



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

**DECISION**

**No. 62, dated 14.09.2011**

**On approval of regulation  
“ON CREDIT RISK MANAGEMENT FROM BANKS AND BRANCHES OF FOREIGN  
BANKS”**

In accordance with Article 12 “a” and Article 43, “c” of the Law No. 8269, dated 23.12.1997 “on Bank of Albania”, amended and Articles 57, 58, 61 and 68 of the Law No. 9662, dated 18.12.2006 “On banks in the Republic of Albania”, having regard to the proposal from Supervision Department,

**DECIDED:**

1. The approval of Regulation “On credit risk management from banks and branches of foreign banks” and the attached annexes.
2. The Supervision Department and Statistics Department at the Bank of Albania are responsible for the implementation of this Decision.
3. The Foreign Relations, European Integration and Communication Department is responsible for the publication of this Regulation in the Official Bulletin and Official Journal of the Republic of Albania.
4. The regulation “On credit risk management” adopted with Decision No. 52, date 14.07.2004 as amended shall be repealed upon the entry into force of this Regulation.

This decision shall enter into force on the 15th day following that of its publication in the Official Journal of the Republic of Albania

**SECRETARY**

**YLLI MEMISHA**

**CHAIRMAN**

**ARDIAN FULLANI**

## **REGULATION**

### **“ON CREDIT RISK MANAGEMENT FROM BANKS AND BRANCHES OF FOREIGN BANKS”**

(Adopted with decision No. 62, dated 14.09.2011 and amended by decision No.27, dated 27.03.2013, by decision No.22, dated 27.02.2014, by decision No.26, dated 01.04.2015, by decision No. 50, dated 30.03.2016, by decision No. 52, dated 3.7.2019, by circulating decision No. 13, dated 12.3.2020, by circulating decision No. 33, dated 28.5.2020 and by decision No. 5, dated 13.1.2021 of the Supervisory Council of the Bank of Albania.)

#### **Chapter I General provision**

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

The purpose of this regulation is:

- a) to lay down the rules on credit risk management in the activity of banks and branches of foreign banks; and
- b) to lay down the criteria on credit risk assessment and the classification of loans and assets, and the calculation of reserves for loan loss provisions from their depreciation.

##### **Article 2 Legal basis**

This regulation is issued according to:

- a) Article 12, “a” and Article 43, “c” of the Law No. 8269, dated 23.12.1997 “On Bank of Albania”, as amended;
- b) Articles 57, 58, 61 and 68 of the Law No. 9662, dated 18.12.2006 “On Banks in the Republic of Albania”, throughout in this Regulation referring as the “Law on Banks”.

##### **Article 3 Application**

This regulation shall apply on banks and branches of foreign banks, being granted a license by the Bank of Albania to conduct banking and/or financial activity in the Republic of Albania, referring as “banks” throughout in this Regulation.

## **Article 4**

### **Definitions**

1. The terms use in this Regulation shall have the same meaning with those defined in the Law on Banks.
2. In addition to paragraph 1 of this Article, for the purpose of implementing this Regulation, the terms used in this Regulation shall have the following meanings:
  - a) “other assets” – shall imply on- and off-balance sheet financial assets (excluding loans), which according to accounting standards are held at amortised cost;
  - b) “accounting standards” – shall imply the accounting standards as compiled by the International Accounting Standards Board, which in accordance with the definitions laid down in the Law No. 9228, dated 29.04.2004 “On accounting and financial statements”, as amended, shall be implemented by the banks to compile and present the financial statements;
  - c) “the borrower exposed to exchange rate risk” – shall mean the borrower being granted a loan in foreign currency and/or indexed in foreign currency by the bank, and who meets the following criteria:
    - i. His/her income in origin are in the domestic currency or in a currency different from the credit denominated currency,
    - ii. His/her income denominated in foreign currency cover less than 80% of instalment credit or total credit (principal and interest, depending on the calculation period) and other foreign currency or indexed in foreign currency liabilities,
    - iii. Is not hedged against credit risk though a derivative product (derivative instrument), used for this purpose and providing adequate hedging conditions.
  - d) “*stress-testing*” – shall imply the management technique credit risk employed to assess the probable change’s impact of one or more internal and external factors on the bank’ financial sustainability;
  - e) “credit restructuring” – shall mean the facilities the bank applies for the borrower/borrowers due to their financial difficulties arisen for either economic or legal reasons, which in no case are carried out by the bank, and in general include:
    - i. facilities concerning the credit terms & conditions by amending one or two contract terms (including the change of product and interest capitalisation), which mainly relate to the term, principal and interest rate,
    - ii. Receivership (use) of collateral or other assets for the partial payment on credit,

