sup>19</sup>;</li> <li>ii) Albanian government securities issued in the national currency;</li> <li>iii) unalienable guarantees of the Albanian government;</li> <li>iv) <sup>20</sup>unalienable guarantees of the governments of the OECD countries;</li> <li>v) <sup>21</sup>guarantees of multilateral development banks, provided in article 9, paragraph 6, letter "e" of the regulation;</li> <li>vi) <sup>22</sup>guarantees of funds, provided in article 9, paragraph 6, letter "f" of the regulation.</li> </ul>		0%	
<b>2. Assets with low risk, <sup>23</sup>risk-weighted 20%:</b>		<b>20%</b>	
- Rights to banks active in the Republic of Albania		20%	
- Rights to the Union of the SLA.		20%	
<b>3. Assets with medium risk, <sup>24</sup>risk-weighted 50%:</b>		<b>50%</b>	
- Mortgage granted to members for the improvement of housing conditions (for house purchase or rebuild, which is guaranteed with mortgage)		50%	
- <sup>25</sup> Loans with residual maturity up to 12 months, provided that they are classified in the "standard" or "special mention" category.		50%	
- Financial leasing		50%	
<b>4. Assets with high risk, <sup>26</sup>risk-weighted 100%:</b>		<b>100%</b>	
- Other loans to members, except those classified in points 1 and 3		100%	
- Fixed tangible and intangible assets		100%	
- Other assets not classified according to points 1, 2 and 3		100%	
<b>TOTAL ASSETS WEIGHTED WITH RISK</b>			

<sup>16</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>17</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>18</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>19</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>20</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>21</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>22</sup> Added by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>23</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>24</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>25</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>26</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<b>RISK-WEIGHTED OFF-BALANCE SHEET ASSETS</b>	Book value	<sup>27</sup> Risk weight	Weighted value
<b>1. Off-balance sheet items with high risk, <sup>28</sup> risk-weighted 100%:</b>		<b>100%</b>	
- Granted financing commitments		100%	
- Granted guaranties		100%	
- Securities provided as a guarantee for loans or refinancing		100%	
- Forward purchase foreign currency		100%	
- Amounts taken in lek against foreign currency sales		100%	
- Other commitments		100%	
<b>TOTAL OFF-BALANCE SHEET RISK WEIGHTED ITEMS</b>			

Code	<b>CAPITAL ADEQUACY RATIO</b>	
1	Risk-weighted total assets	
2	Off-balance sheet risk-weighted total items	
3	<b>Total assets and risk-weighted off-balance sheet items (1+2)</b>	
4	SLA's capital	
5	Capital adequacy ratio <b>(4/3)*100</b>	
6	Minimum capital adequacy ratio	12%

<sup>27</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.

<sup>28</sup> Amended by the circulating decision No. 20, dated 26.3.2020 of the Supervisory Council of the Bank of Albania.