- iii. the replacement of original borrower or the inclusion of an additional borrower;
- f) “financial difficulties of the borrower” – shall imply the deteriorations of borrower’s financial condition, which may lead to either in default or to the classification of credit as non-performing loan;
- g) “non-performing loans” – shall imply the loans classified in the last three categories of credits classification. Their gross amount (principal + interest) is the total of non-performing loans;
- h) “capitalisation of interest” – shall imply the process through which the accrued interest is added to the principal;
- i) repealed<sup>1</sup>;
- j) “collateral” – shall mean the asset used to ensure the execution of obligation to the bank, in case when the borrower fails to pay the loan accordingly to the contract’s terms and conditions;
- k) “guarantee” – shall mean the written commitment of a third party to pay the loan within a determined term, if the borrower fails to pay accordingly to the terms and conditions of the contract;
- l) “hedging maturity of loan” – shall mean the time up to the nearest date when either the guarantee agreement or the collateral may be completed;
- m) “independent appraiser” – shall mean the person, being granted an operational licence or certificate for the valuation of real estate, independent of the decision-making process in granting the credit;
- n) “contingency plan” – shall imply the document developed by the bank regarding the rules and procedures to be implemented given certain scenarios.

## **Chapter II**

### **General requirements on credit risk management**

#### **Article 5**

#### **Credit risk management system**

1. Banks should have in place a system for credit risk management, adequate for the nature, volume and complexity of the bank’s activities.
2. Credit risk management system shall consist on the policies, procedures, rules and banks’ structures used to manage the credit risk.
3. Credit risk management system should provide the ongoing assessment of credits and other assets’ quality on a timely basis, including determining the adequacy of reserves to cover losses related to this risk.

---

<sup>1</sup> Amended upon the Supervisory Council decision no. 50, dated 30.03.2016.

## **Article 6**

### **Organisational structure**

1. The bank shall establish an adequate organisational structure for the management of credit risk, by clearly defining the competences and responsibilities of the management.
2. The Bank shall ensure that loan sales, be clearly separated from organisational and operational point of view, from the supporting operational and control functions of credit risk, including the high levels of management.
3. The bank shall ensure the needed structures for assessing, measuring and controlling credit risk's concentration by sectors, by geography/locations, by currency and by credit type, etc.

## **Article 7**

### **Responsibilities of Steering Council**

1. The Bank Steering Council or the mother bank's responsible authority for the branch of foreign bank, for the purpose of credit risk management, shall have responsibility for:
  - a) approving the strategies and policies for credit risk management, and for supervising (monitoring) their implementation;
  - b) periodically, at least annually, reviewing the implemented strategies and policies' adequacy, also in any case there are important developments affecting the bank's activity;
  - c) monitoring and assessing the internal control efficiency, as an integral part of credit risk management system;
  - d) approving and regularly reviewing the exposure limits against credit risk;
  - e) reviewing and analysing the exposure reports to credit risk and the monitoring of implemented operations for credit risk management;
  - f) reviewing the results of stress-testing, at least once in six months, for:
    - i. improving the strategies and policies of credit risk management,
    - ii. drafting and improving the required regulatory framework to address the main issues related to the exposure against credit risk,
    - iii. forecasting in a timely manner the requirements for capital growth and identification of most efficient ways in its disposition,
    - iv. developing efficient contingency plans;

- g) defining the possible exclusions from the established exposure limits against credit risk and delegating the responsibilities to take decision on the implementation of such exclusions;
  - h) reviewing of structures' adequacy and the addressing of either their failure or the adoption with the presented situations.
2. The Steering Council shall ensure that credit risk management system is subject of an efficient and comprehensive internal control process.

## **Article 8**

### **Responsibilities of the Directory**

1. The bank's directory shall be responsible for the implementation of credit risk management strategies and policies approved by the Steering Council or the respective authority of mother bank.
2. The bank's directory, in the framework of credit risk administration, shall have responsibility for:
- a) compiling and implementing the procedures of credit risk management in accordance with the policies adopted by the Steering Council or the relevant mother bank's authority;
  - b) establishing an effective measuring, controlling and reporting system of credit risk, by exposure type;
  - c) establishing an adequate reporting system to the Steering Council or to the respective authority of mother bank, on any infringement of exposure's limits against credit risk;
  - d) establishing the procedures for measuring the effects that new products may bear against credit risk, and the monitoring of liabilities and possible exposures, based on activities off- balance sheet of the bank, including the exposure against the counterparty.

## **Article 9**

### **Internal acts**

1. Banks shall develop the internal strategy, policies, procedures and rules for the ongoing monitoring and controlling of credit portfolio and other assets' quality.
2. The acts set forth in paragraph 1 of this Article shall at least comprise/include:
- a) lending strategy by periods, including realistic objectives related to credit portfolio enlargement, its composition by sectors, geography/locations, by currency and by credit type, etc;

- b) policies for interest rates, terms, settlements and for credit type and size;
  - c) the determined rules and criteria for the acknowledgment and financial analysis of the borrower and or of the loan guarantor;
  - d) procedures regarding the documentation needed to grant and approve the credit, consistent with the structures' hierarchy;
  - e) management policies of credit risk in the entire portfolio as well as for each individual customer, credit limits by borrower's type, sectors, the monitoring by credit's object and type, etc;
  - f) approach and procedures for assessing credit's quality and for calculating the provisions to cover probable losses arising from credits' depreciation;
  - g) methodology for assessing, measuring and controlling credit risk's concentration by sectors, geography/locations by credit type, etc;
  - h) criteria on credit restructuring;
  - i) procedures for assessing other assets' quality and for calculating reserves for possible losses arising from these assets' amortisation;
  - j) procedure to verify the valuation of "real estate" collateral, conducted by an independent appraiser;
  - k) procedures for the periodical monitoring and assessing of financial collateral;
  - l) procedures for the regular monitoring of guaranties
3. Banks shall record and maintain all the relevant documentation on loans and other assets.

## **Article 10**

### ***Stress testing***

1. Banks, through the conduction of *stress testing*, shall assess on an ongoing basis and sufficiently their exposure against credit risk, by considering the possible changes in the future of risk factors which affect credit portfolio's quality and the bank's financial situation, materialised in net income and in capital adequacy ratio.
2. Banks shall set forth the periodicity of results reporting to the management, consistent with the activity size, exposure against credit risk and their share in banking system, but this periodicity should not be less than twice a year. Bank of Albania may request to the bank the conduction of stress tests in more frequent periods and/or by scenarios with established assumptions.
3. *Stress testing* conducted by the bank should at least include the use of particular and/or combined scenarios, based on factors such are: economic downturns, rapid change of market conditions (market risk conditioned by the exchange rate fluctuations, interest rates, etc) which could have unfavourable effects on the regular payment of the liability (debt), or scenarios of credit portfolio deterioration, notwithstanding the definition of risk factor which may serve as a reason for the occurrence of unfavourable situation.

4. Banks shall set forth the methodology for *stress testing*, the assumptions, and the actions that might take given the results, including:
  - a) implementation, analysis of stress tests scenarios and their periodicity;
  - b) *stress testing* for particular and individual scenarios and combined scenarios, given the simultaneous occurrence of some scenarios;
  - c) documentation and regular review of the assumptions used for stress testing;
  - d) the reporting and frequency of the output of the tests to the management;
  - e) actions to be taken by the management and/or special structures assigned for credit risk management, based on the stress tests' results.

### **Chapter III**

#### **Assessment of credits and the establishment of loan loss provisions**

#### **Article 11**

##### **Credit classification**

1. Banks, in accordance with paragraph 2 and 3 of this Article, shall classify credits<sup>2</sup> every month, in one of the following categories:
  - a) "standard";
  - b) "special mention";
  - c) "sub-standard";
  - d) "doubtful";
  - e) "loss".
2. Banks, based on days in arrears on loan repayment and on the borrower's financial condition, shall classify the loans as following:
  - a) "standard", whenever the following conditions are met:
    - i. the borrower's financial condition and the expected inflows are fully sufficient to continue his activity and the payment of liabilities,
    - ii. the principal or interest is not paid for a period from 1 to 30 days from the day of instalment payment,
  - b) "special mention", whenever the following conditions are met:
    - i. borrower's financial situation and inflows are sufficient to meet the liabilities notwithstanding the financial difficulties of the moment, and there are no sign of borrower's situation deterioration for the future,

---

<sup>2</sup> Amended upon the Supervisory Council decision no. 22, dated 27.02.2014.



- ii. principal or interest is not paid for a period from 31 to 90 days from the settlement date;
- c) “sub-standard”, whenever the following conditions are met:
  - i. borrower’s financial condition, capital and inflows are assessed as insufficient for the regular meeting of the default liabilities, or the bank does not have the completed required or updated information, needed to fully assess his financial situation,
  - ii. the principal or interest is not paid for a period from 91 to 180 days from the date of instalment payment;
- d) “doubtful”, whenever the following terms are met:
  - i. borrower’s financial condition, capital and inflows are assessed as insufficient to fully meet the liabilities, the borrower manifests liquidity related problems, and the declaration of borrower as “insolvent/or bankrupted” is valued as a real possibility,
  - ii. principal or interest is not paid for a period from 181 to 365 days from the day of instalment payment;
- e) “loss”, whenever the following conditions are met:
  - i. <sup>3</sup>The financial situation of the borrower is clearly assessed to not succeed in fully meeting the terms on the payment of principal and interest; or it is assessed that there is a lack of all the needed documentation to determine the financial situation; or the borrower is insolvent/bankrupted, is involved in a liquidation process; or the borrower is dead and none can pay the loan; or the bank has deposited at the judicial officer the demand on the beginning of the mandatory execution of collateral, if the loan is secured by collateral; or the court has issued the execution order, if the loan is not ensured with collateral.

The loans which are under the restructuring process and meet the conditions stipulated in Article 13, paragraph 2 (a) and (b) of this Regulation, are excluded from the last term of the above point.

  - ii. The principal or interest is not paid for a period more than 365 days from the day of instalment payment.

3. Banks, shall carry out the classification of limit loans, as following:

- a) “standard”, whenever there are met the following conditions:

---

<sup>3</sup> Amended upon the Supervisory Council decision no. 22, dated 27.02.2014.

- i. borrower's financial condition and the expected inflows are totally sufficient to continue his activity and the payment of liabilities,
  - ii. the used amount of credit is lower or equal to the maximum approved amount,
  - iii. the credit is up to 30 days in arrears from the initial term of payment,
- b) "special mention", whenever the following conditions are met:
  - i. borrower's financial condition and income are totally sufficient to meet the liabilities, notwithstanding financial difficulties of the moment, and there are no signs of worsening of the borrower's position for the future,
  - ii. the maximum approved amount is exceeded for a period from 31 to 60 days,
  - iii. the final payment term is exceeded for a period from 31 to 60 days,
- c) "sub-standard", whenever the following conditions are met:
  - i. borrower's financial situation and inflows are assessed as insufficient to regularly meet the default liabilities, or the bank does not possess the complete required or updated information, needed to fully assess his financial condition,
  - ii. the maximum approved amount of credit is exceeded for a period from 61 to 90 days,
  - iii. the final payment term is exceeded for a period from 61 to 90 days,
- d) "doubtful, whenever the following conditions are met:
  - i. the borrower's financial condition, capital and inflows are assessed as insufficient to completely meet liabilities, the borrower manifests liquidity problems, and borrower's declaration as "insolvent/bankrupted" is valued as a real possibility;
  - ii. the maximum approved amount of credit is exceeded for a period from 91 to 180 days;
  - iii. final payment term is exceeded for a period from 91 to 180 days,
- e) "loss", whenever there are met the following conditions:
  - i. <sup>4</sup>financial situation of the borrower is clearly assessed to not succeed in fully meeting the terms on the payment of principal and interest; or it is assessed that there is a lack of all the needed documentation to determine the financial situation; or the borrower is insolvent / bankrupted, is involved in a liquidation process; or the borrower is dead and none can pay the loan; or the bank has deposited at the judicial officer the demand on the beginning of the mandatory

---

<sup>4</sup> Amended upon the Supervisory Council decision no. 22, dated 27.02.2014.

execution of collateral, if the loan is secured by collateral; or the court has issued the execution order, if the loan is not ensured with collateral.

The loans which are under the restructuring process and meet the conditions stipulated in Article 13, paragraph 2 (a) and (b) of this Regulation, are excluded from the last term of the above point.

- ii. the approved limit is exceeded for a period more than 180 days,
  - iii. the final term of credit payment is exceeded for a period more than 180 days,
4. Notwithstanding the stipulation in paragraph 3 of this Article, banks could not classify credit higher than:
- a) “special mention” category, in case there is a circulation volume, which is not consistent with the business cycle forecasted by the bank in its analysis, but the credit amount circulates at least once a year;
  - b) “sub-standard” category, if there are met at least one of the following characteristics:
    - i. circulations in the account are low compared with the used credit amount and are insufficient to justify the normal performance of business,
    - ii. the limit credit or an important part of it is used for long-term investment purposes.
5. In case when the credit classification conditions, stipulated in paragraphs 2 and 3 of this Article, are met for different categories of credit classification, banks shall classify the credit into the lowest category.
6. Banks, for individual or related group of individuals, regarding which it is recorded more than one exposure, shall carry out the classification of credits into one category, based on the lowest classification amongst the individual classifications.
7. Banks, in case of credits classified into “substandard”, “doubtful” and “loss” categories, shall reclassify a credit into an upper category, only if, based on the documented analysis, it comes out that the re-classification is justified. The analysis’ document in case of re-classification is placed in the credit file.
8. Bank of Albania has the right to request the change of credits’ classification category, if:
- a) the interpreting of the above stipulated conditions from the bank is not correct;
  - b) there are other additional elements, in addition to the above conditions, which justify the change of classification category.

## **Article 12**

### **Financial condition of the borrower**

1. Banks shall assess and classify the borrowers based on their financial condition.
2. The borrower's financial condition is assessed accordingly to internal criteria set forth by the bank, based on borrower's classification in risk category.
3. Banks shall assess the borrower's financial condition accordingly to the criteria based on at least, the quality and quantity factors, as follows:
  - a) borrower's status, his personal and economical characteristics;
  - b) management quality, including the one of high level borrower's management, in case the borrower is a legal person;
  - c) quality of shareholders, the quality of financially supported plans and programs by the bank;
  - d) borrower's capital and reserves and their share in the borrower's balance sheet;
  - e) borrower's assets quality;
  - f) Debt size and ability to serve, and the exposures history with the bank;
  - g) Liquidity and profitability;
  - h) *cash flows* of preceded periods and expected *cash flows*, compared with the borrower's liabilities;
  - i) business conditions and future forecasts for the borrower, and the borrower's position in market and the industry he conducts the activity within;
  - j) borrower's exposure against exchange rate risk.
4. Banks, for assessing the borrower's financial position, shall mainly be based on the following documentation:
  - a) the balance-sheet (asset-liability and off balance-sheet items statement);
  - b) profit-loss account;
  - c) the salary certificate for individuals, and the declaration of their income and expenses, documented for material income and expenses;
  - d) liabilities statement on credits and interests to be paid
  - e) statement on changes in capital;
  - f) *cash flow* statement;
  - g) reports prepared by the statutory auditor regarding the borrower's financial condition
  - h) reports by the rating and valuation agencies.
5. The period, related to which it is assessed the borrower's financial condition, should be consistent at least with the issuing period of the financial statements.

## **Article 13<sup>5</sup>**

### **Loan restructuring**

1. Banks, in agreement with the borrower, shall restructure the loan in accordance with the criteria defined in the credit manual, approved by their governing bodies. Restructuring shall be carried out when, based on their analyses, banks deem that the financial situation of the borrower will improve significantly in the future, or the income from his activity will increase considerably and that the borrower will fully repay the loan, according to the new conditions.
2. The loan, which before restructuring is classified as “standard” or “special mention”, when restructured for the first time, after the restructuring may not be classified, in any case, higher than the “sub-standard” category, until the conditions set out in paragraph 5 of this Article are fulfilled. The loan, which before restructuring is classified as “sub-standard”, “doubtful” or “loss”, when restructured for the first time, after the restructuring shall maintain the same class, until the conditions set out in paragraph 5 of this Article are fulfilled.
3. The loan, which before restructuring is classified as “standard” or “special mention”, when restructured for the second time, after the restructuring may not be classified, in any case, higher than the “doubtful” category, until the conditions set out in paragraph 5 of this Article are fulfilled. The loan, which before restructuring is classified as “sub-standard”, “doubtful” or “loss”, when restructured for the second time, after the restructuring shall be classified in a lower class from the one in which it was classified before the restructuring, until the conditions set out in paragraph 5 of this Article are fulfilled.
4. The loan, which has been restructured more than twice, after the restructuring shall be classified as “loss”, until the conditions set out in paragraph 5 of this Article are fulfilled.
5. The loan restructured in accordance with paragraphs 2, 3, and 4 of this Article, upon the simultaneous fulfilment of the following conditions, shall be classified by applying the criteria set out in this Regulation:
  - a) the borrower has repaid regularly the instalments (principal and interest) for a period of 12 (twelve) months from the restructuring date and the instalments during this period must be material, compared with the instalments of the repayment plan envisaged for the subsequent period;
  - b) the borrower has repaid regularly at least 4 (four) instalments (principal and interest).

---

<sup>5</sup> Amended upon the Supervisory Council decision no. 52, dated 3.7.2019 and entered into force on 1.1.2022.

In the case of loans that include a grace period, as restructuring date shall be considered the ending date of this period.

#### **Article 14**

##### **Reserves rates for loan loss provisioning**

1. Depending on classification categories, banks shall establish the relevant reserves for loan loss provisions.
2. Rates for calculating reserves are determined as following:
  - a) "standard" .....1%;
  - b) "special mention" .....5%;
  - c) "sub-standard" .....no less than 20%;
  - d) "doubtful" ..... no less than 50%;
  - e) "loss" ..... 100 %
3. The rate for calculating reserves for loan loss provisions, regarding both categories stipulated in "a" and "b" of paragraph 2 of this Article, shall be applied equally on principal and interest, while as regard to non-performing loans the rate applied on the accrued interest shall be 100% for each category.
4. Repealed<sup>6</sup>.

#### **Article 15**

##### **Assessment of credit exposed against exchange rate risk**

1. Bank, as an important part of internal strategy, policies, procedures and rules for the ongoing monitoring and control of credit portfolio's quality, shall particularly include the addressing of portfolio/portfolios exposed against exchange rate risk.
2. The bank shall weight at the highest risk coefficient, to calculate the capital adequacy ratio, the foreign currency credit value and/or indexed in foreign currency exposed against exchange rate risk, as stipulated in the "On capital adequacy ratio" Regulation.
3. Total credits of bank denominated in foreign currency and/or indexed in foreign currency exposed against exchange rate risk, should not exceed 400% of regulatory capital on an individual and consolidated basis. Each amount exceeding this limit

---

<sup>6</sup> Amended upon the Supervisory Council decision no. 50, dated 30.03.2016.

shall be discounted from the bank' regulatory capital to calculate the capital adequacy ratio.

## **Article 16**

### **Interests accounting**

1. Banks, regarding credits which are not paid for more than 90 days and for the credits classified as either "doubtful" or "loss", shall not account the accrued interest.
2. If the borrower pays the liability, the unaccounted interest shall be included while calculating the liability.

## **Article 17**

### **Written-off loss credits from the balance sheet<sup>7</sup>**

1. The written-off loss credits <sup>8</sup>from the balance sheet shall take place upon the decision of the Steering Council of the bank or the respective authority of mother bank, in case of a branch of foreign bank, and in any case when Bank of Albania has assessed and has requested its writing-off.
2. <sup>9</sup>In any case the bank shall write off the loans <sup>10</sup>from the balance sheet, no later than two<sup>11</sup> years after their classifications as "loss loans". During this period, the bank shall take all the measures to meet the terms laid down in the tax legislation on the loan write offs <sup>12</sup>from the balance sheet.
3. <sup>13</sup>There are excluded from the requirements laid down in paragraph 2 of this Article:
  - a) loans, on which the decision-making of the bank and only after the approval by the Bank of Albania, it is argued that based on the analysis of the financial situation of the borrower and collateral quality, it is certified the effective possibility of its settlement/re-payment; and
  - b) loans under restructuring process, on which at any case, the exclusion from the requirements laid down in this Article, may not exceed a 6-month period from the day that the loan has met the conditions to be written off.
4. <sup>14</sup>The written-off loans' files from the balance sheet shall be maintained and assessed on an ongoing basis, being reviewed not less than once in 6 (six) months

---

<sup>7</sup> Amended upon the Supervisory Council decision no. 50, dated 30.03.2016.

<sup>8</sup> Added upon the Supervisory Council decision no. 50, dated 30.03.2016.

<sup>9</sup> Added upon the Supervisory Council decision no. 22, dated 27.02.2014.

<sup>10</sup> Added upon the Supervisory Council decision no. 50, dated 30.03.2016.

<sup>11</sup> Amended upon the Supervisory Council decision no. 52, dated 3.7.2019.

<sup>12</sup> Added upon the Supervisory Council decision no. 50, dated 30.03.2016.

<sup>13</sup> Added upon the Supervisory Council decision no. 22, dated 27.02.2014.

<sup>14</sup> Amended upon the Supervisory Council decision no. 50, dated 30.03.2016.

by the Steering Council of the bank. The bank, despite the writing-off of the loans from the balance sheet, shall continue to follow the legal procedures applicable on these loans' encashment.

## **Chapter IV<sup>15</sup>**

### **Mitigation technique of credit risk**

## **Chapter IV<sup>16</sup>**

### **Assessment of other assets and definition of reserves for loan loss provisioning**

#### **Article 18**

##### **Other assets' assessment**

1. Banks, at least once in three months, and in cases there exist data indicating that the quality of any other asset is deteriorated, shall review their assessment accordingly to the definitions stipulated in the accounting standards.
2. Banks shall assess all the other individually important assets.
3. Banks shall assess the other assets, either individually or collectively, grouping them by the same characteristics.
4. Banks, to individually identify the important assets, shall be based on their relative size against total asset, on the regulatory capital and on the quality information as part of a definite assets' group.

#### **Article 19**

##### **Classification of other assets and definition of reserves for loan loss provisioning**

1. Banks, based on the size of calculated losses accordingly to accounting standards, shall classify the other assets as follows:
  - a) "standard or regular", whenever the loss amount of calculated losses points to 5% of exposure;

---

<sup>15</sup> Chapter IV "Mitigation technique of credit risk" along with its constituent articles, abrogated upon the Supervisory Council decision no.26, dated 01.04.2015.

<sup>16</sup> Chapter V "Assessment of other assets and definition of reserves for loan loss provisioning" along with its constituent articles, renumbered upon the Supervisory Council decision no.26, dated 01.04.2015.



- b) “doubtful or non-performing loans”, whenever the amount of calculated losses is higher than 5% of exposure.
2. Banks shall establish reserves to fully loan loss provisioning for the depreciation of other assets.

**Article 19/1<sup>17</sup>**

**Particular requirements for the treatment of immovable and movable assets acquired from the bank against credits’ settlement**

1. The banks shall design strategies and internal plans, as well as create the appropriate structures for selling the immovable and movable assets acquired against credits’ settlements.
2. The banks, in case they cannot sell the immovable and movable assets acquired against credits’ settlements within the first year of their obtainment, shall create reserve funds for loss covering.
3. For immovable assets, the reserve funds shall be created within a period no longer than 7 (seven) years from their acquirement date (their taking into ownership at the end of the forced execution process for unsolved credits) at no less than the rate in percentage of these assets accounting value, according to the following table:

|                     |             |
|---------------------|-------------|
| <i>First year</i>   | <i>5%</i>   |
| <i>Second year</i>  | <i>15%</i>  |
| <i>Third year</i>   | <i>30%</i>  |
| <i>Fourth year</i>  | <i>45%</i>  |
| <i>Fifth year</i>   | <i>60%</i>  |
| <i>Sixth year</i>   | <i>80%</i>  |
| <i>Seventh year</i> | <i>100%</i> |

4. For movable assets, the banks shall create reserve funds at no less than 100% of the accounting value of the movable asset, in case they cannot sell these assets within a year from their acquirement date.

---

<sup>17</sup> Added upon the Supervisory Council decision no. 50, dated 30.03.2016.

5. The banks, for immovable and movable assets acquired up to the month December 2015, because of the calculation of the reserve funds, according to the stipulations in this Regulation, shall consider the year 2016 as the first year.

## **Chapter V<sup>18</sup>**

### **Reporting and supervision**

#### **Article 20**

#### **Reporting to the Bank of Albania**

Banks shall report to the Bank of Albania the classification of credits and other assets which produce credit risk, as well as the establishment of reserves for loan loss provisioning, accordingly to the requirements set out in “Unified Reporting System”.

#### **Article 21**

#### **Supervisory and punishing measures**

Bank of Albania, in any case of failure to meet the liabilities set forth in this Regulation, shall implement the supervisory and/or punishing measures stipulated in the Law on Banks.

#### **Article 22**

#### **Final provisions**

Attached annexes thereto are an integral part of this regulation.

#### **Article 23<sup>19</sup>**

#### **Temporary provision**

1. Suspension of the application of the requirements of Chapter III, Article 11 and Article 14 of this Regulation, for the period June 1<sup>st</sup> March to August 31<sup>st</sup>, 2020.
2. Suspension of the application of the requirements of Article 19/1 of this Regulation, until December 2020.

---

<sup>18</sup> Chapter VI “Reporting and supervision” along with its constituent articles, renumbered upon the Supervisory Council decision no.26, dated 01.04.2015.

<sup>19</sup> Amended upon the Supervisory Council circulating decision no. 33, dated 28.5.2020.

3. The letter “a” of paragraph 1 of decision no. 52, dated 03.07.2019 "On some amendments in the regulation "On credit risk management from banks and branches of foreign banks", shall enter into force on on January 1<sup>st</sup>, 2022."

**Chairman of Supervisory Council**

**ARDIAN FULLANI**

**Annex 1<sup>20</sup>**

**Annex 2<sup>21</sup>**

---

<sup>20</sup> Abrogated upon the Supervisory Council decision no.26, dated 01.04.2015.

<sup>21</sup> Abrogated upon the Supervisory Council decision no.26, dated 01.04.2015.